Link Fund Solutions Limited

Governance Advisory Arrangement

Annual report to unitholders

of the

LF Personal Pension Trust

Year-ended 31 December 2019

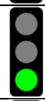
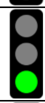
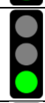
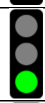
Contents

1. Chair's report

I am pleased to present the 2019 annual report of the independent governance Committee of the LF Personal Pension Trust ("the Plan"). 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 Fund Solutions Limited ("LFS").

Since our last report, the chairman of your Committee has stood down, although he will continue to serve as a member of the Committee until his retirement on 31st May 2020. He will be replaced as a Committee member by another experienced pensions professional, from 1st June.

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 LFS 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?

In 2019, LFS developed an "Optimisation Plan", which was intended to result in a more appropriate range of funds and default investment strategies whilst benefitting from lower fund costs. The original timetable was completion by 31st March 2020.

Unfortunately, the plan is behind schedule and most issues that your Committee has previously identified have yet to be addressed as a result. We therefore feel that some areas that were previously assessed as amber should be reassessed as red, as they are overdue for resolution.

At 31st December 2019, the default investment strategy mainly targeted fund growth though the Plan's Multi Asset Fund and Cautious Managed Fund. Various "lifestyling" strategies are available as an option and are intended to reduce investment risk as retirement approaches. Not all members have a lifestyling strategy by default.

Currently, each of the available lifestyling strategies is geared to annuity purchase at the point of retirement, with no other outcome targeted. The advent of "pension freedoms" in 2015 meant that other retirement outcomes became widely available and these have yet to be offered as alternative targets within the lifestyling strategy.

Since 31st December 2019, the Optimisation Plan has taken a number of significant steps forward and a new project timetable has been adopted. Your Committee's input has been (and will continue to be) invited at various stages of the plan's evolution and we are hopeful that it will be fully implemented by 31st December 2020.

The proposed default investment strategy, range of funds, associated costs and options for taking retirement benefits are all being evaluated in association with the Optimisation Plan. We continue to await confirmation of the ongoing charges (including transaction costs) and we hope that, once implemented, the new arrangements will improve value-for-money for investors.

How we have considered your interests

Over the last year we have again considered the appropriateness of the default investment strategy and other funds that have been made available to investors, annual management charges (but not transaction costs, which remain elusive), service delivery and how LFS is addressing environmental, social and governance matters associated with the underlying funds. We hope to see a further reduction in charges when the Optimisation Plan goes live.

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. We were disappointed that the improvements anticipated by/similar to those in the Optimisation Plan have not been implemented, but we expect its implementation during 2020 to allay the issues. We will reconsider this if sufficient action is not taken during the year.

Expertise, independence and experience of members of the GAA

When first establishing the Committee, our chair 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 the managing 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 boards she sits.

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 Chair, I am a practising actuary and I have advised many FTSE 100 and FTSE 250 companies over the years on pension scheme funding and strategy. I have held a senior management role within a national actuarial practice and have been managing director of a smaller practice. I now run my own actuarial consultancy.

The final independent member of the Committee (and former Chair) has spent almost an entire working lifetime dealing with occupational and contract-based pensions, with over 30 years working in an advisory capacity. He is qualified as a Fellow of the Pensions Management Institute and also holds a diploma in Personal Financial Services, which permits him to advise individuals, as well as companies and boards of trustees.

All of the above are wholly independent of LFS 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 a sponsoring company. Our “fifth member” is head of product at LFS, which means that he is responsible for the development and on-going product management of all funds operated by LFS, including those available through the LF Stakeholder Pension Scheme.

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 their 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 ("ESG") strategy

Over the last two years there has been a substantial shift in the investment world (instigated by governments, sovereign funds and other institutional investors) for companies to assess the impact of their business on customers, suppliers, employees, shareholders and the natural world/environment. Investors are starting to analyse the ESG credentials of companies to assess whether they will materially affect long-term returns. 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 are going to have an increasing impact on those returns.

In the next section of our report, we have outlined our thinking on how we will take ESG matters into account.

