Link Fund Solutions

Governance Advisory Arrangement

Annual report to unit-holders

of the

LF Personal Pension Trust

Year-ended 31 December 2018

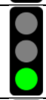
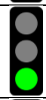
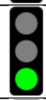
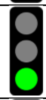
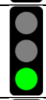
Contents

1. Chairman's report

I am pleased to present the 2018 annual report of the independent governance committee of the LF Personal Pension Trust ("the Scheme"). The committee is known for technical reasons as a "governance advisory arrangement" or "GAA" and its sole objective is to ensure that you are getting "value-for-money" ("VfM") out of your pension plan and in your dealings with Link Asset Services Limited ("Link").

My colleagues and I wanted to make our annual report more accessible than previously so this year, we have introduced a "traffic light" approach to key areas that we have assessed for VfM on your behalf, the background to which is explained in greater detail throughout this report. We assessed key areas of value that have been identified by the Financial Conduct Authority, along with additional areas that we consider to be relevant.

Summary evaluation

What overall level of VfM do we think the Plan provides to investors?	
Is the default investment strategy suitable for most investors?	
Does the default investment strategy have clear aims and objectives?	
Does Link regularly review the characteristics and net performance of its funds to ensure alignment with your interests?	
How well are core financial transactions processed?	
How competitive are the charges associated with the Plan that are borne by investors?	
How competitive are direct and indirect costs associated with managing and investing funds, including transaction costs?	
Investment performance of default fund during growth phase (assessed over three years)	
Investment performance of default fund during de-risking phase (assessed over three years)	
Investor experience (service received)	
Investor experience (quality of communications)	
Environmental, social and governance credentials	

Why aren't all traffic lights green?

Our overall evaluation is unlikely to show a green light until the default investment strategy has been modified and various charges (including transaction costs) have been assessed. Details of transaction costs are proving difficult for Link to obtain although we are hopeful that pressure on the fund management industry by the Financial Conduct Authority will yield results over the next year.

Since there are significant similarities between the Plan and another plan managed by Link, consideration will be given to merging the two and to delivering a better product for both groups of investors. Such a merger should benefit from greater economies of scale, which we would hope will translate into lower costs and charges for investors.

How we have considered your interests

We have obtained data about the number of investors using each fund, age, average fund size and related information. This gives us an idea about the "average" investor, although we recognise that some investors and the size of their funds will be some way from "average", so it is important to offer other investment strategies, as well as a default strategy.

We are concerned about the risk profiles of the Multi-Asset Fund (default fund during the growth phase of investment) and the Cautious Managed Fund, which appear similar, although the Cautious Managed Fund has historically exhibited greater volatility of investment returns than the Multi-Asset Fund.

We are also concerned about the limited lifestyle options available, all of which currently target annuity purchase at the point of retirement. We believe that there should also be lifestyle options targeting income drawdown and cash.

We have reviewed contract charges with some success in encouraging Link (in its former guise as Capita Asset Services) to reduce charges in both the LF Cash Fund and LF UK Gilt Fund. These funds continue to be available to investors.

Concerns raised with the Financial Conduct Authority ("FCA")

There have been no instances during the year where we have felt it necessary to approach the FCA and we think it unlikely that such circumstances will arise in the future, given the commonality of purpose that exists between Link and the Committee.

Expertise, independence and experience of members of the GAA

When first establishing the Committee, I was keen to ensure that collectively, we had the necessary skills to evaluate all of the areas required by the FCA in our assessment of VfM and that each member was able to bring creative solutions to issues that we were likely to face. This meant inviting accomplished professionals with broad experience in their respective fields.

Our committee includes a qualified pensions solicitor who is involved actively in the governance of trust-based pension schemes. She is highly regarded within the pensions world, having worked for a major London law firm before becoming the first legal adviser to the Pension Protection Fund. She is now a director of a trustee company, chairing many trustee boards and her primary objective is to look after the interests of members of schemes on whose trustee boards she sits.

Another independent member of the committee is a practising actuary, who has advised many FTSE 100 and FTSE 250 companies over the years on pension scheme funding and strategy. This member has had a senior management role in a national actuarial practice, has been managing director of a smaller practice, and she now runs her own actuarial consultancy.

