

# Clifford Chance Pension Scheme

## **CLIFFORD CHANCE PENSION SCHEME**

**(Scheme Registration Number : 10137020)**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 30 April 2020**

# Clifford Chance Pension Scheme

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**CLIFFORD CHANCE PENSION SCHEME - TRUSTEE AND ADVISERS:****TRUSTEE:** Clifford Chance Pension Trustees Limited, 10 Upper Bank Street, London, E14 5JJ

<b>BOARD OF DIRECTORS</b>	
<i>Employer Appointed</i>	<i>Member Nominated</i>
Robin Tremaine (Chairman)	Alistair Dawson (Pensioner member)
Anne Drakeford	Meredith Gibson (Deferred member)
Dorian Drew – resigned 21 April 2020	David Hatchard (Pensioner member) – retired 1 July 2020
Pensions Legacy Trustees Limited (represented by Jane Kola) – appointed 22 April 2020	Amrita Jaijee (Deferred member) – appointed 1 July 2020
David Saleh	Pradeep Patel (Deferred member) – appointed 1 July 2020
	Tim Sherwood-King (Deferred member) – resigned 1 July 2020

<b>SCHEME SECRETARY:</b>	Andy Darlison, Clifford Chance London Limited, 10 Upper Bank Street, London E14 5JJ
<b>SCHEME ADMINISTRATOR:</b>	Clifford Chance London Limited
<b>ACTUARY:</b>	Keith Poulson FIA, Aon Limited
<b>INDEPENDENT AUDITORS:</b>	PricewaterhouseCoopers LLP
<b>LEGAL ADVISERS:</b>	Clifford Chance LLP Sacker & Partners LLP
<b>COVENANT ADVISER:</b>	Aon Limited
<b>INVESTMENT ADVISER:</b>	Lane Clark & Peacock LLP
<b>INVESTMENT MANAGERS:</b>	Legal & General Investment Management Ltd Majedie Asset Management Ltd (until Oct 2019) BMO Global Asset Management Ltd Invesco Fund Managers Limited IFM Investors (appointed Jul 2019 with investment from Oct 2019) JP Morgan (appointed Jul 2019 with investment from Oct 2020) GAM Fund Management Ltd (until Sep 2019) M&G Brown Brothers Harriman (Luxembourg) S.C.A. PIMCO Nordea Asset Management BlackRock Investment Management Prudential M&G Schroders Property Investment Management
<b>AVC MANAGERS:</b>	Clifford Chance Pension Scheme (internal Unitised Fund) Clerical Medical Investment Group Utmost Life and Pensions (formerly Equitable Life) Scottish Widows plc Aviva Life & Pensions UK Limited
<b>BANKER:</b>	National Westminster Bank plc
<b>PRINCIPAL PARTICIPATING EMPLOYER:</b>	Clifford Chance London Limited (Principal)
<b>NAME AND ADDRESS FOR ENQUIRIES:</b>	Andy Darlison, Clifford Chance Pension Scheme, 10 Upper Bank Street, London E14 5JJ ( <a href="mailto:andrew.darlison@cliffordchance.com">andrew.darlison@cliffordchance.com</a> or <a href="mailto:hradvice@cliffordchance.com">hradvice@cliffordchance.com</a> )

## **CHAIRMAN'S REVIEW**

### **For the year ended 30 April 2020**

During the year 1 May 2019 to 30 April 2020 there have been quite a number of activities and changes which have again resulted in a very busy year for the Trustee Directors. This review sets out my summary of the main events having an impact on the Scheme. Included in the Trustee Directors' report is a note setting out the impact of Covid-19.

This year, we have continued to make changes to the investments of the defined benefit arrangements alongside our investment consultant, Lane Clark & Peacock ("LCP").

The changes to the investments included increasing the allocation to the Liability Driven Investment ("LDI") with BMO Global Asset Management which had initially been made at the very end of the 2019 financial year, and making arrangements for future investment into two Infrastructure funds with IFM (which was completed in October 2019) and J P Morgan (which completed in October 2020 when JP Morgan identified a suitable investment opportunity).

We have also been finalising the triennial actuarial valuation of the defined benefit arrangements which was carried out as at 30 April 2019. The valuation was concluded on 24 July 2020 and a revised series of required documents were put into place including an agreement to increase the contributions to be paid into the Scheme by the employer along with a guarantee of the liabilities with Clifford Chance LLP.

