Link Fund Solutions Limited

Governance Advisory Arrangement

Annual report to unitholders

of the

LF Personal Pension Trust

for the period

1st January 2020 to 31st March 2021

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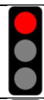
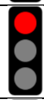
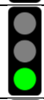
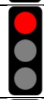
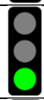
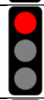
Chair's report

I am pleased to present the report of the Governance Advisory Arrangement ("the Committee") of the LF Personal Pension Trust ("the PPT") for the period between 1st January 2020 and 31st March 2021. The Committee is known for technical reasons as a "governance advisory arrangement" and its sole objective is to ensure that you are receiving "value-for-money" ("VfM") from your pension plan and in your dealings with Link Fund Solutions Limited ("LFSL").

Since our last report, Sarah Farrant has been appointed Chair of your Committee and Peter Maher has been appointed as a Committee Member to replace Chris Murray who retired with effect from 31st May 2020.

Summary evaluation

What overall level of VfM do we think the PPT provides to investors?	
Is the default investment strategy suitable for most investors?	
Does the default investment strategy have clear aims and objectives?	
Does LFSL regularly review the characteristics and net performance of its funds?	
Does LFSL take prompt action to ensure alignment of interests between the funds and the members	
How well are core financial transactions processed?	
How competitive are the charges associated with the PPT 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	

Pensions Freedoms	

Why aren’t all traffic lights green?

In 2019, LFSL developed an “Optimisation Plan”, which was designed to give members a more appropriate range of funds and default investment strategies whilst benefitting from lower fund costs. The initial timetable had a completion date of 31st March 2020. The target was not achieved and the Plan now has a revised target date of Quarter 4 2021. While Covid 19 will have had an impact, we remain disappointed in a further 18 month delay given the concerns we have been raising for a number of years.

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

At 1st January 2020, the default investment strategy mainly targeted fund growth though the PPT’s Multi Asset and Cautious Managed funds. Various “lifestyling” strategies are available as an option and are designed to reduce investment risk as retirement approaches. However, it appears that a low number of members have a lifestyling strategy.

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 1st January 2020, the implementation of the Optimisation Plan has seen some steps forward and a new project timetable adopted. However further progress has been slow. Your Committee’s input has been (and will continue to be) invited at various stages of the PPT’s evolution and we were hopeful that it would have been fully implemented by 31st December 2020 however this is not the case and we continue to work with LFSL to bring this to a speedy conclusion.

The proposed default investment strategy, range of funds, associated costs and options for taking retirement benefits are being evaluated in association with the Optimisation Plan. We are working with LFSL on the ongoing charges and the service provision to ensure value-for-money for investors.

During the last quarter of the reporting period, LFSL confirmed that it would reduce the charges for the existing range of funds, to reflect the delays incurred.

How we have considered your interests

Over the reporting period we have again considered the appropriateness of the default investment strategy and other funds that have been made available to investors, annual management charges and transaction costs, service delivery and how LFSL is addressing environmental, social and governance matters associated with the underlying funds.

Again, we don't feel sufficient progress has been made and we continue to work with LFSL to improve matters.

We are disappointed that the improvements detailed in the Optimisation Plan have not been implemented to any great effect. The FCA is aware of our concerns.

Expertise, independence, and experience of members of the Committee

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. Full details of your Committee are contained in Appendix 1.

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

Administration of the LF Personal Pension Trust

The LF Personal Pension Trust is currently administered by Capita however LFSL has determined that the service levels and the cost implications are no longer meeting requirements and as such it has concluded that the PPT in future should be administered by Equiniti. This is expected to be from quarter four 2021. This will provide much improved technical capability including web access for members.

Pension Freedoms

With effect from April 2015 Government introduced something called 'Pension freedoms' which grants greater flexibility around access to your pension benefits. The PPT does not offer such freedoms and therefore members wishing to avail of such flexibility will be required to transfer away from the trust.

Vulnerable Persons Policy

The FCA has concluded that one in two individuals could be deemed vulnerable. LFSL has a 'Vulnerable Persons Policy', but it is only identifying a small minority of investors as vulnerable. We would encourage LFSL to review the effectiveness of the policy.

Your views – how we take them into account

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 PPT.

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

Environmental, social and governance ("ESG") strategy

Despite there being no specific ESG mandates attaching to the funds held by the members, the Committee can report on some aspects, mainly around governance of funds. The Committee expects the financial services industry to secure better information about the underlying companies in the future.

Historically investors have focused on financial outcomes from investing capital, but companies, policy makers and investors are now looking for non-financial goals. Going forward, the Committee will report on the non-financial performance, starting with the use of carbon.

As a Committee, we are tasked with considering VfM and the potential to deliver long-term returns, so ESG credentials are going to have an increasing impact on those returns.

The future

Whilst we had hoped to be reporting to you this year on the implementation of the Optimisation Plan, little meaningful progress has been made and the Committee feels it necessary to register on your behalf its extreme disappointment.

We believe that the comprehensive 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 PPT and we are pressing LFSL hard to ensure that is delivered by 31 December 2021.

Sarah Farrant FIA
Chair

Developments over the period

There have been a number of significant changes to the PPT over the period covered by this report.