Our investment specialist is an Associate of the Chartered Institute for Securities and Investment and has, for many years, advised pension funds on investment strategies. As an investment consultant, he is fully conversant with all aspects of investment, and has considerable experience and market knowledge. In addition, our investment specialist is extremely knowledgeable about market drivers, charges (direct and indirect) and investment objectives for specific funds.

As your chairman, I am the final independent member of the committee and have spent almost an entire working lifetime dealing with occupational and contract-based pensions, with over 30 years working in an advisory capacity. I am qualified as a Fellow of the Pensions Management Institute and I also hold a diploma in Personal Financial Services, which permits me to advise individuals, as well as companies and boards of trustees.

All of the above are wholly independent of Link and its associated companies. We are also independent of each other although our investment specialist was previously a partner at Smith & Williamson.

The fifth member of our committee is the only non-independent person on the committee. The FCA permits non-independent members, so long as they are not in the most senior roles in the sponsoring company. Our "fifth member" is head of product at Link, which means that he is responsible for the development and on-going product management of all funds operated by Link, including those available through the LF Personal Pension Trust.

A conflicts policy is in place, although to date, there have been no circumstances where this has had to be invoked.

Your views – how we take them into account

The nature of a governance advisory arrangement is to act as an independent governance committee for smaller or less-complex schemes. Relative to the large pension providers that are household names, the LF Personal Pension Trust is not large and its structure is fairly straight-forward.

We have yet to contact investors directly in order to establish your views, although our analysis of member data has given us a fair idea of the overall membership of the scheme.

We believe that it would only be appropriate to approach investors directly (by letter) where issues arise which could lead to fundamental decisions that might otherwise be incorrect, leading to inappropriate outcomes. To date, we have not encountered such a situation.

Environmental, social and governance strategy ("ESG")

Over the last year there has been a substantial shift in the investment world (instigated by Government) for companies to identify their ESG credentials and for fund managers to consider ESG as a material factor in long-term investment. This is on the basis that those companies with strong ESG credentials may have a greater chance of long-term success and of delivering more sustainable returns.

As a committee whose task is to consider VfM, the potential to deliver long-term returns is a key metric, so ESG credentials also need to be considered.

In the next section of our report, we have outlined our initial thinking on how we will take ESG matters into account, although we will comment more fully, in due course, as fund managers refine their nascent ESG policies.

Changes to the LF Cash Fund

In January 2019 there was a change to the regulatory framework for all money market funds. Janus Henderson Global Investors, manager of the LF Cash Personal Pension Fund (formerly the "LF Money Market Fund") decided to close the Henderson Money Market Unit Trust. Legal and General Investment Management has since been appointed as the replacement manager for this fund.

The future

Next year, we hope to be reporting to you on progress with the optimisation plan, which we believe will further improve VfM and should address issues surrounding the default investment strategies and suitability of some of the underlying funds.

Christopher J Murray FPMI, Dip PFS

Chairman

2. Environmental, social and governance strategy

Introduction

The UK Government has been one of the foremost in creating a code of good conduct for companies. There have been many policies instigated over the years, and the Environmental, Social and Governance (ESG) policy is the latest manifestation, which is looking to build on previous initiatives.

The ESG policy is not to be confused with an ethical policy, although these are also likely to be referenced when assessing a company's overall ESG policy. Such a policy is looking to encourage good practice in relation to every aspect of a business. There are many aspects involved in a company's ESG rating, from remuneration policy to the impact of the business on the environment. Theoretically a tobacco or an arms company could score highly yet a wind power generator could have a poor score.

This document sets out the GAA's current approach to ESG and how the Committee believes it should be factored into the processes. Our approach will be developed further as ESG policy in the fund management industry develops over the coming years.

Environmental, Social and Governance Issues

The Committee's objective is to ensure that investment managers have the financial interests of members as their first priority when reviewing investments.

The Committee may take ESG considerations into account only when these factors do not contradict the primary objective or where these considerations are specified within the mandate of the funds used. In the case of passive equity funds, there is an expectation that all fund managers will be active as shareholders, and will apply their own ESG policies.

In the case of active funds, each fund manager will have an ESG policy, which should be integrated into the overall investment management process. The Committee will review the ESG policy and highlight any issues with Link. The approach is one of positive engagement.

Voting Rights attaching to Investments

Link delegates responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and encourages the managers to exercise those rights.

The investment managers are expected to provide regular reports for Link, detailing their voting activity.