This is the twenty eighth year of producing an annual report and financial statements and it is the fifth year that the financial statements included in the annual report have had to comply with the Financial Reporting Standard 102 and the Statement of Recommended Practice (SORP). The main impact has been an increased level of disclosure about our investments and the financial risks associated with them.

**Robin Tremaine**

**Chairman**

**30 November 2020**

## TRUSTEE DIRECTORS' REPORT

### For the year ended 30 April 2020

The Trustee Directors of the Clifford Chance Pension Scheme (the "Scheme") present their annual report for the year ended 30 April 2020.

#### Scheme Constitution and Management

The Scheme is an occupational pension scheme set up under trust to provide retirement benefits for certain groups of employees of Clifford Chance LLP and its current and former entities. It is governed by the First Supplemental Definitive Trust Deed and Rules dated 13 December 2001 and subsequent amendments.

Responsibility for setting the strategy and for managing the Scheme rests with the Trustee. The persons who acted as Trustee Directors during the year are listed on page 1. The Trustee Directors aim to meet at least quarterly and decisions are passed on a simple majority of those voting. During the year covered by this report the Trustee Directors did however meet on ten occasions.

The Trustee Directors may be appointed and removed by the sponsoring employer, Clifford Chance London Limited, and the Trustee Directors may be appointed and removed by a corporate trustee company, Clifford Chance Pension Trustees Limited, under its articles of association.

Since 1997 there has been a formal procedure for the nomination and selection of members of the Scheme to serve as Directors of the Trustee. There have been four Member Nominated Trustee Directors (MNTDs), with at least one MNTDs being an existing deferred member and an existing pensioner member respectively, with the remaining two MNTDs being either further deferred members or further pensioner members.

Following the nomination and selection process effective 1 July 2018 the MNTDs were Alistair Dawson (Pensioner Member); Meredith Gibson (Deferred Member); David Hatchard (Pensioner Member) and Tim Sherwood-King (Deferred Member). David and Tim ceased to be MNTDs from July 2020. A further nomination process has since taken place and effective 1 July 2020 two new MNTDs, Amrita Jaijee (Deferred Member) and Pradeep Patel (Deferred Member), were nominated and selected. The Scheme is in compliance with the Member Nominated Trustee Regulations requiring at least one third of the Trustee board to be nominated by the membership.

During the year one of the Trustee Directors appointed by the Firm, Dorian Drew, ceased to be a Trustee Director in April 2020 with a professional trustee, Jane Kola representing Pensions Legacy Trustees Limited ("PLTL"), appointed in his place.

The Trustee Directors' attendance at meetings of the Trustee board is summarised below. Additional trustee meetings can be convened at short notice in order to deal with more immediate matters and it would therefore not be expected, feasible or necessary for all trustee directors to attend.

Trustee Directors	Quarterly board meetings - 4 held	Additional board meetings – 6 held
Alistair Dawson	3	6
Anne Drakeford	3	5
Dorian Drew	2	3
Meredith Gibson	4	5
David Hatchard	1	-
David Saleh	4	5

Tim Sherwood-King	2	1
Robin Tremaine	4	6

Trustee Directors are not paid by the Scheme for their services. The Trustee Directors have agreed a business plan to support their governance arrangements. This includes periodic review of registers of risks and conflicts to ensure that appropriate internal controls are put in place and remain effective.

The Trustee Directors have appointed professional advisers and other organisations to support them in delivering the Scheme's objectives. These individuals and organisations are listed on page 1. The Trustee Directors have written agreements in place with each of them.

### Financial developments and financial statements

The financial statements included in this annual report are the financial statements required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

There were no significant developments affecting the financial position of the Scheme during the year.

### Membership and benefits

The change in membership during the year is set out below. As the Scheme matures, the number of Pensioners will form an increasing proportion of the members of the Scheme who have pension benefit entitlements.

<b>Membership Statistics</b>	CCPSFS Deferreds (i)	CCPSMP Deferreds (i)	CCPSFS Pensioners	CCPSFS Beneficiaries	LA Only Members (ii)	Total
At the start of the year	3,905	133	525	64	1,808	6,435
Joiners	-	-	-	-	255	255
Leavers (with no Scheme benefits)	-	-	-	-	(249)	(249)
Transfers out of Scheme	(9)	(7)	-	-	-	(16)
Retirements	(41)	(1)	42	3	-	3
Deaths	(1)	-	(5)	(3)	-	(9)
<b>At the end of the year</b>	<b>3,854</b>	<b>125</b>	<b>562</b>	<b>64</b>	<b>1,814</b>	<b>6,419</b>

CCPSFS = Clifford Chance Pension Scheme Final Salary section

CCPSMP = Clifford Chance Pension Scheme Money Purchase section

LA = Life Assurance only members

### Notes:-

(i) Deferred Members are employees who have left the Scheme but retain a right to a pension to be paid to them (or pension account under the Money Purchase section to be available) once they reach age 65 (or for some females, age 60). Following the closure of the Scheme to future benefit accrual after 30 April 2011 there are 319 Deferred Members who also remain members of the Scheme for death in service life assurance benefits.