Optimisation Plan

In 2019, LFSL developed an “Optimisation Plan”, which was designed to give members a more suitable range of funds and default investment strategies whilst benefitting from lower fund costs. They key features of the Plan are as follows:

- Merger of the LF Stakeholder Pension Trust and the LF Personal Pension Trust to ensure members can benefit from enhanced economies of scale.
- Introduction of targeted default investment strategies to enable members to align their investment strategy with how they expect to take their benefits at retirement (cash, drawdown or taking an annuity).
- Transfer of the administration of the plan from Capita to Equiniti to achieve cost savings for the PPT and to improve the member experience from, improved administration service and communication and functionality from web access.
- Improve the ESG characteristics for the underlying assets for the portfolio as a whole.
- The new investment funds have lower charges.

The initial timetable had a completion date of 31st March 2020. This was then pushed back to 31 December 2020. This later target has not been achieved and there is now a revised target date of Quarter 4 2021.

This Optimisation Plan needs approval by the FCA and the membership. The Committee believes that, once implemented, the plan should offer better outcomes and a better experience for members. At this stage it is difficult for us to comment on the value for money that the new structure will offer members.

Withdrawal of the drawdown option

Over the period covered by this report, the FCA introduced a requirement that pension funds should offer their members four investment pathways once they reached their normal retirement age. This was an administratively complex requirement and so it only had to be offered by pension funds with a minimum number of members that were likely to select this option. Following a review of the membership, LFSL decided not to offer investment pathways and, as a consequence, removed the current drawdown option. A small number of members were affected by the closure of this option which resulted in a number of complaints. As a gesture of goodwill, LFSL refunded to those members affected, the implementation fee that had been charged to set up the drawdown option.

Change in investment strategy

Over the reporting period the Committee has worked with LFSL to update the current investment strategy of the plan. LFSL has reviewed the funds available to members and the structure of the default investment strategies. The new fund structure should have much lower investment charges.

The original Optimisation Plan assumed that the investment funds would be transferred to their new allocations at the same time as the administration was transferred from Capita to Equiniti. Following the delays in implementation, the Committee asked LFSL to see if it was possible to move at least some of the investment funds prior to the transfer of the administration so that members could benefit from the reduction in overall charges sooner.

One of the aims of the Optimisation Plan is to reduce the overall costs to members. Due to the delay in its implementation LFSL agreed to rebate a portion of the fees charged to members from January 2021 until the Optimisation Plan is implemented. The rebate is adjusted monthly based on the actual fees charged, to date the rebate has reduced the fees charged to members by c. 8.5% per annum per Fund. In March 2021 LFSL were able to further reduce the charges paid by members invested in the LF UK Gilt Personal Pension Fund by switching to a cheaper share class in the underlying L&G All Stocks Gilt Index Trust.

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 Committee'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, as well as assessing the non-financial goals.

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 engage with companies in their portfolios.

Over the last five years, 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 risks and potential returns from all assets. Since the 1st January 2020 there has been a sea change with the number of funds on offer mushrooming, and the fund manager industry is attempting to standardize the ESG investment and reporting to bring clarity to investors.

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 limited ESG experience amongst fund managers. The shortage of expertise in the wider market increases the risks associated with integrating ESG into the default funds, although we are aware that the regulators are expecting imminent change.

During the discussions around the implementation of the Optimisation Plan, the Committee encouraged LFSL to use ESG funds where possible. Under the proposals, LFSL is going to use the following funds:

> L&G Future World ESG Developed Index Fund– a passive global equity fund, with a benchmark of the FTSE All-World ex CW Climate Balanced Factor Index
>
> L&G Future World Multi-Index 4 fund – a multi-asset fund, where the majority of the assets are invested in ESG assets.

The Committee continues to encourage LFSL to use ESG funds where possible.

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

Voting Rights attaching to Investments

LFSL 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 LFSL, detailing their voting activity.

Review from 1st January 2020 to 31st March 2021

Investment review

Historically, the majority of contributions were channelled into funds managed by either Janus Henderson or Aberdeen. At 31st March 2021, 76.0% 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 Global Equity Index Personal Pension Fund
- LF Cash Personal Pension Fund
- LF UK Gilt Personal Pension Fund

We note that members of the PPT were offered a lifestyling facility in 2012. As of the 31st March 2021, 1,803 members, down from 1,915 members as of the 31st December 2019, adopted a lifestyle profile, out the 7,674 plans. With the implementation of the Optimisation Plan all members will have a choice of a Lifestyle profile suitable for one of the many retirement planning options available under the Pensions Freedoms legislation. The Committee would encourage LFSL to ensure that the members are given sufficient information to make an informed decision. 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).

Suitability of funds

The Plan should be operated in the interests of members reflecting the current environment for savers (which can change over time), rather than assuming it will remain suitable indefinitely. Investment mandates for the LF Pension Trust are set out in the Appendix 2.

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

There was a considerable amount of change on 31st March 2017, and where appropriate, our comments will concentrate on the performance since then.   Our report is divided between return-seeking assets and de-risking assets

Return-seeking funds - LF Multi-Asset, Cautious Managed and Global Equity

Performance

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.