3. Review of 2018

Investment Review

Historically, the majority of contributions were channelled into funds managed by either Gartmore or Aberdeen. 78.5% of the assets (by value) are held in the Multi-Asset Fund and the Cautious Managed Fund.

The Funds now available to members are:

- LF Multi-Asset Personal Pension Fund
- LF Cautious Managed Personal Pension Fund
- LF Cash Personal Pension Fund
- LF UK Gilt Personal Pension Fund
- LF Global Equity Index Personal Pension Fund

We note that members of the Scheme were offered a lifestyling facility in 2012 but only a minority took up the opportunity. The Committee feels that Link should remind members periodically about lifestyling and the benefits of de-risking. The objective is to reduce the risk of members experiencing excessive volatility in the value of their pension funds as they approach retirement (i.e. when they crystallise their funds).

Suitability of funds

Under the FCA guidelines for Governance Advisory Arrangements, we are required to consider at least the four criteria that have been outlined in Section 3(a) of those guidelines.

In the Committee's view, investment philosophy and processes should be driven by the needs of members. However, there has been no research on the risk profile of the members and their financial objectives during the year. We have therefore made assumptions about the needs of the majority of members, depending upon their ages, and financial planning strategies for those approaching retirement age.

The factors one would normally take into account when identifying a suitable default fund are as follows: -

1) Time horizon
2) Risk profile
3) Financial knowledge and experience of the members
4) Liquidity
5) Return targets

Please note that reporting on the funds has been based upon the time since they became available to members. There was a considerable amount of change on 31st March 2017, and where appropriate, our comments will concentrate on the performance since then.

Return-seeking managed funds - LF Multi-Asset and Cautious Managed

The LF Multi-Asset Fund is now benchmarked to achieve a return of 4.5% per annum above cash, specifically 1 month LIBOR, gross of fees A secondary benchmark for the fund is the Investment Association's Mixed Investment 20-60% Sector Median.

The LF Cautious Managed Fund is still benchmarked against "Pension Mixed Investment 20-60% Shares". Within these benchmarks, the allocation to equities can be relatively wide, so investors need to consider other aspects of performance in addition to investment returns.

No data is available regarding the financial knowledge and experience of participants. However, the Committee does have information about the number of members invested in each fund, their ages and the average value of their holdings for the last four years.

Date	*Fund*	*Number of Members*	*Value*	*Value per member*	*Average Age*	*Weighted average*
31-Dec-15	LF Multi-Asset Personal Pension Fund	8,801	154,022,325	17,501	50.0	52.0
31-Dec-15	LF Cautious Managed Personal Pension Fund	2,180	37,630,579	17,254	48.0	52.0
31-Dec-16	LF Multi-Asset Personal Pension Fund	8,214	165,296,894	20,124	51.3	53.5
31-Dec-16	LF Cautious Managed Personal Pension Fund	2,063	38,795,563	18,805	49.3	53.3
31-Dec-17	LF Multi-Asset Personal Pension Fund	7,510	160,814,300	21,413	51.4	53.6
31-Dec-17	LF Cautious Managed Personal Pension Fund	1,920	35,519,876	18,500	49.0	52.8
31-Dec-18	LF Multi-Asset Personal Pension Fund	7,043	136,978,687	19,449	52.1	54.4
31-Dec-18	LF Cautious Managed Personal Pension Fund	1,828	31,466,126	17,213	49.6	53.0

"Weighted average" is the average age of members, weighted to reflect the value of the assets they hold; i.e. a larger fund will attract a higher weighting. We have used weighted average as the basis for our comments.

We believe that the selected retirement ages are between 60 and 65. We have identified that the time-frame for these investments (before they will be drawn upon) is likely to be between 7 and 12 years, based upon the weighted averages.

We would expect the weighted average age of members using the Multi-Asset Fund to be younger for the Cautious Managed Fund on the grounds that the former fund is now the prime return-seeking asset. The data suggests otherwise and is a potential cause for concern, for reasons highlighted below.

The Cautious Managed Fund was created to provide an interim step between long-term return-seeking assets and defensive assets (i.e. the Cash and UK Gilt funds). The change of strategy for the Multi-Asset Fund has negated this.

There are two ways of measuring risk, volatility and drawdown in the capital value. Since implementation of a new strategy for the Multi-Asset Fund, it has been the less volatile of the two. On the other hand, the Cautious Managed Fund has experienced smaller drawdowns. To date, there is insufficient evidence for us to decide which of the two funds represents the lower risk.