The future

Whilst we had hoped to be reporting to you this year on the outcome of the Optimisation Plan, circumstances unrelated to your scheme have caused progress to be considerably slower than anticipated. We believe that these circumstances should not present themselves again in the coming year so we would hope to be reporting to you on substantial progress that is envisaged with the Optimisation Plan.

We believe that delivery of the Optimisation Plan will result in significant improvements in the default investment strategy, fund choice and charges, all of which should contribute to improved value-for-money from your scheme.

Sarah Farrant FIA
Chair

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.

An 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.

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 evolves 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, or actively support, 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.

During 2019, we have seen considerable change in the approach to all issues surrounding ESG, from reporting to the implications for investment returns. The Committee feels that ESG factors will have a significant impact on future returns from all assets. At the start of the year the consensus amongst investment institutions was that investors had a number of years to reflect ESG in portfolios. Regulators are now forcing through change ahead of the fund management industry so the Committee is looking for ESG considerations to be reflected in all assets within the next 2 years.

The issue facing investors is how to reflect ESG risks in portfolios when the majority of the fund options are relatively new (less five years) and there is little ESG experience amongst fund managers. The shortage of expertise in the wider market increases the risks associated with integrating ESG into the default funds under the Optimisation Plan, although we are aware that the regulators are expecting imminent change.

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 LFS. Our approach is one of "positive engagement".

Voting Rights attaching to Investments

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

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

3. Review of 2019

Investment Review

Historically, the majority of contributions were channelled into funds managed by either Janus Henderson or Aberdeen. At 31st December 2019, 78.5% of the assets (by value) were 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 LF Personal Pension Trust were offered a lifestyling facility in 2012. As of the 31st December 2019, 1,915 members have adopted a lifestyle profile. The Committee would encourage LFS to remind members periodically about lifestyling and the benefits of de-risking. The objective is to reduce the risk to members of experiencing excessive volatility in the value of their pension funds as they approach retirement (i.e. when they crystallise their funds).

The Committee sought information about the behaviour of the members on taking their benefits to enable it to better-understand members' circumstances. LFS has been unable to collate this data during 2019 but the Committee will be pressing LFS for the information as a part of our input to the Optimisation Plan.

Suitability of funds

Under the FCA guidelines for independent governance committees, 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

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 "IA Mixed Investment 20-60% Shares" sector. 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
31-Dec-19	LF Multi-Asset Personal Pension Fund	6,622	136,468,853	20,608	52.8	55.3
31-Dec-19	LF Cautious Managed Personal Pension Fund	1,749	32,817,894	18,764	50.1	53.5

"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 members' selected retirement ages are between 60 and 65. We have identified that the timeframe 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 than for the Cautious Managed Fund on the grounds that the former fund is the nominated return-seeking asset. The data shown above suggests otherwise and is a potential cause for concern, for reasons outlined 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 current investment strategy for the Multi-Asset Fund has negated this.

There are two ways of measuring risk; volatility and drawdown in the capital value. Since the implementation of a new strategy for the Multi-Asset Fund, it has been the least volatile of the two. Over the last year the differential in volatility has been marked between the two funds. Indeed, the volatility of the Multi-Asset fund would suggest that the fund will struggle to outperform the Cautious Managed fund at all. Since 31st March 2017 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.

Over the last year the risk-adjusted returns from each fund are not dissimilar. However, the asset allocations and the style of management means that the return profiles are likely to be random relative to each other.

There are 305 members over age 65 holding units in the Multi-Asset Fund, with an average fund value of £34,500. The oldest member is 81.8 years old! We would encourage LFS to approach these members to ensure that they understand that the profile of this fund is medium risk, and may not be appropriate for them.

The Committee considers that most unit holders 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 31st December 2019.