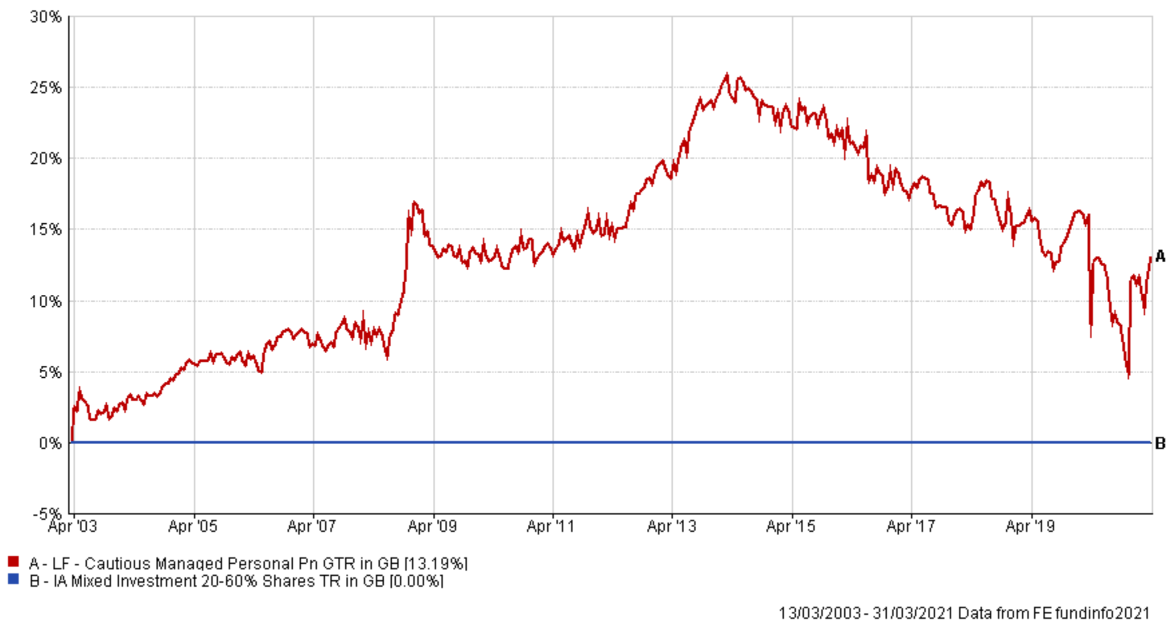
The LF Cautious Managed Fund is still benchmarked against "IA Mixed Investment 20-60% Shares" sector. Within these benchmarks, the allocation to equities can be relatively wide, so investors need to consider other aspects of performance as well as outright investment returns.

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

Appendix 2 sets out the performance and risk characteristics of the funds.

LF Cautious Managed Fund

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



The issue is that the unit holders are not holding the fund for the long term, as it is used as a consolidation fund under the Lifestyle flightpaths. And they would have experienced the relative performance outcome as set out in the tables below, versus the fund's benchmark over the reporting period.

Matters have only improved as a result of the bounce back of UK equities and corporate bonds, since November 2020, when the news around the vaccine came out and “value” shares started to perform.

The relative performance has been a rollercoaster ride over the reporting period, with relative underperformance of 10.0% at one point, which is uncomfortable. The biggest concern is around the elevated levels of volatility of the fund for the period. The fund’s volatility, a measurement of risk, was 50% higher than the benchmark index, which is an unattractive outcome for the period.

The underlying fund, the Janus Henderson Cautious Managed fund, has a prime benchmark of 50/50 between the FTSE All Share Index and the ICE Non-Gilt Index, plus 1.5% per annum. GAA is disturbed how the fund has performed poorly relatively to this benchmark since the start of the data.

18/01/2007 - 27/05/2021 Data from FE fundinfo2021

The Committee has stated in the last three reports the inappropriateness of the investment philosophy, investment processes and management style of the Cautious Managed fund, when sitting alongside the Multi Asset fund. There will be a cohort of unit holders, who are using the fund as a consolidation fund in the lifestyle profile, impacted by the behaviour of the fund.

LF Multi-Asset Fund

Since inception of the current mandate for this fund, 31st March 2017, the return profile has been unsatisfactory relative to both of its benchmarks. 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.

31/03/2017 - 31/03/2021 Data from FE fundinfo2021

The only redeeming feature has been the fact that the risk profile of the fund is slightly lower than one of the benchmarks, IA Mixed Investment 20-60% shares, so the risk adjusted returns over the reporting period have been slightly better relative to its overall record since March 2017.

The recurring issue is the suitability of the fund as a “Growth” fund for the members. The fund’s portfolio construction has not achieved its target returns. The volatility of the fund would suggest that the managers have not taken enough risk over the period. These observations have been consistently reported to LFSL and the issues should be addressed by the Optimisation Plan. However, for unit holders it has been a negative outcome relative to the benchmark.

LF Global Equity Index

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 fund is behaving in line with expectations.

Environmental Social and Governance, ESG

We are reporting on the ESG performance of the return-seeking assets.

LF Cautious Managed

Janus Henderson has provided a limited amount of data around votable meetings for the year to 31st December 2020, which is summarised as below:

Number of votable meetings	83
Number of Resolutions	34
No. of votes where Janus could vote	100.00%
No. of meetings with management	72
No. of votes against management	9

Janus Henderson only provided information on four votes. Out of the four votes, three of them were against management around the remuneration policies. There were no votes on ESG issues.

Further analysis is needed to understand the drivers behind this voting pattern. From the information we have from Janus Henderson, there are two shares held by both LF Multi Asset fund and the LF Cautious Managed, where ASI voted against the management on remuneration and Janus remained silent.

The carbon intensity of the fund is 118.7 tons of carbon emissions for every $1 million of sales.