On the grounds that both funds are in the Mixed Investment 20-60% sector, we would suggest that the future return profiles, adjusted for risk, are going to be similar. There will be times when one fund is outperforming the other, as their investment strategies are very different.

276 members over age 65 hold units in the Multi-Asset Fund, with an average fund value of £31,000. We would encourage Link to approach these members to ensure that they understand the profile of the fund is medium risk, and may not be appropriate for them.

The Committee considers that most members in the Multi-Asset and Cautious Managed funds appear to be holding assets that are suitable for them, based on their ages and the length of time before their money is expected to be used to generate retirement benefits.

The cumulative performance of these two funds (i.e. total return) is shown below, over various periods to 31 December 2018.

Fund performance to 31st December 2018	*3 months*	*6 months*	*1 year*	*Since 31.03.17*
LF Multi-Asset Personal Pension Fund	-4.72%	-5.15%	-7.91%	-2.37%
LIBOR 1 month +4.0% per annum	*1.20%*	*2.37%*	*4.65%*	*8.02*
IA Mixed 20-60%	*-5.40%*	*-4.70%*	*-5.10%*	*-1.19%*

Fund performance to 31st December 2018	*3 months*	*6 months*	*1 year*	*3 years*	*5 years*
LF Cautious Managed Personal Pension Fund	-6.07%	-7.42%	-6.29%	6.21%	10.13%
Pensions Mix 20% - 60%	*-4.49%*	*-4.40%*	*-4.45%*	*13.81%*	*22.13%*

The colour coding outlines the quartile position of the fund relative to its peers

1st Quartile
2nd Quartile
3rd Quartile
4th Quartile

The LF Multi-Asset Fund has performed poorly over the year to 31st December 2018, which is disappointing considering the good start it had in 2017. The position is less rosy for the Cautious Managed Fund over the last year, which has an under-whelming longer-term record. Before making judgement, we shall consider the risk metrics of each fund, and look at the underlying reasons.

The table below for the Multi-Asset Fund uses three measures of fund behaviour over the period from 31st March 2017, when a new investment mandate was adopted. The previous data is no longer relevant because the fund was then employing a different investment philosophy and process. For the Cautious Managed Fund we have looked over the 5 years to 31 December 2018.

Fund performance to 31st December 2018	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF Multi-Asset Personal Pension Fund	4.66	-1.79	-9.72%
LIBOR 1 month +4.0% per annum	*-*	*0.95*	*0.00*
IA Mixed 20-60%	*4.59*		*-6.42%*

Fund performance to 31st December 2018	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF Cautious Managed Personal Pension Fund	6.40	-2.14	-9.84%
Pensions Mix 20% - 60%	*5.04*		*-7.88%*

Glossary

The Committee has selected three fund characteristics to help members appreciate the risks and the rewards of their selections.

"Volatility" illustrates the level of risk in each fund over the last five years. The unit price will vary from day to day and will oscillate around the average returns for the period. Deviation against long-term averages will provide a measure of risk; greater deviation in the unit price = higher volatility = higher risk. Ideally, a fund will have a deviation in line with (or less than) its benchmark, which is highlighted in light blue. The lower the volatility, the higher will be its quartile ranking.

Where a fund is more volatile than the benchmark index, an investor should expect to achieve a higher return, relative to that index. This is to compensate the investor for the higher level of risk.

"Jensen's Alpha" ("Jenson's Information Ratio") is a measure of the marginal return a fund has achieved, relative to its peer group, i.e. other comparable funds, net of fees, adjusted for volatility (hence risk). The ratio provides investors with a simple measure of whether a fund manager has performed better (or worse) than his peers, allowing for the risks taken. It may be regarded as a measure of the skill of a fund manager. Ideally, the value should be above zero and a higher number is better.

"Maximum drawdown/fall" is the maximum percentage loss incurred by unit-holders within the last five years. The Committee has taken the maximum unit price over the last five years and compared it with the minimum price over the subsequent period. The purpose is to provide investors with an assessment of the maximum potential loss of capital, assuming no further contributions are made to the fund over the remaining period. The greater the fall, the higher will be the down-side risk associated with owning that asset during the period. A top quartile rating is given to Funds with the lowest fall in fund value.