Fund Performance to 31st December 2019	*3 months*	*6 months*	*I year*	*Since 31.03.17*
LF Multi-Asset Personal Pension Fund	1.81%	3.84%	7.48%	4.94%
LIBOR 1 month +4.5% per annum	*1.30%*	*2.64%*	*5.25%*	*14.65%*
IA Mixed 20% - 60% shares	*1.72%*	*3.59%*	*11.99%*	*10.65%*

Fund Performance to 31st December 2019	*3 months*	*6 months*	*I year*	*3 years*	*5 years*
LF Cautious Managed Personal Pension Fund	3.83%	6.90%	13.18%	11.50%	20.15%
IA Mixed 20% - 60% shares	*1.72%*	*3.59%*	*11.99%*	*13.91%*	*27.58%*

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 recovered over the year to 31st December 2019, but the fund is still below its peak in 2018, which is disappointing considering the good start it had in 2017. The Cautious Managed Fund has bounced back over the last year, but still the longer term record is not good. In addition, its volatility remains relatively high which makes it inappropriate for investors looking to reduce their risk exposure as they approach retirement.

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. We have considered the 5-year period to 31 December 2019 for the Cautious Managed Fund.

Fund Performance to 31st December 2019	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF Multi-Asset Personal Pension Fund	4.4	-1.72	-9.72%
LIBOR 1 month +4.5% per annum	*-*	*1.53*	*0.00*
IA Mixed 20% - 60% shares	*4.55*	*0*	*-6.42%*

Fund Performance to 31st December 2019	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF Cautious Managed Personal Pension Fund	6.49	-1.28	-9.84%
IA Mixed 20% - 60% shares	*5.24*	*0.00*	*-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 or her 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 unitholders 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.

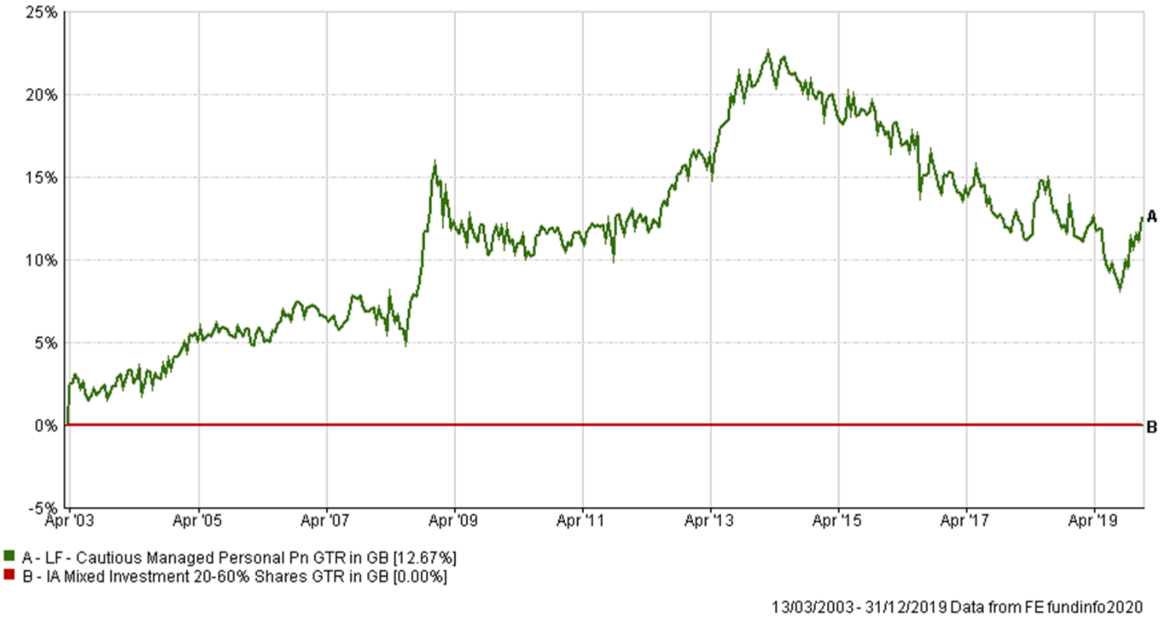
The quartile positions reflect where the fund stood at 31 December 2019, relative to its peers, using the main units for each fund.

Cautious Managed Fund

The chart below shows generally positive performance of the fund within its sector, the "IA Mixed Investment 20-60% Shares" sector, since inception.

Matters have improved mainly as a result of the bounce back of UK equities and corporate bonds, where the fund is overweight relative to its peers. An additional aspect of market conditions has been the recovery of shares with a "value" bias; an area of the market in which the fund manager has also been overweight, at least in the last half of the 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.