(ii) These employees remain covered for death in service lump sum life assurance benefits only under the Scheme.

### Pension increases

The Trust Deed and Rules makes provision for increases in pensions in payment and deferred pensions. The increases applied depend on when the benefits were accrued and under which pension arrangements. The table

below summarises the most recent increases applied. None of the increases was discretionary.

<b>Effective date</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Average</b>
<b>Pensions in payment</b>			
1 January 2018	0%	5%	<b>4.1%</b>
1 January 2019	0%	5%	<b>2.7%</b>
1 January 2020	0%	5%	<b>2.2%</b>
<b>Deferred pensions</b>			<b>Actual</b>
1 April 2018	0%	5%	<b>3.4%</b>
1 April 2019	0%	5%	<b>3.0%</b>
1 April 2020	0%	5%	<b>1.5%</b>

### **Transfer values**

All cash equivalent transfer values paid during the year have been calculated and verified in the manner prescribed by the Pensions Schemes Act 1993 and do not include discretionary benefits.

### **Actuarial liabilities**

As required by the Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on eligible pensionable service. This is assessed at least every 3 years using assumptions agreed between the Trustee Directors and the sponsoring employer and set out in the Statement of Funding Principles, a copy of which is available to members on the Scheme's website or on request.

The latest triennial actuarial valuation of the Scheme was carried out as at 30 April 2019 (completed on 24 July 2020).

<b>Valuation date: 30 April</b>	<b>2019</b>
Value of technical provisions	£675m
Value of assets available to meet technical provisions	£499m
as a percentage of technical provisions	74%

Following the closure of the Scheme to future benefit provision with effect from 1 May 2011 there are no further ongoing contributions due although deficit repair contributions remain payable.

In addition to this, the Principal Employer pays an insurance premium to cover the cost of providing the death in service lump sum benefit.

Although there are no current plans to discontinue the Scheme and buy-out liabilities with an insurance company, the Trustee Directors also consider the level of funding relative to the estimated costs of such a buy-out (known as "solvency liabilities") and equivalent information on this basis is provided below at the triennial actuarial valuations carried out as at 30 April 2019:

<b>Valuation date: 30 April</b>	2019
Value of solvency liabilities	£1,369m
Value of assets available to meet solvency liabilities	£499m
as a percentage of solvency liabilities	36%

The value of technical provisions is based on assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations are as follows:

#### ***Method***

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

#### ***Significant actuarial assumptions for 30 April 2019 valuation***

**Pre-retirement discount interest rate:** set by reference to the gilt yield curve plus an addition of 3.4% per annum.

**Post-retirement discount interest rate:** set by reference to the gilt yield curve and data at the valuation date plus an addition of 0.5% per annum.

**Future Retail Price inflation:** derived from the future retail price index curve at the valuation date less an inflation risk premium of 0.1% per annum.

**Pension increases:** derived from the future retail price inflation curve allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules.

**Mortality:** in line with standard SAPS S3 'light' tables with a scaling factor of 105% for male members and 100% for female members. Future improvements in longevity in line with CMI 2018 tables with a long term rate of improvement of 1.5% per annum.

#### ***Recovery plan***

In respect of the valuation carried out as at 30 April 2016 a recovery plan was agreed between the Trustee Directors and the employer dated 24 July 2017 under which deficit repair contributions of £17m per annum (plus inflationary increases) would be paid for a period of 10 years and 1 month with effect from the first payment due on 31 May 2018. On the basis of conditions prevailing, and allowing for the first deficit repair contribution under the schedule of contributions dated 24 July 2017 being paid on 31 May 2018 along with the monthly on-account contributions of at least £583,333 the Scheme funding deficit was expected to be eliminated by 31 May 2026. These arrangements were formalised in the schedule of contributions which the Scheme Actuary certified on 24 July 2017.

The triennial actuarial valuation of the Scheme due as at 30 April 2019 was completed on 24 July 2020 and a new schedule of contributions and recovery plan were agreed and put into place.