LF Multi-Asset

The underlying fund for the LF Multi-Asset fund is the Aberdeen Standard Investments, ASI, Diversified Core Growth Fund.

For the Multi Asset fund the record of voting for the shares between 1st April 2020 and 31st March 2021 where the fund has direct holdings is as below:

Number of votable meetings	343
Passed on voting	10
No of Resolutions	4,417
No. of votes where ASI could vote	98.91%
% of votes with management	83.20%
% of votes against the management	13.01%

The analysis of the votes against management is dominated by voting against remuneration in the case of 133 companies, which represents a significant proportion of the shares held by the underlying fund.

There were relatively few votes around Social and Environmental issues, less than 10 each.

Further engagement with ASI is needed to understand whether the fund manager is following their ESG policy, especially owning companies who consistently defy the norms around remuneration.

The carbon intensity of the ASI Diversified Core Growth fund is 202.5 tons of carbon emissions for every $1 million of sales, and double the LF Cautious Managed fund.

LF Global Equity Index

For the Global Equity Index fund, the record of voting for the shares between 1st April 2020 and 31st March 2021 where the fund has direct holdings is as below:

Number of votable meetings	6,779
Passed on voting	106
No of Resolutions	70,672
No. of votes where LGIM could vote	99.85%
% of votes with management	83.25%
% of votes against the management	15.96%

LGIM, the underlying fund manager, has only provided limited data around their voting record. LGIM only shared data on 19 significant votes, with 8 around remuneration, 3 were around the environment, two around HR policies – one of which was Amazon - and the rest were around capital structures of the businesses and the director choices.

The carbon intensity of the fund is 158 tonnes of carbon emissions for every $1 million of sales. And the carbon reserves are 1,273 tonnes of carbon dioxide for $1 million of market capitalisation.

All these numbers in isolation have little meaning, but hopefully in time there will be more and more data to hand to see how the trends are panning out in the future. The ultimate goal is to secure more sophisticated data and so the members can make more informed decisions.

De-risking funds - Cash and UK Gilt

Performance

The Cash and UK Gilt funds have clear investment strategies. They are invested in two separate asset classes, each with its own benchmark index. The performance of the funds is in line with expectations – see Appendix 2.

Environmental Social and Governance

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, especially the UK government, does not necessarily adhere to ESG guidelines – such as selling weapons. On the other hand, the UK government provides universal health care.

In the case of the Cash fund, the cash deposits are placed with a series of banks, and as a depositor, the investors have no voting power. Again, LGIM does not collate the data around their voting record, for those publicly quoted institutions, where they are also shareholders.

Suitability

Risk-seeking Funds

There is a limited amount of data on the membership profile. There is no requirement for LFSL to ask each member about their attitude to risk, time horizons and investment objectives. Neither is there any information about the financial knowledge and experience of participants. Some data is available about the number of members invested in each fund, their ages and the average value of their holding, which is shown in the table below.

In 2021, we have received further information about the number of years until the normal retirement ages of the members as below:

Date	Fund	Number of Members	Value	Value per member	Average Age	Weighted average	Average years to NRA	Weighted average to NRA
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-17	LF Global Equity Index Personal Pension Fund	834	22,961,172	27,531	49.5	52.5		
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-18	LF Global Equity Index Personal Pension Fund	804	21,210,842	26,382	50.4	53.1		
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		
31-Dec-19	LF Global Equity Index Personal Pension Fund	765	24,054,010	31,443	51.1	54.0		
31-Mar-21	LF Multi-Asset Personal Pension Fund	6,096	124,638,914	20,446	53.8	56.2	9.9	8.0
31-Mar-21	LF Cautious Managed Personal Pension Fund	1,635	29,969,571	18,330	50.7	54.0	12.0	8.5
31-Mar-21	LF Global Equity Index Personal Pension Fund	717	25,414,085	35,445	52.1	54.9	10.8	7.9

“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 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 designed 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 risky of these two funds, contrary to what we expected. In this reporting period, the volatility of the Multi-Asset fund has been substantially less than the Cautious Managed fund. This behaviour is at odds with expectations, normally we would expect the consolidator fund to be less volatile than the growth fund.

During the reporting period both funds have failed in relation to this measure, with the Multi Asset fund taking too little relative risk to achieve the return goals and the Cautious Managed fund being too risky.

There are 369 members over age 65 holding units in the Multi-Asset Fund, with an average fund value of £33,952. The oldest member is 83.1 years old! We would encourage LFSL 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.

LFSL has accepted the limitations of these mandates, in that they are going to be replaced under the Optimisation Plan, but the delay in the Plan’s implantation may have had a material impact on unitholders for the reporting period.

Turning to the only real return seeking asset, the LF Global Equity Index fund, the number of years until the normal retirement ages is sufficient to keep the risks down, when looking at the average age of the members owning the units. However, the presence of a number of members with larger holdings means that the weighted average term is shorter. It is reaching the point where the members should start to consider alternative investment options, based upon their circumstances. The Committee would encourage LFSL to inform the unit holders of the appropriate time horizon for this fund.

De-risk funds

Investment in each of the funds is shown below at 31st March 2021, along with an analysis of investors.