The quartile positions reflect where the fund stood at 31 December 2018, relative to its peers, using the main units for each fund.

Cautious Managed Fund

The overall performance and risk metrics of the Cautious Managed Fund continue to be poor, and 2018 has been another disappointing year for the fund. While we would expect a fund with a defensive philosophy to underperform in a rising market, it has also struggled in a falling market.

The manager of the underlying fund is Chris Burvill, who has managed it since its launch in 2003. The chart below shows generally positive performance of the fund within its sector, the “Pensions Mixed Investment 20-60% Shares” sector, over the period since February 2003.

Although returns have been positive, unit-holders should be mindful that there have been periods of relative underperformance as we have seen over the last year. To illustrate this point the chart below shows the relative returns of the Cautious Managed Fund against its peers, where the benchmark has been flat-lined.

Some variance might be expected but we are concerned that each cohort of membership should experience a similar outcome, relative to the benchmark. Although the occasional variance would be acceptable for a fund with this manager’s investment philosophy, process and management, we are reaching a point where we feel that Link should consider whether it would recommend this fund, if embarking on the process of selecting a new fund.

The main driver behind the relative underperformance is the "value" bias of UK shares held and the overweight position in lower quality corporate bonds. These assets would not normally be well-correlated, but actual experience has differed from expectations. This fund is likely to continue to struggle in the current market environment.

In summary there are issues with this fund and the variance in the returns, which need to be managed and communicated to unit-holders.

Multi-Asset Fund

Since inception of this fund, its performance has been satisfactory against its benchmark. This is illustrated by the chart below, which shows investment returns since commencement of the current investment mandate, relative to the fund's peers.

This chart shows some volatility in fund performance since the change in management. Substantial variances in returns in the opening month or so were attributable to Fund restructuring taking place over a number of weeks.

Over the last year the investment process has not worked well and the relative simplicity of the manager's investment process has been exposed through reliance upon relatively few asset classes. We would therefore expect the fund's performance to continue to be somewhat random for the coming period.

The financial environment has changed since the fund was conceived. Since this scheme accounts for over 90% of investments in the underlying fund, Link should be in a strong position to ask the manager to reconsider its investment philosophy and processes.

Return-seeking fund – Global Equity Index

The Global Equity Index Fund is solely allocated to the L&G International Index Fund, replacing a myriad of regional funds.

The table below shows the membership profile of those who hold the fund, along with their ages.

Fund	*Number of Members*	*Value*	*Value per member*	*Average Age*	*Weighted average*
LF Global Equity Index Personal Pension Fund	804	21,210,842	26,382	50.4	53.1

Prima facie, the fund is appropriate for the membership. As highlighted in the past, unit-holders should be reminded of the risk profile of this fund, suggesting that they consider obtaining financial advice if they are over the age of 60 and continue to hold the fund.

The underlying fund, gross of charges, continues to track its benchmark index with a low tracking error. Variations in returns since 31st March 2017 reflect the impact of charges and timing differentials in fund pricing (noon every day for the fund and at the close of each day for the index). The tables below summarise the performance characteristics:

Fund	*3 months*	*6 months*	*I year*	*Since 31.03.17*
LF Global Equity Index	-10.33%	-5.54%	-4.49%	1.66%
Pensions Global Equity	-10.51%	-7.43%	-5.95%	1.44%
FTSE All World	*-10.90%*	*-5.38%*	*-3.10%*	*3.99%*

Fund Performance to 31st December 2018	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF Global Equity Index	11.50	-0.60	-12.81%
Pensions Global Equity	10.18		-11.49%
FTSE All World	*12.57*	*1.28*	*-12.85%*

The fund is behaving in line with expectations.

De-risking funds - Cash and UK Gilt

The Cash and UK Gilt funds have clear investment strategies. They are invested in two separate asset classes, each with its own benchmark index. Investment in each of the funds is shown below at 31st December 2018, along with an analysis of investors.

Fund	*Number of Members*	*Value*	*Value per member*	*Average Age*	*Weighted average*
Cash					
LF Cash Personal Pension Fund	957	7,627,804	7,970.5	56.1	60.7
Bonds					
LF UK Gilt Personal Pension Fund	852	12,587,776	14,774.4	54.6	60.0

The weighted average age of unit-holders in each fund is in line with expectations.

Fund returns to 31st December 2018, are shown below.

