PENSION BRIEFING

Bringing you the pension news from the Lloyd's Superannuation Fund

INSIDE

WELCOME
FROM THE CHAIRMAN

I am pleased to be writing the foreword to another issue of *Pension Briefing*, the newsletter for members of the Lloyd's Superannuation Fund.

We last sent out a newsletter in 2019; our plans for 2020 were rather turned on their heads by the Covid-19 pandemic. However, despite the challenges of the last year, the administration of the Fund has continued without interruption for which Bob Clark and his colleagues must be congratulated.

When the UK first went into lockdown, the Trustee and its professional advisers moved quickly to address the impact of the pandemic on the Fund and our members. They successfully transitioned to working from home and one of the key priorities was to ensure that pensions and other benefits continued to be paid on time.

- If you're a pensioner, you'll know that your pension benefits have been and will continue to be paid as normal.

- If you're a member who is coming up to retirement, your requests will continue to be processed as normal, although it may take us a bit longer to respond.

Covid-19 has had a very large impact on the global economy and resulted in incredibly volatile conditions in global investment markets. For example, the first three months of 2020 saw global equities falling by approximately 16%. There was also a sharp fall in gilt yields. You can read more about the Fund's investments on page 6. Remember that your benefits in the Fund are not linked to movements in the financial markets as such but are defined by the Trust Deed and Rules.

Last time I wrote, we were in the midst of carrying out the Fund's latest full actuarial valuation as at 31 March 2019. This was completed during the course of 2020, and showed that funding level had deteriorated from 96% to 93% over the three-year period. The update on the valuation is on page 9 and the latest Summary Funding Statement, which includes an update as at March 2020, is on pages 10-13. The update was carried out just as the impact of the pandemic was felt most keenly on investment markets, but I am pleased to report that the Fund's investment strategy protected us from the worst of the market falls, as liquidity was readily available without the need to sell real assets.

I must also announce the retirement of our long-standing pensions manager, Bob Clark, who has been with the Fund for over 20 years, and pensions manager since 2001. I would like to thank Bob for his service to the Fund, and I wish him a long and happy retirement. With Bob's departure, the Trustee has been reviewing the Fund's ongoing management and has decided to outsource the role of pensions manager and trustee secretary to an external specialist, Muse Advisory.

I hope you enjoy reading our member newsletter and find it useful and informative. If you have any comments, please get in touch with us using the contact details on the back page.

Eric Stobart
Chairman of the Trustees

REPORT & ACCOUNTS

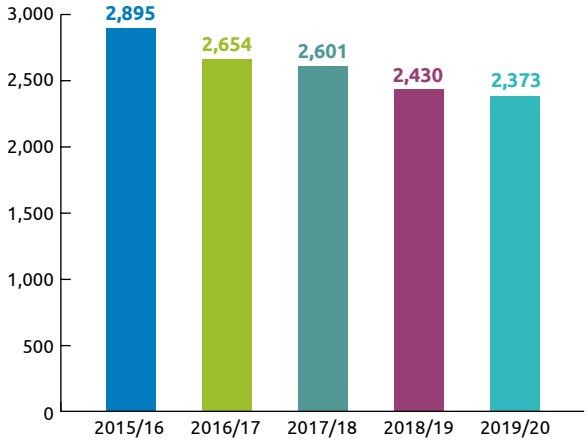
The table shows a summary of the Fund's financial transactions for the year to 31 March 2020, taken from the formal Report and Accounts, which have been audited by Ernst & Young LLP. A copy of the full report can be found on the Pensions Portal at **www.lsf.org.uk/your-pension/documents.**