Date	*Fund*	*Number of Members*	*Value*	*Value per member*	*Average Age*	*Weighted average*	*Average years to NRA*	*Weighted average to NRA*
31-Dec-16	LF Cash Personal Pension Fund	930	7,499,183	8,064	55.3	60.6		
31-Dec-17	LF Cash Personal Pension Fund	928	7,299,085	7,865	55.2	60.0		
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-Mar-21	LF Cash Personal Pension Fund	1,001	9,210,769	9,202	57.6	61.8	6.9	4.0
31-Dec-16	LF UK Gilt Personal Pension Fund	710	11,369,736	16,014	56.6	59.7		
31-Dec-17	LF UK Gilt Personal Pension Fund	838	11,276,219	13,456	53.6	59.4		
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		
31-Mar-21	LF UK Gilt Personal Pension Fund	860	14,016,858	16,299	55.9	61.2	7.3	2.8

The weighted average age of unitholders is as expected for the Cash Fund, with funds being held by individuals approaching retirement. The Committee notes that there are a significant number of younger members (under age 50) who have a holding in the Cash Fund which we believe is unlikely to be appropriate. After a number of years of asking LFLS to inform the members about the impact of inflation on the real value of the units in the Cash Fund, the Committee believes the matter is more pressing, as inflation rates continues to reduce the purchasing power of the Cash fund. The Committee would encourage LFSL to send an explicit letter to the holders of Cash fund explaining the inflation risks.

The average age and weighted average age for the UK Gilt fund is appropriate, for members looking to buy an annuity at the normal retirement ages. With low gross redemption yields meaning investors will experience negative real returns, in all likelihood. The Committee ideally would like these unit holders to be informed about the inflation risks which will have an impact on the real value of their pension funds over the medium term. Your Committee has consistently asked for LFSL to communicate this issue.

Taking Benefits

LFSL is now collating more granular records of how the members are taking their benefits, which is a positive step.

Over the reporting period some 245 members took benefits mainly as lump sums, with the average of £11,000. Most of these members were between 55 and 75, which is in line with expectations. 57 of these members took benefits of £10,000 or more as a lump sum, where there is a risk where income tax could have been an issue. However only two of these members secured advice, directly or through pensions guidance web sites such as Pensions Wise, which is disappointing. There was a single member taking out more than £100,000 and did not take advice!

On the other hand, of those taking benefits of less than £10,000, over half of them secured advice.

The hope is that under the new proposed arrangements, members will have access to further facts and help through the Equiniti systems, which shall help each member make more informed decisions. The Committee will continue to monitor this data to understand whether the statistics change.

Over the reporting period 235 members transferred their pension pots away from LFSL. Despite the regulatory environment an increasing number of individuals are sold pension scams products. The Committee would encourage LFSL to adopt checks and balances to avoid this arising. The Committee would like to receive quarterly schedules setting out the details of the transfers out, specifically the sums transferred and to whom the payments were made.

The Committee would encourage LFSL to collate the data going forward, and consider creating a list of "accredited" pension providers, and when a transfer is requested to a pension provider not on the list, there is a need for a sign off by an oversight committee.

Charges

The costs for the default funds need to be competitive. For the majority of the reporting period the charges for the funds have been as below, highlighted in blue. As a result of the delays to the implementation of the Optimisation Plan, LFSL made a positive decision to reduce the charges for the funds, by applying a discount, which is on pro rata basis to the charges levied. The allocation of the rebate was agreed to by the Committee and has been in place since 31st December 2020.

Towards the end of March 2021, LFLS managed to secure a further reduction in the charges for one of the funds, the UK Gilt fund, from the 25th March 2021, where the charges on the underlying fund was reduced by 0.05% per annum.

The charges for the funds, when compared with other funds in the Workplace pension market, are set out as below:

Return-Seeking Funds

Fund	*Ongoing Charges Ratio*	*Discount since 1 Jan 2021*	*LGIM Fund Reduction*	*Operating Charges Ratio net of discount*
LF Multi-Asset Personal Pension Fund	1.30%	0.11%		1.19%
Aegon Risk Managed Pension 4	0.57%			0.57%
L&G Diversified Fund	0.70%			0.70%
LF Cautious Managed Personal Pension Fund	1.01%	0.09%		0.92%
Aegon 50/50 Cautious Managed	0.71%			0.71%
L&G Distribution	0.79%			0.79%
LF Global Equity Index	0.93%	0.08%		0.85%
Aegon Vanguard ESG Developed World All Cap Index	0.52%			0.52%
L&G Future World	0.65%			0.65%

De-Risking Funds

Fund	*Ongoing Charges Ratio*	*Discount since 1 Jan 2021*	*LGIM Fund Reduction*	*Operating Charges Ratio net of discount*
LF Cash Personal Pension Fund	0.35%	0.03%		0.32%
L&G Cash	0.41%			0.41%
Aegon Cash	0.46%			0.46%
LF UK Gilt Personal Pension Fund	0.75%	0.06%	0.05%	0.64%
Aegon ishares UK Gilts All Stocks Index	0.43%			0.43%
L&G All Stocks Gilts Index	0.49%			0.49%

While the discount is welcome, the operating charges ratio, net of the discounts, are still above the charges levied under other Workplace arrangements for the majority of the funds invested for investors. Aegon and Legal & General confirm that these charges are the averages, but if any scheme approached them, they would expect to negotiate the terms based upon the quality of the scheme data.