Under the new recovery, plan deficit repair contributions of £22m per annum (plus inflationary increases) will be paid for a period of 9 years and 1 month with effect from the first payment due on 31 May 2021 in addition to a single payment of £6m being paid by 31 August 2020. On the basis of conditions prevailing, and allowing for the additional £6m contribution being paid by 31 August 2020 and the deficit repair contribution under the schedule of contributions dated 24 July 2020 being paid on 31 May 2021 along with the monthly on-account contributions of at least £583,333 the Scheme funding deficit is expected to be eliminated by 31 May 2030. These arrangements were formalised in the schedule of contributions which the Scheme Actuary certified on



24 July 2020 and a copy of the schedule and his certificate are included on pages 41 to 44 of this annual report.

## **Investment management**

### ***Investment strategy and principles***

The Trustee Directors are responsible for determining the Scheme's investment strategy. In accordance with section 35 of the Pensions Act 1995, the Trustee Directors have agreed a statement of investment principles ("SIP"). The statements in place during the year were dated March 2016, July 2019 and September 2019, and reflected the changes in investment managers and target asset allocation. The September 2019 SIP included statement on how the Trustee has considered how environmental, social and governance ("ESG") and ethical factors have been taken into account. The SIP in place during the year reflected the long-term target asset allocations and the nature of the LDI portfolio, which included synthetic equities, along with the total target investment in Infrastructure which required a capital call to be issued before the allocation could be completed. As a result, the actual investment asset position as at the year end was not fully aligned with the long term target in the SIP in force as at that date. Appendices I and II to this annual report and financial statements includes the Implementation Statements for both the Final Salary and Money Purchase sections of the Scheme for the year ended 30 April 2020. A copy of the SIPs, the Implementation Statements and the subsequent SIPs put in place in September 2020 are also available on the Scheme's website or on request.

The Trustee Directors' investment strategy considers the Scheme's investments in the following groupings:

- **Return-seeking assets:** Predominantly equities, diversified funds, absolute return bond funds and properties, where the objective is to achieve growth within the constraints of the risk profile set by the Trustee Directors; all held through pooled investment vehicles.
- **Money purchase assets:** As these are chosen by individual members, the Trustee Directors focus primarily on the suitability of the range of investments offered.

The investment managers are permitted to move away from their targets (within a range specified by the Trustee Directors). This mix of investments provides a suitable spread for the Scheme bearing in mind that, in pension scheme terms, the Scheme is relatively young, both in terms of the age of its membership and the length of time that the Scheme has been in operation. During the year the mix of investments remained within the range specified by the Trustee Directors in the SIP. The managers aim to invest this portfolio in a manner which would enable them to produce real investment returns which adequately meet the long-term pension liabilities of the Scheme.

### ***Management and custody of investments***

The Trustee Directors have delegated management of investments to professional investment managers which are listed on page 1. These managers are regulated by the Financial Conduct Authority in the United Kingdom. The Trustee Directors instruct the investment managers as to the general manner in which the funds should be invested. The assets managed by all managers are invested in pooled funds which gives the Trustee Directors a right to the cash value of the units rather than to the underlying assets. As a result, the Trustee Directors have no influence over the underlying investments and how the investments are acted upon, including voting participation and the consideration of ESG or ethical factors when making investment decisions, although can review the managers' policies and statements of compliance in respect of these matters. The investment

managers of the pooled fund are responsible for the appointment and monitoring of the custodian of the underlying assets. The investment management fees charged by all managers involve a cancellation of units in the pooled funds and are not expressed explicitly.

### ***Investment performance***

The Trustee Directors assess the performance of the Scheme's investments in the following groupings consistent with the overall strategy:

- **Return-seeking assets** are assessed by reference to benchmarks and performance targets set and agreed with each manager.
- **Money purchase assets:** As these are chosen by individual members, the Trustee Directors receive information about performance against benchmarks. Performance information is provided to members as part of the annual package of information.