Fund Performance to 31st December 2018	*3 months*	*1 year*	*3 years*	*5 years*	*10 years*
LF Cash Personal Pension Fund	0.11%	0.36%	0.50%	0.72%	0.32%
Pensions Money Market	*0.08%*	*0.22%*	*0.99%*	*1.42%*	*3.04%*
LIBOR 1 month	*0.18%*	*0.62%*	*1.34%*	*2.35%*	
LF UK Gilt Personal Pension Fund	1.55%	2.39%	7.40%	21.78%	64.70%
Pensions UK Gilts	*1.59%*	*2.46%*	*8.39%*	*24.00%*	*58.48%*
FTSE UK Conv Gilts	*2.05%*	*3.71%*	*9.97%*	*27.95%*	*65.10%*

Performance of the Cash Fund is in line with expectations, i.e. at a discount to the benchmark returns. Again, we would encourage correspondence with the unit-holders to remind them of the current position, re the returns and the impact of inflation.

The UK Gilt Fund has been disappointing in that it has substantially underperformed its benchmark index. The risk metrics over the last 5 years to 31st December 2018 indicate that the unit-holders are faring reasonably well, relative to the wider market.

Fund Performance to 31st December 2018	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF UK Gilt Personal Pension Fund	5.75	-0.15	-8.06%
Pensions UK Gilts	*6.13*	*0.00*	*-8.53%*
FTSE UK Conv Gilts	*6.34*	*0.84*	*-8.22%*

The underlying asset has a low tracking error versus its benchmark index. The main reason for the variances is down to the charges and the impact of timing of the fund (priced at mid-day) and the index, which is priced at the end of the day.

Charges (default funds)

Charges for the default funds ought to be competitive on the grounds that they attract the most assets. The following charges have applied to members of the LF Personal Pension Trust:

- Initial charge

  There are no initial charges.

- Annual Management Charge (AMC)

  The AMC charge is dependent upon which fund is selected. The AMC is deducted from the assets of a fund and is reflected in the daily unit price. It is not a charge that is deducted from individual plans. The AMC is stated in the Prospectus, as a maximum charge, allowing Link the option to charge a lower fee.

- Operating Charges Ratio

  The Operating Charges Ratio represents the annual operating expenses of each fund. The Ratio includes charges taken from the assets of the funds and the underlying funds in which they invest. This includes registration fees, audit fees, FCA fees, custody fees, the AMC and rebates from the fund manager – a positive item. It does not include transaction expenses, which have yet to be identified.

Annual Management Charges

Return-seeking funds

The table below sets out annual management charges for the three return-seeking funds, their total expense ratios and discounts available

Fund	*Annual Management Charge*	*Operating Charges Ratio*
LF Multi-Asset Personal Pension Fund	1.25%	1.29%
LF Cautious Managed Personal Pension Fund	1.00%	1.00%
LF Global Equity Index	1.00%	1.00%

Operating Charges Ratios have been taken from the report and accounts for the year ended 30th September 2018.

The Operating Charges Ratio is determined as the total costs associated with a fund expressed as a percentage of its assets over the year. Total costs include annual management charges as well as ancillary costs such as custodians, accounting and legal costs. Administration costs are included within the annual management charge.

Link should be congratulated for applying the fund rebate from Legal and General and Janus Henderson, managers of the underlying assets in the Global Equity and the Cautious Managed funds, for benefit members, such that the Ongoing Charges Ratio remains the same as the AMC. The Committee will continue to press Link to ensure that this practice continues.

In the case of the Multi Asset fund, there has been no such rebate in action, and we would encourage Link to negotiate with Aberdeen Standard Life since the fund continues to hold 97% of the units.

The Committee would like to see further reductions in these charges.

De-risking funds

The LF Cash Personal Pension Fund and the LF UK Gilt Personal Pension Fund are both used within the later stages of the life-styling process. Charges for these funds are shown below.

Fund	*Annual Management Charge*	*Operating Charges Ratio*
LF Cash Personal Pension Fund	0.30%	0.35%
LF UK Gilt Personal Pension Fund	0.75%	0.75%

Over the last year, charges for the Cash Fund have been reduced - which is to be welcomed - but charges for the Gilt Fund have risen slightly, which is less welcome. In the case of the Gilt fund, it is good to see the fund rebate from L&G is benefitting the unit holders.