Over the period the Committee has continued to ask for a review of charges for these funds, culminating in the fee reductions, but still they need to be reduced further, which will happen when the Optimisation Plan is implemented. Consequently, the unit holders have been disadvantaged by the delays. This has been partially offset by the discounts provided by LFSL.

One area needing urgent action is the Cash fund where the charges for this fund and the Stakeholder Pension Plans are very different, despite holding the same underlying fund.

Other potential charges

All administration costs are included within each fund's annual management charge.

For the PPT, LFSL currently makes no charge for the following:

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
Annual Statements
Duplicate copies of correspondence
Account closure

All switches take place on a bid to bid basis, i.e. they will be free of charge. Whilst LFSL 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.

Liquidity

All funds available through the PPT 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 Committee shares the FCA's focus on outcomes for unit holders. While the report focuses on the individual funds, in reality most members own more than one fund. The Committee is more concerned by the overall behaviour of each member's pension pot, and whether the unit holders' experience is in line with the expectations.

There is a cohort of investors in the lifestyle strategy who will have experienced increasing risk when they moved their pension pots into the consolidation phase of their financial journey. The continuous delay in the Optimisation Plan will have had a detrimental impact for a number of the unitholders.

The reporting period illustrated clearly how fund choices and lifestyle flightpaths have to be right, and has exposed the weakness of the existing structures. Yes, the reduction in fees will help ameliorate some of the negative impact, but it will not compensate all the unit holders for the risks. Clearly it cannot assist those members who have already taken their benefits.

Further engagement around the ESG policy of the funds remains important, and the hope is that improved reporting will allow unit holders will able to see the financial and non-financial performance of the funds held over time.

Customer Experience

The PPT has had a history of positive and highly valued customer service. However, over time the value of scheme knowledge and team stability has been diluted in the Capita administration team, as explained below. In addition, as competitors have materially added to their customer service proposition, especially as regards online servicing, the PPT has not kept pace. In parallel with the Optimisation Plan, LFSL has been reviewing the administration service offered to the PPT and with the proposed move to Equiniti we expect to see an improvement in service offering both for customers, and the speed and quality of reporting to the Committee. It is disappointing that implementation of this change has been delayed.

Having said all of that, the PPT service statistics show that it has generally maintained an adequate level of service, with some consistent positive feedback and a low level of complaints, albeit with a small dip during April and May 2020 as a result of the transition to home working due to Covid. This has, however, seen a degradation in recent months, due to staff departures (some relating to the announcement of the move to Equiniti), plus the decision to withdraw drawdown as an option, which coincided with, and may have been the cause of, a significant increase in call volumes in February and March 2021. There were a number of complaints concerning this decision, including how it was communicated. We understand that Link has taken the decision to refund the fee paid for drawdown in all cases other than where the drawdown was already effectively complete.

Communications

During the year the Committee established a process for review of PPT communications, prioritising those communications with the highest risk and impact on customers. The Committee suggested a number of changes to improve the clarity of communications; we understand that any changes to the letters concerned also await the move to Equiniti.

Vulnerable Customers

Your Committee has considered and discussed with LFSL at length the position of vulnerable customers. The Committee is looking to LFSL to enhance the policies to protect vulnerable customers. The Committee has also proposed additional wording and declarations relating to such customers which will be considered for inclusion in the new suite of communication materials once the administration is transferred to Equiniti.

Please see experience of complaints and telephony services, below:-

Complaints		**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Complaints	% of complaints acknowledged or expected resolution date communicated within 5 days	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
% Complaint Acknowledgments	Underlying data - # Complaint acknowledgments in 5 days	1	0	0	0	2	4	3	0	0	2	0	0
	Underlying data - # Complaint acknowledgments	1	0	0	0	2	4	3	0	0	2	0	0

Standard of telephony Service	**Measure**	**Target**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
% Speed of Answer	% of calls answered within 20 seconds during the reporting period	80%	90.3 %	91.9 %	91.8 %	90.2 %	84.0 %	83.7 %	90.4 %	95.6 %	91.70 %	88.3 %	87.5 %	88.8 %
% Speed of Answer	Underlying data - # Calls answered in 20 secs		353	316	282	212	178	206	216	197	222	294	266	175
% Speed of Answer	Underlying data - # Calls offered		391	344	307	235	212	246	239	206	242	333	304	197
% Abandonment Rate	% of calls abandoned during the reporting period	5%	1.5 %	1.4 %	1.0 %	1.7 %	3.8 %	2.4 %	1.3 %	1.0 %	0.8%	1.50 %	0.32 %	3.04 %
% Abandonment Rate	Underlying Data - #Calls abandoned		6	5	3	4	8	6	3	2	2	5	1	6
% Abandonment Rate	Underlying Data - # Calls offered		391	344	307	235	212	246	239	206	242	333	304	197

Areas requiring attention

As mentioned above, in 2019, LFSL developed an “Optimisation Plan”, which was designed to give members a more suitable range of funds and default investment strategies whilst benefitting from lower fund costs. The initial timetable had a completion date of 31st March 2020. This was then pushed back to 31 December 2020. This later target has not been achieved and there is now a revised target date of Quarter 4 2021.

Unfortunately, the plan is still behind schedule and most issues that your Committee has previously identified have yet to be addressed. It is vitally important that this date does not slip further and the Optimisation Plan is implemented on time. The areas requiring attention that we highlighted last year are listed below and should be improved by the implementation of this Optimisation Plan.