The Trustee Directors receive detailed reports from their investment adviser quarterly, along with monthly updates, showing actual performance by manager and fund. Monitoring of managers is delegated to Lane Clark & Peacock although investment managers may be required to present to the Trustee Directors during the year if and when required. Money purchase members are provided with an annual summary of the performance of their chosen fund and further information is available through fund factsheets which are available on the Scheme's website or on request. The last quarterly performance report made available was as at 31 March 2020 (which is the nearest practicable date to 30 April 2020) and the performances (net of fees) are set out in the following table for the Final Salary section:

<b>Annualised return</b>	<b>1 year</b>		<b>3 years (pa)</b>		<i>Allocation at 31 March 2020</i>
<i>Return seeking assets</i>	<i>Portfolio</i>	<i>Benchmark/Target</i>	<i>Portfolio</i>	<i>Benchmark/Target</i>	
<b>UK Equities</b>					<b>0.0%</b>
Legal & General (to 21 Feb 2020)	7.7%	7.7%	5.3%	5.2%	
<b>Global Equities</b>					<b>14.8%</b>
Legal & General	-5.4%	-5.3%	2.6%	2.7%	
<b>Property</b>					<b>13.1%</b>
BlackRock	-1.2%	0.00%	4.4%	4.8%	
M&G	-4.0%	0.00%	3.1%	4.8%	
Schroders	-0.6%	0.00%	5.1%	4.8%	
<b>Infrastructure</b>					<b>5.1%</b>
IFM (since 23 Oct 2019)	1.5%	4.3%	n/a	n/a	
<b>Liability Driven Investment (LDI)</b>					<b>38.2%</b>
BMO	-15.8%	-16.8%	n/a	n/a	
<b>Diversified Growth (DGF)</b>					<b>19.6%</b>
Invesco	1.2%	5.1%	n/a	n/a	
Nordea	0.2%	4.0%	n/a	n/a	
<b>Absolute Return Bond (ARB)</b>					<b>9.1%</b>
M&G	-2.5%	3.4%	0.3%	3.3%	
PIMCO	-4.0%	3.4%	n/a	n/a	

Cash					0.0%
Scheme total	-6.3%	-4.4%	-0.2%	1.8%	100%

Over the 1 year period to 31 March 2020 the Scheme underperformed the composite benchmark/target of -4.4% by 1.9% and over the 3 year period to 31 March 2020 the Scheme underperformed the composite benchmark/target of 1.8% per annum by 2.0% per annum.

The benchmark is made up of the appropriate asset indices for each of the underlying funds, save for the Absolute Return Bond funds (ARBs) and the Diversified Growth Funds (DGFs) where the target return has been used.

The principal economic factors which have affected the benchmarks against which performance is compared were as follows:

#### **UK equities**

While somewhat behind their US and European counterparts, UK equities performed positively over the first 8 months of the year. This performance clearly rested, in part, on the arguably market friendly result of December's general election which was seen by investors, at least at the time, as reducing the risk of a No-Deal Brexit. UK equities were among the hardest hit in the first quarter of 2020 with the FTSE 100 posting its worst quarterly performance since 1987. Whilst the FTSE 100 began to recover over April 2020, it lagged many major equity market indices, in part due to its high allocation to energy companies, which underperformed due to the short-term crash in the oil price and possibly, because of longer-term concerns over the viability of their business model.

The Pound fell against most major currencies over the period, including the Euro, the US Dollar and Japanese Yen. Its fall was sharpest against the latter two, which both benefitted from perceived safe haven status in the first four months of 2020.

#### **Overseas equities**

During the period, the US stock market passed a significant milestone as it marked the country's longest ever equity market rise, with key indices such as the S&P 500 and Dow Jones posting record highs. The reversal was brutal and sharp; both indices posted their worst ever three months to March, dropping by 20% and 23% respectively. Over the final month of the period the S&P 500 began to recover, offsetting some of the losses experienced in Q1 2020.

Developed market equities performed strongly over the first 8 months, reflecting investors' response to relatively easy monetary conditions and reduced concerns regarding US – China trade tensions. However, that all changed in the first quarter of 2020. With many countries putting large parts of their economic infrastructure into “deep freeze” in an attempt to slow the spread of Covid-19, developed market equities posted some of their worst ever returns. However, despite the slump in global output, developed market equities began to rebound in April 2020 on the back of the unprecedented government stimulus and central bank policy support.

#### **UK property**

For most of the period, UK property posted modest gains, with rental income offsetting the falls in capital values seen in some sectors. The dispersion of performance across sectors was high. While retail struggled, with shopping centre and high street valuations falling, industrial property strengthened further. Investor and occupier demand for assets supporting logistics or click-and-connect storage remained high.

With the onset of the coronavirus outbreak at the beginning of 2020, the number of transactions in the property market fell sharply, with many independent valuers unable to physically carry out due diligence property reviews given the social distancing measures enforced by the government. Several funds suspended trading temporarily as, with no material investment activity, valuers were unable to provide reliable valuations. Property managers expect funds to remain suspended until the market returns to normal. Leasing activity slowed dramatically, with tenants reluctant to commit to new lease terms given the huge level of economic uncertainty. Retail and leisure businesses were particularly impacted, and many requested help from landlords, via temporary relaxations of rental obligations.