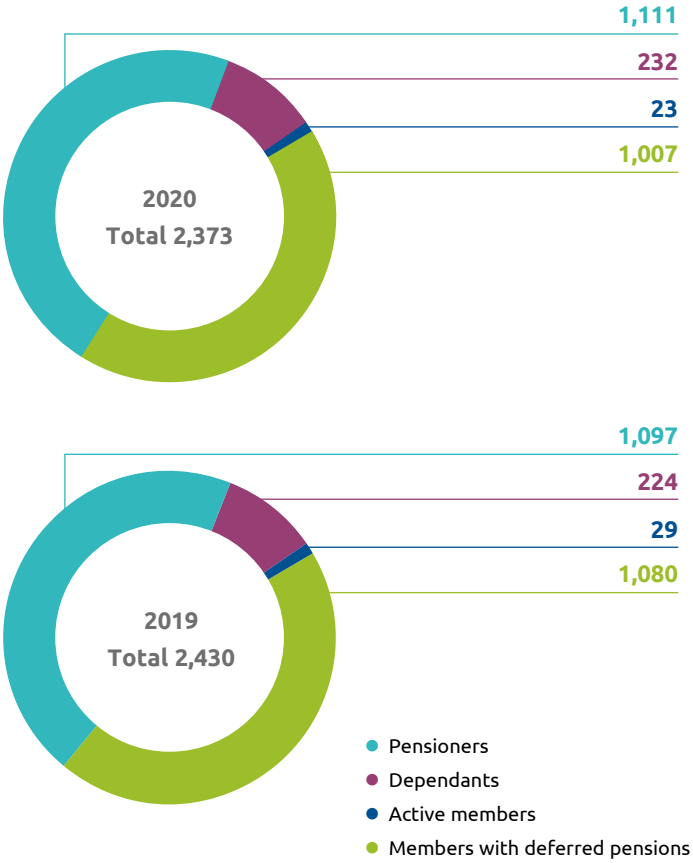
	2020	2019
CONTRIBUTIONS & BENEFITS	**£'000**	**£'000**
Contributions	1,876	1,942
TOTAL	**1,876**	**1,942**
Benefits payable	(18,652)	(17,980)
Leavers	(8,237)	(9,094)
Other payments	(22)	(26)
Administrative payments	(2,049)	(1,541)
TOTAL	**(28,960)**	**(28,641)**
Net result from dealing with members	**(27,084)**	**(26,699)**
RETURNS ON INVESTMENTS		
Investment income	6,186	8,160
Taxation	(14)	(70)
Change in market value	40,013	21,712
Investment management expenses	(2,039)	(1,209)
Net return on investments	**44,146**	**28,593**
Net increase / (decrease) in the Fund during the year	**17,062**	**1,894**
NET ASSETS OF THE FUND		
At the beginning of the year (1 April)	486,867	484,973
At the end of the year (31 March)	**503,929**	**486,867**

MEMBERSHIP

As the Fund is closed to new joiners, membership numbers will gradually decrease over time and the proportion of members who are pensioners will increase. The total Fund membership as at March 2020 stood at 2,373, with almost half (47%) comprising retired members. Since that time, both MS Amlin and the LSF Pensions Management Ltd have closed their sections of the Fund to future accrual, meaning there are no longer any active members accruing new benefits.

MEMBERSHIP 2015-2019





INVESTMENTS

As mentioned in the Chairman's welcome, there has been significant volatility in financial markets due to the Covid-19 pandemic. The Fund's investment portfolio includes assets that move broadly in line with the liabilities, and this has helped to protect the Fund from the fluctuating market conditions.

INVESTMENT STRATEGY

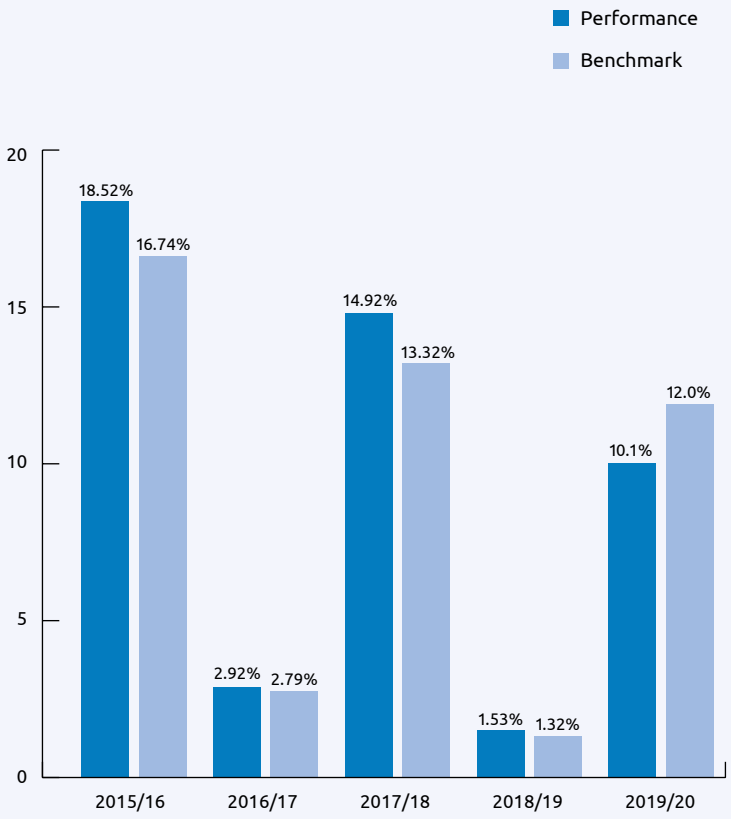
Over the 12-month period to 31 March 2020, no new strategic changes were made to the Fund's investment portfolio. The Trustee initiated its investment in a Private Credit portfolio with Arcmont, which was agreed upon as part of the restructuring in 2019. This is funded partly by a full redemption of the Fund's allocation to Ruffer (Diversified Growth) and partly by raising cash from Insight's LDI portfolio. The funding of the Arcmont portfolio will be completed via a series of instalments that began in May 2019. As at 31 March 2020, the portfolio was around 35% funded.