- Revising the mandates for the Cautious Managed Fund and the Multi-Asset Fund
- Reducing the charges on the funds
- Introducing appropriate lifestyling options for members

The further areas that we have identified in this period that require attention are set out below.

Web Access

Most product providers in the market place now offer their members online servicing to their accounts. We understand that this should be available once the administration of the PPT is transferred to Equiniti. To remain competitive in the market it is important that this function is available to members and that the communications are clear and informative.

Communications

In the past year, your Committee implemented a strategy for reviewing the communications issued to members to ensure that they were clear and concise and they could be easily understood by members. The suggested changes we highlighted are yet to be implemented. We understand that the communications will be updated once the administration of the PPT passes to Equiniti.

The Committee feels that it is important that appropriate risk warnings are contained in the communications so that members can have a clear understanding of the risks posed by their chosen investment strategy or course of action.

Ongoing analysis of how unitholders are taking their benefits

Ongoing analysis of those members taking benefits and the funds sold shall help inform whether the default investment strategies are suitable. The Committee will be asking for this data regularly to allow for more in-depth analysis.

ESG Reporting

This has only recently been introduced by the FCA and at present the level of reporting available from investment funds is still developing. Next year we would like to see more detailed reporting, an analysis of how the investment strategy of the funds has performed against the ESG targets and to improve the ESG characteristics for the underlying assets of the portfolio as a whole.

Value for money after implementation of the Optimisation Plan

Once the Optimisation Plan is complete, the Committee intend to review the value for money the new strategy offers members.

Provision of information

The Committee has failed to receive timely management information from LFSL which has made it difficult to oversee the pension fund. Over recent years the Committee has worked with LFSL to clarify the information we require and to set out a timetable for provision of that information. LFSL has failed to meet these requirements. It is important for these deadlines to be met next year.

Appendix 1 - Constitution of GAA Committee

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

Sarah Farrant (Chair)

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 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.

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 Scheme.

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

Peter Maher
National Head of Employee Benefits Consultants, Tilney Smith & Williamson

Professional Qualifications

- Member of the Chartered Insurance Institute (CII) and is Diploma Level 4 qualified

Mr Maher has over 30 years' worth of experience in the employee benefits and independent trustee arena.

He provides advice in connection with the design, implementation and administration of employee benefit structures and the communication of those structures to employees.

In addition, Peter acts as independent trustee to occupational pension and life assurance schemes.

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

Appendix 2 - Investment

Fund Details

The available fund range is shown below:

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

Return-Seeking Assets

Fund Objectives

The LF Multi-Asset fund is invested in the ASI Diversified Core Growth fund, whose objectives are *"to generate a positive return through capital growth and some income over the long term (a period of 5 years or more) by investing in a globally diversified portfolio of assets. Invested capital is however at risk and there is no guarantee that the objective will be attained over any time period. Performance Target: To exceed the return on cash deposits (as currently measured by 1 Month GBP LIBOR) by 4.5% per annum over rolling five year periods (before charges). The Performance Target is the level of performance the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the Performance Target. The Performance Target has been chosen as a proxy for the return on cash deposits."*

The LF Cautious Managed Fund is invested in the Janus Henderson Cautious Managed fund, whose objectives are *"to provide a return, from a combination of income and capital growth over the long term. Performance target: To outperform the 50% FTSE All Share + 50% ICE Bank of America ML Sterling Non Gilt Index by 1.5% per annum, before the deduction of charges, over any 5 year period. The Fund invests in shares (also known as equities) and bonds of governments, companies or any other type of issuer, in any country. At all times the investment in equities will be limited to a maximum of 60% of the value of the Fund's portfolio and the Fund will normally have a strong bias towards UK companies and bonds. Companies and bond issuers may be of any size, in any industry. At all times the Fund will be limited to a maximum of 60% in company shares…………. As an additional means of assessing the performance of the Fund, the IA Mixed Investment 20–60% Shares sector average, which is based on a peer group of broadly similar funds, may also provide a useful comparator."*

The LF Global Equity Index fund is invested in the L&G Global Equity Index fund whose objectives are *"to provide both an income and growth by aiming to track the performance of the FTSE World Index……………"*

Performance

The cumulative performance of these two funds (i.e. total return) is shown below, over various periods to 31st March 2021.

Fund Performance to 31st March 2021	*3 months*	*6 months*	*I year*	*3 years*	*since 31.03.17*
LF Multi-Asset Personal Pension Fund	0.48%	5.77%	13.74%	1.58%	6.89
LIBOR 1 month +4.5% per annum	*1.10%*	*2.23%*	*4.57%*	*15.77%*	*21.38*
IA Mixed 20% - 60% shares	*0.85%*	*7.46%*	*19.83%*	*14.56%*	*15.51*

Fund Performance to 31st March 2021	*3 months*	*6 months*	*I year*	*3 years*	*5 years*
LF Cautious Managed Personal Pension Fund	1.95%	13.55%	22.47%	12.38%	21.72%
IA Mixed 20% - 60% shares	*0.85%*	*7.46%*	*19.83%*	*14.56%*	*30.49%*

Fund Performance to 31st March 2021	*3 months*	*6 months*	*I year*	*3 years*	*since 31.03.17*
LF Global Equity Index	3.38%	11.98%	39.64%	42.93%	42.36%
Pensions Global Equity	3.60%	13.18%	36.13%	37.18%	39.97
L&G Global Equity Index	*4.08%*	*12.30%*	*39.64%*	*45.74%*	*46.61%*

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

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

The table below for the Multi-Asset and Global Equity Index funds use three measures of fund behaviour over the period from 31st March 2017 to 31st March 2021, when a new investment mandate was adopted. The previous data is no longer relevant because the fund was employing a different investment philosophy and process. We have considered the 5-year period to 31st March 2021 for the Cautious Managed Fund.