### **UK gilts**

The early part of the period proved positive for bonds, given the Bank of England's decision to maintain the base rate at 0.75% on the back of Brexit-induced uncertainty. This, coupled with falling global growth expectations and continued high demand from risk-averse investors for safe haven assets, caused both nominal and inflation-linked gilt yields to fall and consequently prices to rise. Yields did rise in November and December, reflecting improved investor confidence in the outlook for the UK as well as an expectation of broader economic benefits on the back of the slight easing of global trade tensions.

However, as the coronavirus took hold in the UK in early 2020, the outlook changed dramatically. In response to the developing economic crisis, the Bank of England cut rates twice in March, leaving the base rate at 0.1%, pledged unlimited short-term financing for large companies and expanded its Quantitative Easing programme. These measures, coupled with an understandable increased appetite for defensive assets, saw sovereign bond yields fall sharply over the four months to April-end, although they did spike up very briefly in mid-March as cash-hungry investors panic-sold any liquid assets to hand.

The Trustee Directors have considered the nature, disposition, marketability, security and valuation of the Scheme's investments and consider them to be appropriate relative to the reasons for holding each class of investment. Between March 2020 and October 2020 the three property fund investments (totalling £64.5m which was 11.6% of the total Scheme assets at 30 April 2020) were subject to gating and material uncertain valuations. More details about investments as at the Scheme year end are given in the notes to the financial statements.

### ***Money purchase funds***

Since March 1996 members have had the choice between two investment options, namely:

1. a with-profits arrangement, intending to provide steady growth; and
2. the unitised mixed asset fund investment, which is shared with the main pension scheme, but separately identified by the pensions administration team unitisation arrangements. This should provide higher returns in the longer term, but is likely to be more volatile in the short term.

A further investment option, a cash based fund operated by Clerical Medical, was made available from October 2004 and from 1 May 2015 two "passive" UK Equity and Overseas Equity index funds were made available managed by L&G.

The Trustee Directors originally selected Equitable Life (now Utmost Life) as the office for members who wished to pay AVCs on a with-profits basis. This decision was reviewed and Clerical Medical have been operating the ongoing with-profits contract for some time now. The funds which support with-profits contracts

invest in a diversified range of assets, but in order to support the guarantees offered by the contracts, the funds maintain a larger exposure to fixed interest investments and a correspondingly smaller amount in equities, compared to typical unit-linked managed funds.

Life Office with-profits contracts have a capital guarantee and a bonus structure which enables the capital value of an investment to accumulate steadily. The Clerical Medical policy offers an accumulation of "Bonus Interest" each year and a terminal bonus at the end of the contract term.

It is not possible to provide a sensible analysis of the performance for the Clerical Medical with-profits fund, or to compare it against other with-profits funds. This is primarily due to the changing bonus rates and adjustments under with-profit policies. However, members are provided with an annual summary of the performance of their chosen fund and further information is available through fund factsheets which are available on the Scheme's website or on request.

The Clerical Medical with-profits option has been available since June 2001. The with-profits fund invests in a wide range of stocks and shares. The returns achieved on these investments within their with-profits fund will determine the level of growth achieved by investors in the with-profits fund. This growth is achieved by way of a regular bonus added to member's funds each year. By awarding a regular bonus, the with-profits fund aims to smooth out any fluctuations in market performance. At retirement or on leaving the Scheme, members may also receive an additional bonus payment (the "terminal bonus") to reflect the investment earnings from the with-profits fund. This will depend on the performance of the fund over the period they are invested.

During the year Equitable Life sold its business and the existing Equitable Life investments were transferred into a series of unit-linked funds with Utmost Life and Pensions in January 2020.

### ***Employer-related investments***

A statement regarding employer-related investments is given in note 18 to the financial statements.

### **Impact of Coronavirus ("COVID-19")**

Since its discovery in late 2019 as a new strain of coronavirus disease, COVID-19 has developed into a worldwide pandemic in 2020 resulting in severe restrictions on social interactions by authorities around the world. These restrictions have resulted in a large reduction in economic activity where workers are unable to attend work and/or where customer demand has fallen.