INVESTMENT PERFORMANCE

Over the 12-month period to 31 March 2020, the Fund returned 10.1%, underperforming the benchmark of 12%. The returns of the Fund's investment portfolios are shown in the table below.

Fund manager	Asset allocation	Performance	Benchmark
Veritas (global equity)	8.5%	(3.1%)	(6.2%)
Arcmont (private credit)	2.9%	2.4%	7.3%
Ruffer (diversified growth)	5.1%	4.9%	0.8%
LaSalle (property)	1.1%	(9.8%)	6.3%
Janus Henderson (multi-asset credit)	5.7%	(8.7%)	0.8%
Insight (contractual income)	29.3%	(3.3%)	0.8%
Insight (LDI)	47.4%	11.7%	11.5%
Total Fund (excluding AVCs and annuities)	**100%**	**10.1%**	**12.0%**

FUND PERFORMANCE OVER THE PAST FIVE YEARS



INVESTMENTS CONTINUED

THE IMPACT OF COVID-19 ON INVESTMENTS

There was a considerable recovery in markets in the second quarter of 2020. Global equities performed positively, resulting in positive returns for the Veritas Global Equity Fund, with markets having been boosted by the large amount of monetary and fiscal support pledged by authorities in order to try and combat the pandemic.

The US equity market was the stand-out performer, benefitting from its relatively high allocation to technology companies (which have been less impacted by Covid-19 than other sectors) with the tech-heavy Nasdaq index having reached a new all-time high in early June.

UK equities have also performed positively, although returns have been more muted, with the UK's decision not to extend the EU transition period having been received badly by UK equity markets.

Both nominal and real yields have continued to fall year end, with real yields falling by more than nominal yields due to the rise in inflation expectations. This has led to positive returns for the Fund's LDI portfolio held with Insight.

Credit spreads have narrowed, which combined with the fall in yields, has led to positive returns for corporate bond assets. This improvement will benefit the credit exposed assets held by the Fund through the segregated contractual income portfolio with Insight, the private credit mandate with Arcmont and pooled multi-asset credit fund with Janus Henderson.

FUNDING UPDATE

The Trustee is responsible for ensuring that the Fund has sufficient assets to pay its liabilities (benefits to members) as they fall due.

A full actuarial valuation must be carried out at least every three years as a detailed financial health check on the Fund.

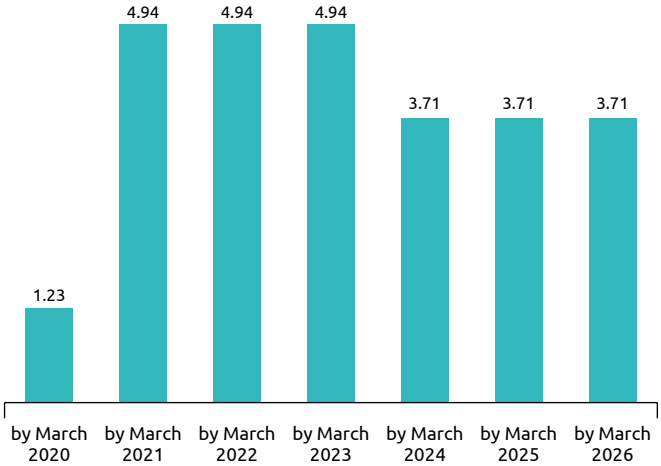
The valuation of the Fund as at 31 March 2019 was concluded in late June 2020 and a summary of the results is shown below. You can also view the full funding report on the Fund website, at **www.lsf.org.uk/your-pension/documents**.