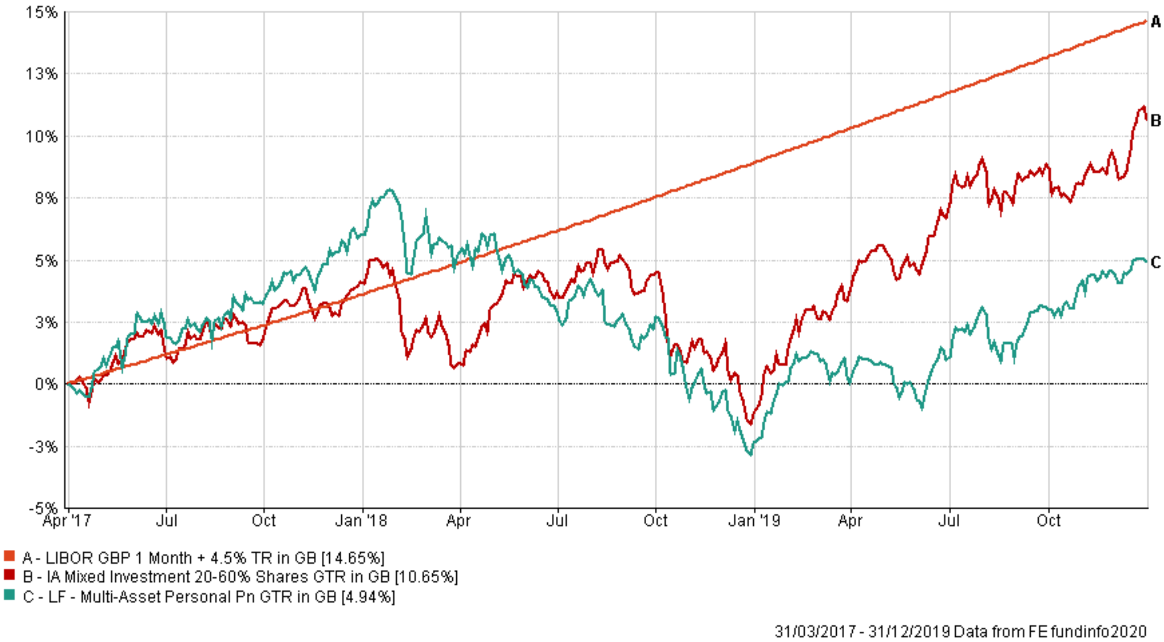


Some variance might be expected but we are concerned that each cohort of membership should experience a similar outcome, relative to the benchmark. Although the occasional variance would be acceptable for a fund with this manager's investment philosophy, process and management, we believe that the fund represents too high a risk considering the outcomes sought for the members holding the units as part of a lifestyling programme.

In summary there are issues with this fund and the variance in returns, which need to be managed and communicated to unitholders at all times.

Multi-Asset Fund

Since inception of this fund, the return profile is substantially behind 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 and its prime benchmark, cash plus 4.5% per annum, gross of charges.



While the fund has outperformed its prime benchmark over the last year, the returns are lacklustre relative to its peers.

We continue to be concerned about this fund, in that its risk profile (i.e. its volatility) suggests that the manager is not taking enough risk to achieve his performance objectives over the longer term. The positioning of the fund around its risk profile indicates that the manager remains worried about global equity markets.

This Scheme dominates the underlying fund, holding over 90% of its assets. We believe that LFS should review the suitability of this fund with its investment philosophy and processes.

Return-seeking fund – Global Equity Index

The Global Equity Index Fund invests exclusively in the Legal & General Global Equity Index Fund.

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

Date	*Fund*	*Number of Members*	*Value*	*Value per member*	*Average Age*	*Weighted average*
31-Dec-18	LF Global Equity Index Personal Pension Fund	804	21,210,842	26,382	50.4	53.1
31-Dec-19	LF Global Equity Index Personal Pension Fund	765	24,054,010	31,443	51.1	54.0

Prima facie, the fund is appropriate for the membership. As highlighted in the past, unitholders 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).