The Committee recognises that unit-holders receive other services which may help to explain the difference.

Liquidity

All of these funds continue to provide daily liquidity to investors and there are no reports of members being unable to buy or sell funds during the period.

Summary

The performance of the Cautious Managed Fund has been disappointing in 2018 relative to its peers, while the risk profile of the fund appears to have been higher than its benchmark index. This has happened at a time when the defensive style of the fund manager should have been rewarded.

We believe that continued (relative) underperformance over the last ten years should necessitate a review of this fund. Inter-generational fairness between membership cohorts should be another consideration for Link. We would suggest that a passive mandate for this fund might be more appropriate, as it should help to reduce costs whilst increasing certainty around relative performance.

The Multi-Asset Fund has also had a poor year, which perhaps illustrates how a simple investment strategy might not always be “best” in an increasingly complex world. Our main concern is that the risk profile of these two funds is very similar, even though they do not set out to achieve this. Further, these funds also have the same benchmarks.

The Global Equity Index Fund is performing in line with expectations. The weightings of the underlying stock markets mean that the fund has a substantial exposure to the US market which, we believe, should be communicated to members.

We are satisfied that the Cash and UK Gilt funds have performed satisfactorily. Link has worked hard to reduce costs for these funds. However, we do have some reservations about the continuing struggle to produce a positive return.

We have some concerns about the future; for the Cash Fund, there is a continuing struggle to secure a real return. In the case of the UK Gilt Fund, if the bull-run we have seen in bond markets reverses, unit holders may experience a capital loss, even after taking into account the reinvestment of income.

For the Cash and UK Gilt funds, we believe that positive engagement should be sought with unit-holders about current market conditions and their potential impact on the price of units (and therefore the value of members’ pension pots) as they approach retirement.

In the case of the UK Gilt Fund, investors should be made aware of the implications of investing in a fund in that will not fully hedge pension annuity rates, since its duration is too short.

Other potential charges

Currently, Link makes no explicit charge for the following transactions:

Transaction
Plan set up
Transfer-in

Transfer-out to UK scheme
Transfer-out to overseas scheme
Fund Switch
Pension Splitting on Divorce
Small pot lump sum payment
Account closure fee
Arranging death benefits
Duplicate copies of Annual Statements
Duplicate copies of correspondence
Account closure

All fund switches take place using single swinging prices. Whilst Link does not currently charge for any of the above, it reserves the right to do so in the future. The processing of pension sharing orders, for example, can be particularly complex and a specialist's technical input may be required

Members may find comparing Link's costs with other providers' products challenging because products with a lower AMC may charge administration fees for transactions that Link currently provides at no extra cost.

Liquidity

All funds continue to provide daily liquidity to investors and there were no reports of members being unable to buy or sell funds during the period.

Customer Experience

The very good customer support provided to members of the Personal Pension Trust has historically been a key part of the value that members place on the product. High standards of service appear to have been maintained since the sale of the business to Link, hitting targets on telephony and with the same low level of complaints as seen in previous years (see tables below) and thus making a positive contribution to value for money.

We understand that there were a few staff members lost in the autumn (as is to be expected) which led to a higher proportion of complaints received (still low overall) being upheld. We will, of course, keep this under review.

Please see experience of errors, complaints and telephony services, below.

Transaction Errors	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
Recorded Errors	2	1	1	3	1	2	1	0	1	1	7	3
Errors requiring remedial activity	2	1	1	3	1	2	1	0	1	1	7	3
Cost of remedial activity	0	0	0	0	0	0	0	0	0	£1,000	0	0

Complaints	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
Brought forward	0	0	0	0	0	1	1	0	0	2*	0	0
Received	1	1	0	1	4	1	0	0	3	2	0	2
Closed	0	1	0	1	3	1	1	0	2	4	0	1
Upheld	0	0	0	0	1	0	0	0	2	2	0	0
Carried forward	0	0	0	0	1	1	0	0	1	0	0	1

Standard of telephony	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
% of calls answered within 20 seconds	90.60%	90.20%	89.70%	89.20%	81.30%	88.40%	91.40%	90.30%	78.90%	90.20%	94.00%	86.10%
% of calls abandoned	2.60%	3.70%	2.00%	1.70%	3.20%	1.60%	2.00%	2.90%	5.80%	1.20%	1.10%	2.10%

3. Areas requiring attention

The performance of the Cautious Managed Fund has again been disappointing in 2018 relative to its peers, yet the risk profile of the Fund appears to have been higher than the benchmark index. We believe that continued (relative) underperformance over the last ten years should necessitate a review of this Fund. Inter-generational fairness between membership cohorts should be another consideration for Link. We would suggest that a passive mandate for this Fund might be more appropriate, as it should help to reduce costs whilst increasing certainty around relative performance.