	31 March 2019	31 March 2016
Assets	£486.9m	£463.6m
Amount needed to provide benefits	£520.7m	£484.6m
Shortfall	(£33.9m)*	(£21.1m)*
Funding level	93%	96%

*Implied shortfall is not exactly equal to difference between assets and liabilities due to rounding

The funding shortfall revealed by the valuation is being eliminated by a series of 'deficit contribution' payments to the Fund by MS Amlin Corporate Services Ltd (MSACSL), the sponsoring employer.
This represents the 'recovery plan' aimed at eliminating the shortfall noted above and is illustrated opposite. The first contribution of £1.23m was received in March 2020.

DEFICIT CONTRIBUTIONS TO BE RECEIVED (£M)

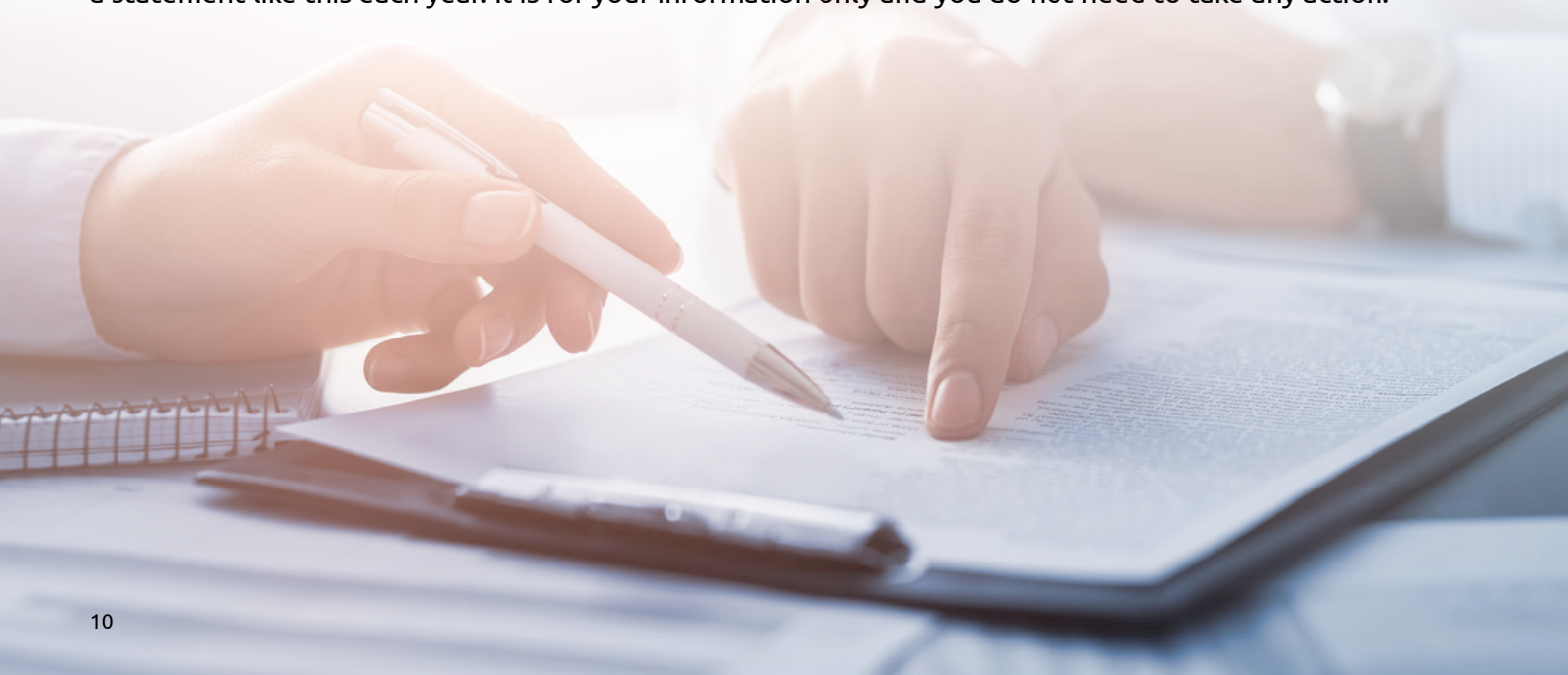


The next actuarial valuation of the Fund is due as at 31 March 2022, with more approximate funding updates provided annually before then to monitor progress against the recovery plan.