As a result, in March 2020 global markets saw significant reductions in capital values resulting in falls in the Scheme's asset values for both DB and MP investments. Global markets have since seen increased volatility as they react to ongoing developments relating to the extent of the pandemic and responses to it by authorities. The financial statements value investments as at a specific point in time when the extent of infections and restrictions on economic activity were quite pronounced, the first restrictions began on 22 January 2020 in Wuhan and the World Health Organisation declared a pandemic on 11 March 2020, and the value of investment assets as at 30 April 2020 do take into account these events.

COVID-19 may also have an effect on mortality rates and assumptions which may in turn have an effect on the value of the Scheme's actuarial liabilities and funding position which then may result in changes to the Scheme's long term funding strategies. The Scheme's triennial actuarial valuation as at 30 April 2019 was finalised on 24 July 2020 and therefore did not include the effects of COVID-19 on the Scheme's liabilities, however, due to the ongoing situation and unpredictable nature of the pandemic on mortality assumptions would not have changed in any event. It is not until the next triennial actuarial valuation to be carried out as at

30 April 2022 that any impact would be considered, if still appropriate. The Trustee did make allowance for the deterioration in financial conditions when signing the valuation in July 2020, compared to the 30 April 2019 valuation date, by agreeing a Recovery Plan with the employer that targeted addressing a deficit £50m higher than the deficit disclosed at 30 April 2020. The Trustee will continue to monitor events and obtain actuarial advice and, if necessary, obtain additional actuarial valuations.

The Trustee has monitored and will continue to monitor the effects of COVID-19 on the financial strength of the sponsoring employer, and receive reporting from the sponsoring employer in this respect. To date no material impact has been determined.

### *Operational impacts*

The biggest impact faced by the Scheme is continuity of operations and services to members. The administrators have been able to continue to manage the Scheme on behalf of the Trustee as its pre-existing Business Continuity Plan sets out remote working as a response to site unavailability. In practice, the administrators regularly work from home and, as such, were well placed to transition to a longer period of remote working. The Trustee's Board meetings have continued successfully throughout the period since March 2020 by teleconference.

The administration of the Scheme has continued and has been adapted to operate remotely, including direct interaction with members along with the payment of benefits in full and as they fall due.

One of the more significant issue experienced by the Scheme is the temporary gating of the Scheme's property investment funds as they were unable to provide accurate pricing of the funds in the current environment. This has since abated and the property funds have since been ungated and valuations are no longer subject to material uncertainty.

Except for the property funds the impact on investment operations has not been significant and rebalancing and strategic changes have continued unaffected during this period.

## **Statement of Trustee's Responsibilities**

### ***Trustee's responsibilities in respect of the financial statements***

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Scheme in the form of

an annual report.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

***Trustee's responsibilities in respect of contributions***

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

**Further information**

Requests for additional information about the Scheme generally, or queries relating to members' own benefits, should be made to the contact listed on page 1.

**Approval**

The Trustee Directors' Report was approved by the Trustee Directors and signed on their behalf by:

**Robin T Tremaine (Trustee Director)**

Date: 30 November 2020

## **Statement regarding DC governance**

### **For the year ended 30 April 2020**

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee Directors to prepare a statement regarding governance, which should be included in the annual report.

This statement is in relation to the Money Purchase Section of the Clifford Chance Pension Scheme ("the Scheme") and the Voluntary Contributions ("VCs") for both Money Purchase members and Final Salary members of the Scheme, collectively referred to in this statement as the "Defined Contribution (or "DC") Section". This statement covers the period from 1 May 2019 to 30 April 2020 and is signed on behalf of the Trustee Directors by the Chair.

This statement covers governance and charges disclosures in relation to the following:

- Governance of the default arrangement;
- Processing of core financial transactions;
- Member borne charges and transaction costs, including illustrations of their cumulative impact on members' benefits;
- Value for members assessment; and
- Trustee knowledge and understanding.

Where relevant, this year's statement has also incorporated commentary regarding the additional actions the Trustee Directors have taken to manage the Scheme in light of the COVID-19 global pandemic.

#### **1. Governance of the default arrangement**

Previous years' statements have noted that the Scheme is not used as a Qualifying Scheme for auto-enrolment purposes and it does not have a default arrangement, as defined in the Administration Regulations, because a) the Money Purchase Section was closed to new contributions before 6 April 2015 when these regulations came into force and b) the VC arrangement did not have a default.

On 1 January 2020 Equitable Life transferred its business to Utmost Life and Pensions. As part of this transfer, the Equitable Life With-Profits Fund was closed. The Trustee Directors contacted members of the DC Section of the Scheme who were invested in the Equitable Life With-Profits Fund to invite them to select a new fund with Utmost Life and Pensions, to which their savings would be transferred. A 'default option' was also required for any members who did not make their own fund choice.