We are not able to use the FTSE World Index in charts, so we have used the L&G Global Equity fund as the benchmark asset to assess performance. The L&G Global Equity fund has an ongoing fund charges of 0.40% per annum. The tables below summarise the performance characteristics:

Fund Performance to 31st December 2019	*3 months*	*6 months*	*I year*	*Since 31.03.17*
LF Global Equity Index	1.75%	5.59%	21.49%	23.51%
Pensions Global Equity	2.49%	5.45%	21.24%	27.70%
L&G Global Equity Index	*1.52%*	*5.11%*	*22.85%*	*25.07%*

Fund Performance to 31st December 2019	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF Global Equity Index	11.53	0.03	-12.81%
Pensions Global Equity	9.81	0.00	-11.49%
L&G Global Equity Index	*11.02*	*640*	*-11.77%*

The fund is behaving in line with expectations. It has no ESG filter, but LGIM prides itself on being a good steward of investors' capital. LGIM is one of the largest shareholders in the world, and it continues to engage the management of companies on governance aspects of their business. LGIM will use its voting rights to reflect its views of management decisions.

Like many institutions LGIM is looking for companies to improve governance around their impact on the environment and the wider community. Currently, there are no specific goals around environmental and social issues.

LGIM does not have a formal ESG system in place for this fund, although it plans to have a reporting system in place before 30th June 2020. There are no specific dates when the reports will actually appear.

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 2019, along with an analysis of investors.

Date	Fund	Number of Members	Value	Value per member	Average Age	Weighted average
31-Dec-18	LF Cash Personal Pension Fund	957	7,627,804	7,971	56.1	60.7
31-Dec-19	LF Cash Personal Pension Fund	989	8,513,800	8,608	57.0	61.3
31-Dec-18	LF UK Gilt Personal Pension Fund	852	12,587,776	14,774	54.6	60.0
31-Dec-19	LF UK Gilt Personal Pension Fund	847	13,725,961	16,205	55.3	60.7

The weighted average age of unitholders in each fund is in line with expectations.

Fund returns to 31st December 2019, are shown below.

Fund Performance to 31st December 2019	*3 months*	*1 year*	*3 years*	*5 years*	*10 years*
LF Cash Personal Pension Fund	0.15%	0.65%	0.96%	1.28%	0.72%
Pensions Money Market	*0.05%*	*0.63%*	*0.87%*	*1.58%*	*2.98%*
LIBOR 3 month	*0.20%*	*0.81%*	*1.90%*	*3.00%*	*6.61%*
LF UK Gilt Personal Pension Fund	-4.03%	5.61%	6.81%	16.00%	67.88%
AI UK Gilts	*-4.42%*	*7.00%*	*9.11%*	*20.86%*	*64.78%*
L&G All Stocks Gilt Index	*-3.94%*	*6.39%*	*8.34%*	*19.65%*	*64.24%*

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 unitholders to remind them of the current position, re the returns and the impact of inflation.

The UK Gilt Fund has performed in line with its benchmark index. The risk metrics over the last 5 years to 31st December 2019 indicate that the unitholders are faring reasonably well, relative to the wider market.

Fund Performance to 31st December 2019	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF UK Gilt Personal Pension Fund	6.01	-0.85	-8.06%
AI UK Gilts	*7.23*	*0.00*	*-9.36%*
L&G All Stocks Gilt Index	*6.34*	*-0.29*	*-7.92%*

The underlying fund has a low tracking error versus its benchmark index. The main reason for variances is down to charges and when prices are assessed; the fund is priced at mid-day whereas the index is priced at the end of each day.

As stated above, LGIM does not have a specific ESG reporting system in place for these two funds. ESG aspects of a Gilt fund are always going to be questionable since governments do not necessarily adhere to ESG guidelines.

The situation for the Cash Fund is less obvious but generally, banks are starting to measure their ESG credentials. The ESG features of a bank will be one aspect of the credit analysis process but it should be borne in mind that a cash fund invests for the short term whereas ESG is a longer-term issue.

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 is dependent upon which fund is selected; It 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 LFS 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, which 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%	1.30%
LF Cautious Managed Personal Pension Fund	1.00%	0.99%
LF Global Equity Index	1.00%	1.01%

Operating Charges Ratios have been taken from the report and accounts for the year ended 30th September 2019.