SUMMARY FUNDING STATEMENT

As a member of the Lloyd's Superannuation Fund, you have built up, and in some cases are continuing to build up, valuable benefits. Knowing how the Fund is doing financially and whether your benefits are secure is important.

To keep you up to date and help you understand more about the funding position, we provide you with a statement like this each year. It is for your information only and you do not need to take any action.



THE ONGOING FUNDING POSITION

The Fund's financial health depends on a number of factors such as investment returns, inflation and mortality trends. In order to monitor the position of the Fund, the Trustee appoints a qualified actuary, Richard Gibson of Barnett Waddingham LLP.

The actuary regularly carries out a review of the Fund's funding position, known as an actuarial valuation. This enables the actuary to assess whether there is sufficient money in the Fund to pay for the benefits that members have already built up and determine the level of contributions to be paid to the Fund in the future. A full valuation is carried out every three years. In between each valuation, the actuary updates his assessment of the funding position annually.

THE LATEST POSITION

	31 March 2020 (annual update)	31 March 2019 (valuation)
Assets	£503.9m	£486.9m
Amount needed to provide benefits	£554.1m	£520.7m
Shortfall	(£50.2m)	(£33.9m)*
Funding level	91%	93%

*Implied shortfall is not exactly equal to difference between assets and liabilities due to rounding

As noted above, the latest full valuation looked at the position as at 31 March 2019, which showed that the funding level was 93%. Since then, the actuary has also looked at the position as at 31 March 2020. The latest update indicates that the funding level has deteriorated, but this was in part due to the unusual market conditions deriving from the coronavirus pandemic at the time the report was commissioned.

The next full actuarial valuation is due as at 31 March 2022.

SUMMARY FUNDING STATEMENT CONTINUED

HOW IS MY PENSION PAID FOR?

Contributions are paid to the Fund that reflect the cost of the benefits being built up each year. The contributions are held in a common fund, rather than in separate accounts for each individual. The Trustee invests this common fund and any proceeds go towards providing members' benefits.

HOW IS THE AMOUNT OF MONEY THE FUND NEEDS WORKED OUT?

The Trustee and MS Amlin Corporate Services Ltd (MSACSL), in conjunction with the Fund's actuary, agree various assumptions about what will happen in the future, including the return on investments, mortality, inflation and salary growth. The actuary uses these assumptions to estimate the assets needed to provide the benefits built up by the members and to determine the level of contributions that should be paid into the Fund.

The use of assumptions means that the amount actually needed to provide the benefits could turn out to be quite different from those shown in the table on the previous page. The Trustee's objective is to have sufficient assets in the Fund to pay pensions (and the expenses of running the Fund) now and in the future. However, the ability of the Fund to do this depends in part on MSACSL's continued support of the Fund, as in the event of a shortfall in funding, MSACSL will usually need to pay in more money to make up the difference.

These additional contributions, referred to as deficit contributions, are treated in the same way as the regular ongoing contributions and are held in the common fund to be used toward providing members' benefits.

WHAT HAPPENS IF THE FUND STARTED TO WIND UP?

If the Fund were to wind up, MSACSL would be required to pay enough money to enable members' benefits to be provided by an insurance company. If this were to have happened on 31 March 2019, the amount needed, in addition to the Fund's existing assets, to ensure that members' benefits could have been paid in full was estimated to be around £150m. This assumed that the benefits awarded were those set out in the Rules of the Fund.

If MSACSL were to become insolvent, the Pension Protection Fund (PPF) might be able to take over the Fund and pay compensation to members, but this compensation is likely to be less than the benefit you have built up in the Fund. Based on a further calculation, the actuary estimated that at the time of the 2019 valuation the Fund had sufficient assets to cover [100%] of its liabilities in respect of the compensation that would be provided by the PPF. Further information is available on the PPF's website at **www.ppf.co.uk**

WHY DOES THE FUND NOT HAVE MONEY TO WIND UP?

The cost of winding up assumes that benefits will be paid for by buying insurance policies. Insurers are obliged to take a very cautious view of the future (including the costs of administering the benefits) and usually need to make a profit. By contrast, under the current funding position, we assume that MSACSL will continue to support the Fund.

There have not been any payments to the employers out of Fund assets in the last 12 months. No directions have been made by the Pensions Regulator regarding the finances of the Fund.

WHERE CAN I GET MORE INFORMATION?