The Multi-Asset Fund has also had a poor year, which perhaps illustrates how a simple investment strategy might not always be "best" in an increasingly complex world.

The Committee is concerned that the risk profiles, as reflected in the volatility of the Cautious Managed Fund and the Multi-Asset Fund, are very similar. This raises a question over the diversity benefits of offering both Funds. It is recognised that whilst they do not specifically target the same risk profile, they have adopted the same benchmarks. We will continue to monitor the behavior of these two Funds.

Charges

Charges for the Cautious Managed Fund have reduced since last year, which is to be welcomed. Unfortunately, charges for the Multi Asset Fund remain stubbornly highly, which is surprising, considering the simplicity of the underlying investment mandate. The Committee would like to see further reductions in these charges.

Over the last year, charges for the Cash Fund have been reduced - which is to be welcomed - but charges for the Gilt Fund have risen slightly, which is less welcome.

Transaction costs in the underlying funds are not currently audited by all fund managers. These apply to the underlying funds; they are not imposed by Link. However, these charges still impact on overall investment returns and, we believe, need to be visible. The FCA has also shown a keen interest in bringing these costs into the open and we hope that Link will be able to obtain this information from its investment managers in future.

Life-styling Options

The Committee has continued to highlight the need to review life-styling options for members particularly in the light of "pension freedoms" that were introduced by the Government in 2015. This has yet to be undertaken. Over the coming year, we would like to see:

- An analysis of how unit-holders are taking their benefits;
- A review of the default investment strategy so that the outcome of the above analysis can be properly reflected, which would make the strategy more suitable for the majority of unit-holders;
- We would like to see at least some of the lifestyle options geared towards generating cash at retirement. Currently, all lifestyle options (not just the default strategy) are geared towards to annuity purchase.

Appendix 1 - Constitution of GAA Committee

The Committee is comprised of four independent members and one member appointed by JFM. FCA guidance was observed over selection of the employer-appointed member. Committee members during the year were:

Christopher Murray (Chair)
Director of Smith & Williamson Financial Services Limited

Professional qualifications

- Fellow of the Pensions Management Institute
- Diploma of the Personal Finance Society

Mr Murray has extensive experience of advising companies on pension schemes and working with trustees, as well as acting in a trustee capacity on behalf of Smith & Williamson Trust Corporation Limited.

Naomi L'Estrange
Managing Director of 20-20 Trustee Services Limited

Professional qualifications

- Solicitor (current practising certificate)
- Qualified Executive Coach
- Certificate in Advanced Business Management from Ashridge

Ms L'Estrange has 20 years' experience as a pension lawyer and a director of the Pension Protection Fund. She advised the Institute of Actuaries and many individual pension schemes and was seconded to Government to advise on Pensions Act 2004.

As the PPF's Director of Strategy and Policy, Ms L'Estrange has worked with various Government departments and the EU on matters of pension policy. She is a professional trustee to a number of pension schemes of all types.

Sarah Farrant
Director of Sarah Farrant Consulting

Professional qualifications

- Fellow of the Institute of Actuaries

Ms Farrant has been a qualified actuary for over 25 years. She has been Scheme Actuary to many schemes, including a number of FTSE 100 and FTSE 250 companies and has enjoyed senior roles with national employee benefit consultancies and a “Big four” firm of Chartered Accountants.

Mark Garnett
Director of Advisory Investment Services Limited

Professional qualifications

- Associate of the Chartered Institute for Securities & Investment
- Associate of the Chartered Insurance Institute

Mr Garnett provides investment management and advice for pension schemes and is a former Partner of Smith & Williamson Investment Management LLP.

He advises employers and boards of trustees, and regularly presents on the economy and investment markets.

Adam Tookey
Head of Product, Link Fund Solutions LImited

Mr Tookey is responsible for the development and on-going product management of all funds operated by Link Asset Services Limited, including those offered through the pension plan.

He has more than 20 years’ asset management experience, working for a number of global firms.