The charges for the funds remain above the 0.75% per annum target for workplace pension arrangements. We would encourage LFS to review the pricing of these funds, and negotiate with Janus Henderson and Aberdeen Standard Life.

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 lifestyling 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%	0.74%

The charges are been stable over the last year, and are within the guidelines recommended by the Regulators.

The Committee recognises that unitholders 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

There is increasing focus on investment outcomes by regulators, as more and more individuals rely upon their DC funds to provide an income in retirement. Few of those individuals have sufficient knowledge of financial markets to make informed decisions. Consequently, the certainty of outcomes relative to a specific benchmark is more important.

The Cash, UK Gilt and Global Equity funds are performing in line of expectations, i.e. the returns relative to their benchmarks, gross of costs, are very tight. Unfortunately, the two largest funds continue to struggle to meet their goals with the level of certainty sought over the medium term. The nature of the underlying assets selected by the fund manager as a result of applying its investment philosophy and processes is the prime cause of variations in returns. With no change in the investment philosophies and processes the returns are going to remain unpredictable, as the tracking errors for each of the two funds remain high.

There is an understanding that the inclusion of the Cautious Managed Fund and the Multi Asset Fund is under review as part of the Optimisation Plan, but the timetable means that the changes will not be implemented for another 9-12 months. LFS should be encouraged to communicate the risks in these funds, so that members may make informed decisions.

In general, the ESG credentials for these funds are non-specific and are not currently measured. Most institutions are now becoming active shareholders and bond holders, where possible.

We believe that whilst this represents some attempt at good governance, more work is needed by the fund management industry in order to hone its credentials in the areas of social and environmental impact.

The Committee would encourage LFS to engage with the underlying fund managers on these issues.

Other potential charges

Currently, LFS 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 LFS 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 LFS's costs with other providers' products challenging because products with a lower AMC may charge administration fees for transactions that LFS 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

Customer support is provided to members of the Personal Pension Trust by Capita, who acquired the business and team from Jessops and retained this service on the sale of the business to LFS. It historically been a key part of the value that members place on the product.

While good standards of service appear to have been maintained in the last year, hitting targets on telephony and with the same low level of complaints as seen in previous years (see tables below), inevitably as time has passed personnel have changed and some of the specific knowledge which made a positive contribution to value for money is no longer present and the level of service, while remaining adequate, is no longer a differentiator for the Trust.

We understand that LFS may be considering the Customer Service contract as part of the Optimisation Plan

The Website has thus far been fairly static with basic information and limited functionality, and traffic has been limited accordingly, reflecting the telephone-based support which until now has tended to be favoured by members and has been well supported by the Fund. We will seek further information this year, both on traffic, and on LFS's proposals to develop online functionality as member demand for this develops.

Vulnerable Persons, and how schemes deal with them, is an increasingly important theme on which providers are required to have a policy (which LFS does). The Committee has asked LFS for further information on how it identifies and deals with vulnerable persons and will report in more detail on this aspect next year.

Please see experience of complaints and telephony services, below.

Complaints	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
Brought forward	1	0	0	0	0	1	0	0	0	0	0	0
Received	2	1	0	1	3	1	6	0	0	0	2	1
Closed	3	1	0	1	2	2	6	0	0	0	2	1
Upheld	0	0	0	1	1	1	2	0	0	0	0	0
Carried forward	0	0	0	0	1	0	0	0	0	0	0	0
Costs paid						£50						

Standard of telephony Service	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
% of calls answered	87.8%	94.1%	92.3%	92.4%	86.4%	90.0%	89.9%	94.3%	94.5%	88.8%	89.7%	83.3%
% of calls abandoned	1.7%	1.2%	0.9%	1.6%	1.3%	1.3%	0.3%	1.9%	0.0%	1.3%	1.4%	1.5%

LFS was unable to share data on transaction errors during the year although historically, it has made relatively few errors and the cost of remedial action has been modest.