There are various documents you may request to see, including the Statement of Funding Principles, the Statement of Investment Principles, the Schedule of Contributions, the Recovery Plan and the most recent Actuarial Valuation Report.

If you wish to see any of these documents or have questions about the Fund's funding policy, please contact the pensions administration team using the details on the back page.

WHO'S WHO IN THE FUND?

The Fund is managed by a trustee company called LSF Pensions Management Ltd, whose Board comprises two Independent Directors, two Employers' Directors and two Members' Directors.

In March 2020, both Independent Directors, Eric Stobart and Michael Hampton, had their terms of office extended for two and four years respectively following completion of their four-year terms.

Towards the end of the Fund year, Scot Charley, who had been a Members' Director for six years, resigned from the Board.

This vacancy has recently been filled by the appointment of Paul Horncastle as a new Members' Director.

MS Amlin has also appointed two new Employers' Directors over the year, with Neil O'Leary replacing Paul Amer on completion of his term of office, and Evie Slater replacing Charles Pender. Charles and Paul had been directors for xx and xx years respectively and I thank them both for their service.

The Board is currently made up as follows:

Independent Directors
Eric Stobart, Chairman of the Trustees
Michael Hampton, Deputy Chairman

Employers' Directors
Neil O'Leary
Evie Slater

Members' Directors
Paul Horncastle
Robert Mankiewitz

Pensions Manager
Robert Clark FPMI

Fund Actuary
Richard Gibson FIA, Barnett Waddingham

Investment Consultant
Lane Clark & Peacock LLP

Solicitor
Sacker & Partners LLP

Auditor
Ernst & Young LLP

Custodian
Northern Trust Global Services SE

Banker
National Westminster Bank plc

NEWS UPDATE

CHANGES TO RETAIL PRICES INDEX (RPI) COMING IN FROM 2030

In March 2020, the Government and the UK Statistics Authority (UKSA) launched a joint consultation on proposals to review how the RPI is calculated.

Following the consultation, in November 2020 it was announced that the UKSA will proceed with planned reforms to the RPI from 2030, aligning it with the Consumer Prices Index including owner occupiers' housing costs (CPIH); another measure of UK inflation.

This change is expected to affect Defined Benefit (DB) schemes such as ours, because some annual pension increases are linked to RPI. However, because this change is expected to come into effect from 2030, there is no immediate impact on members' pensions and we will update you as more becomes known.

MINIMUM PENSION AGE TO INCREASE?

The Government has launched a consultation over its plans to increase the minimum pension age (the earliest age at which you can draw your pension unless you are in ill health) from age 55 to age 57 in 2028. This increase to the minimum pension age would be in line with the increase in State Pension Age to 67. In the consultation, the Government says it believes that schemes should be free to decide how and when to move to the new minimum pension age – meaning some schemes could increase the minimum age before 2028.

STATE PENSION AGE INCREASES

Remember too that the State Pension Age is going up. It is currently 66, for both men and women, and will increase again to 67 between 2026 and 2028. The Government has indicated it wishes to bring forward the increase to 68, which was originally planned to happen by 2046, to 2039.

GUARANTEED MINIMUM PENSION (GMP) EQUALISATION

As reported previously, following a UK High Court ruling in October 2018, pension schemes like ours have to consider whether some members' benefits need to be amended to ensure that men and women are being treated equally in respect of any Guaranteed Minimum Pension (GMP) benefits. A second hearing in the case took place in May 2020. The purpose of the hearing was to allow the parties to seek guidance about the extent to which occupational pension schemes are obliged to revisit the benefits for members who have previously transferred their benefits out of schemes. The outcome was they do, so the pensions administration team will also need to review all past transfers out as part of the overall GMP equalisation project. However, it is important to note that any changes to benefits as a result of GMP equalisation are expected to be small.

CONTACT US

If you have any questions about the information in this newsletter or about your benefits in the Fund, please get in touch with the pensions administration team.

Go to the pensions website:
www.lsf.org.uk

Call us:
020 7648 8970

Email us:
admin@lsf.org.uk

Write to us:
Lloyd's Superannuation Fund
Lloyd's Building
One Lime Street
London EC3M 7HA

Visit us:
In normal circumstances we would say that if you would like to visit the LSF, the pensions administration team is located at 3rd floor front, 145 Leadenhall Street, London – just opposite one of the entrances into the Lloyd's Building. However, as you will appreciate, given the current Government guidance, we're all working from home, but we are still happy to talk to you on the phone.