Fund Performance to 31st March 2021	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF Multi-Asset Personal Pension Fund	6.11	-0.95	-13.83%
LIBOR 1 month +4.5% per annum	*-*	*0*	*0.00*
IA Mixed 20% - 60% shares	*7.71*	*0*	*-16.67%*

Fund Performance to 31st March 2021	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF Cautious Managed Personal Pension Fund	10.58	-2.98	-23.50%
IA Mixed 20% - 60% shares	*7.32*	*0.00*	*-16.67%*

Fund Performance to 31st March 2021	*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%*

De-Risk Funds

Fund Objectives

The risk averse assets are the LF Cash and the Corporate Bond funds.

The LF Cash fund is invested in the LGIM Sterling Liquidity fund, and its objectives are *"the principal investment objective of the Sterling Liquidity Fund is to provide capital stability, liquidity and diversification while providing a competitive level of return. The Fund invests in high quality short term fixed income and variable rate securities listed or traded on one or more Recognised Exchanges, across a range of financial institutions, sovereign and corporate issuers."*

LF Corporate Bond fund is invested in the L&G Sterling Income Fund, and the fund objective for the fund is *"The objective of this fund is to provide a high income, whilst aiming to preserve capital over the long term. The fund will invest in bonds (a type of loan which pays interest). These bonds will have a pre-set rate of income (either set at a fixed level or varying in a pre-determined way)………. This fund may not be appropriate for investors who plan to withdraw their money within five years."*

Performance

The fund returns are as shown below

Fund Performance to 31st March 2021	*3 months*	*1 year*	*3 years*	*5 years*	*10 years*
LF Cash Personal Pension Fund	-0.07%	0.42%	1.29%	1.40%	1.53%
Pensions Money Market	*-0.13%*	*0.38%*	*1.04%*	*1.59%*	*2.88%*
LIBOR 3 month	*0.01%*	*0.14%*	*1.71%*	*2.58%*	*5.99%*
LF UK Gilt Personal Pension Fund	-6.43%	-7.24%	5.49%	11.21%	57.32%
AI UK Gilts	*-7.41%*	*-5.92%*	*7.81%*	*16.62%*	*60.54%*
L&G All Stocks Gilt Index	*-6.84%*	*-5.63%*	*7.49%*	*14.65%*	*56.00%*

Performance of the LF Cash Fund is in line with expectations, i.e. at a discount to LIBOR, with the underperformance reflecting charges for the fund. The returns are behind its peer group. The high charges are the drivers behind the relative performance.

The LF UK Gilt fund has been satisfactory versus the market, but the actual returns illustrate the downside risks from investing in government bonds.

The table sets out the risk metrics for the last 5 years to the 31st March 2021.

Fund Performance to 31st March 2021	*Volatility*	*Jensen's Alpha*	*Maximum Drawdown/Fall*
LF UK Gilt Personal Pension Fund	8.46	0.11	-9.46%
AI UK Gilts	*7.78*	*0.00*	*-9.36%*
L&G All Stocks Gilt Index	*6.89*	*-0.16*	*-8.48%*

In summary, the performance of both funds has been satisfactory, relative to their benchmarks.

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 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 the 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 the benchmark index. This is to compensate them for the higher level of risk.

“Jensen's Alpha” (“Jensen’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 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 were 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.

Appendix 3 – Environmental Social and Governance Assessment

The reporting of ESG is relatively new, and relatively patchy in that there is no uniform methodology which is employed by all investment institutions.

Therefore, the data to hand is relatively poor, but the hope is that the reporting will improve over the coming period.

Governance

To date the most commonly used assessment of governance is voting by shareholders at general meetings of the companies held by the funds. Even though LGIM does consider ESG when analysing bonds and cash deposits, they do not report on their voting activity where they own the shares.

The governance report focuses on the number of votes taken and the number of times when this shareholder voted against the management. Fund managers continue to support most management teams most of the time.

There are few votes against climate change strategies, which is interesting as companies are very much in the regulatory firing line to reduce the size of their carbon footprint.

By collating data over time, the hope is that we will secure a better picture about the governance of the funds held.

Environment

The Committee identified carbon as the first and most measurable item which the GAA can report on, and is the most important in relation to addressing the climate change challenge.

There are two main numbers widely used. The first is the amount of carbon owned by the underlying companies as reserves underground. And they are measured as the amount of carbon dioxide they would produce if extracted and burnt. Most investors now realise that most of these carbon reserves will remain untapped and left where they are.

The second and more important is the amount of Carbon Dioxide used to create $1 million of sales. The idea is that the amount of carbon dioxide will reduce over time as companies find lower carbon solutions in the manufacturing processes as well as the service sector. The Committee has identified this metric as the prime goal over the long term.

In addition, the report will report on the amount of carbon dioxide produced by the PPT in its totality. The goal is to reduce carbon dioxide produced over time.

Summary

The underlying data around all ESG measurements is developing, and they will become more sophisticated over time.