3. Areas requiring attention

The FCA introduced new guidance for workplace pension arrangements in December 2019. This guidance requires all funds in workplace pension arrangements to have a clear ESG mandate and benchmarks. Your Committee is required to oversee LFS's policies on member concerns and stewardship. In August 2020, LFS will need to introduce at least four investment pathway solutions for individuals choosing pension drawdown as a way of taking benefits.

The new guidance creates a challenge for LFS, which has already decided upon an Optimisation Plan. The Committee feels that the Optimisation Plan will need to be developed further in order to achieve the outcomes sought by the FCA's recent announcements. The time-table set by the FCA is very tight, such that the original target date of Q4 2020 for implementation of the Optimisation Plan may prove to be too late.

The regulatory environment might mean all the issues raised below are addressed, but we feel strongly that members should be made aware of our concerns. The Committee has asked LFS to act in previous years and now feel that matters cannot be delayed any longer.

The areas that we have identified as requiring attention are set out below.

Underlying Fund selection

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

The performance of the Multi-Asset Fund since inception of the current mandate has also been disappointing. LFS's Chief Investment Officer highlighted the simplicity of its investment strategy and how that might not always be "best" in an increasingly complex world.

The Committee is concerned how, over the last year, the risk profile of the Multi Asset Fund has fallen well below that of the Cautious Managed Fund. The relative volatility of these two funds suggests that the Multi Asset Fund should deliver a lower return than the Cautious Managed Fund, when the Multi Asset Fund is meant to be the higher risk (and potentially higher return) fund for members who are looking to grow their pension pots. The Cautious Managed Fund is meant to be a "consolidating" fund but its risk profile is higher than that of the "growth" fund.

For members using the lifestyling strategy, the current behaviour of the two investment funds is not ideal. Although LFS is a minority investor in the underlying fund in which the Cautious Managed Fund invests, it owns the majority of the fund underlying the Multi Asset Fund. We therefore feel that LFS should be actively engaging with the fund managers to secure appropriate outcomes for its investors.

Charges

Charges for all the return-seeking funds are higher than the target for workplace pension arrangements. In particular, charges for the Multi Asset Fund remain stubbornly high, which is surprising considering the simplicity of the underlying investment mandate; and the charges for the Global Equity fund are also very high for an index tracker. The Committee would like to see reductions in these charges.

Transaction costs in the underlying funds are currently not identified by all fund managers. These apply to the underlying funds; they are not imposed by LFS. However, transaction costs impact on overall investment returns and, we believe, need to be visible. The FCA has also mandated that these costs are made visible and we hope that LFS will be able to obtain this information from its investment managers in future.

Environmental, Social and Governance ("ESG")

In our view, an increasing amount of capital around the world will be invested through ESG-sensitive mandates, varying from "ESG Lite" funds, which tilt portfolios away from supplying capital to businesses with a poor ESG score, to overweighting business with a good ESG score, to specialist ESG-friendly funds.

Over the coming 10 to 15 years, we believe companies that are being proactive about ESG are more likely to be successful in servicing the needs of their customers, as well as generating profits and meeting their regulatory requirements.

We anticipate that, on a 10 to 15-year timeframe, shares and bonds issued by companies with a high ESG score will outperform the wider market with less fundamental risk. We would therefore encourage LFS to adopt ESG mandates for an increasing proportion of the assets, with the majority of assets to be invested in this way by 31 December 2021.

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.

We are expecting a series of life-styling options to meet the needs of members and comply with the proposed code of practice due to be in place by the 1st August 2020.

Ongoing analysis of how unitholders are taking their benefits

A review of the default investment strategy so that the outcome of the above analysis can be properly reflected; this would make the strategy more suitable for the majority of unitholders.

We would like to see at least some of the lifestyle options geared towards generating cash at retirement. Currently, all such 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 LFS. FCA guidance was observed over selection of the employer-appointed member. Committee members during the year were:

Sarah Farrant (Chair)
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.

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 over 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 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, was Trustee of the Year at the Women in Pensions Awards 2018 and sits on the

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 Fund Solutions Limited, including those offered through the Pension Scheme.

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

Christopher Murray
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.

He will be retiring on 31st May 2020 and will be replaced on the Committee by an experienced colleague from Smith & Williamson Financial Services Limited.