Equitable Life proposed a default option for members' savings being transferred from the Equitable Life With-Profits Fund to Utmost Life and Pensions, as follows:

- Members' savings would be invested in the Utmost Life and Pensions Secure Cash Fund for the first 6 months following the transfer (up to 30 June 2020); and
- Over the following 6 months, members' savings would gradually move from the Utmost Life and Pensions Secure Cash Fund to the Utmost Life and Pensions 'Investing by Age' strategy, so that members will be fully invested in this strategy by 31 December 2020.

The Trustee Directors received advice on the default option for members invested in the Equitable Life With-Profits Fund from their DC investment adviser (Aon), and subsequently agreed to use Equitable Life's proposed default option described above.

On completion of the Equitable Life transfer, members of the DC Section of the Scheme who were invested in the Equitable Life With-Profits Fund, and who did not select a new fund with Utmost Life and Pensions, had their benefits transferred to the Utmost Life and Pensions Secure Cash Fund automatically. During the next reporting year, these benefits will be transferred from the Utmost Life and Pensions Secure Cash Fund to the



Utmost Life and Pensions 'Investing by Age' strategy in accordance with the default option.

The Trustee Directors have received legal advice that, although the position is not entirely clear, as a result of the default option the Utmost Life and Pensions Secure Cash Fund may be a default arrangement for the Scheme as defined in the Administration Regulations. This statement has therefore been prepared on the basis that the Utmost Life and Pensions Secure Cash Fund is a default arrangement during the reporting year.

The Utmost Life and Pensions Secure Cash Fund came into existence on 1 January 2020, when Equitable Life completed its transfer to Utmost Life and Pensions. As such, no review of the default arrangement was carried out during the reporting year (or any prior year).

The Trustee Directors have processes in place to regularly monitor the performance and suitability of all funds in which members of the DC Section of the Scheme are invested, and the Utmost Life and Pensions Secure Cash Fund (and the funds underlying the Utmost Life and Pensions 'Investing by Age' strategy) are now included within this monitoring.

The Trustee Directors' policies and objectives in relation to members' DC funds are set out in the Scheme's Statement of Investment Principles for the DC Section of the Scheme, the current version of which has been appended to this statement.

## **2. Processing of Core Financial Transactions**

The Trustee Directors have a specific duty to ensure that core financial transactions (including transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to the DC Section of the Scheme are processed promptly and accurately.

In relation to the DC Section of the Scheme, all transactions are undertaken on the Trustee Directors' behalf by the HR Team of Clifford Chance London Limited, in its capacity as the Scheme administrator, and by the Scheme's investment managers.

The Clifford Chance HR team reports to the Trustee Directors on the administration and governance of the Scheme, which includes reporting on the accuracy and timeliness of all DC transactions carried out. The Trustee Directors have concluded that this reporting provides them with the high-level management information required, recognising that it is not currently possible or appropriate for the team to report on performance against Service Level Agreements.

Administration/governance reports are provided regularly throughout the year. Each report summarises all DC transactions that have taken place over the year to date and the timeframe in which they were processed. The Trustee Directors review this information and have concluded that all DC transactions over the year were processed promptly.

The Clifford Chance HR team confirmed to the Trustee Directors that all DC transactions over the year were processed accurately and in line with agreed procedures. Amongst other things, these procedures included performing regular reconciliations of the Scheme bank account and following comprehensive money handling controls (which require two Trustee Directors to sign off all payments from the Scheme).

The Clifford Chance HR team also confirmed to the Trustee Directors that there were no breaches of the law, member complaints or other administrative issues to report to the Trustee Directors over the year.

In the light of the above, the Trustee Directors consider that the requirements for processing core financial transactions promptly and accurately have been met over the year, including that all transactions have continued to be carried out unaffected during the impact of COVID-19.

### 3. Member Borne Charges and Transaction costs

The Trustee Directors regularly monitor the level of charges borne by members through the funds. These charges comprise:

- express explicit charges, such as the Annual Management Charge (AMC), and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio (TER).
- implicit charges, known as transaction costs, such as the costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio.

Over 80% of the assets held in the DC Section of the Scheme are invested in the internal Unitised Managed Fund. This fund had an estimated TER of 0.443% over the year.

The Trustee Directors also make available a selection of alternative funds which may be chosen by members or, in the case of legacy funds, may have previously been chosen by members historically (including with-profits funds). These funds attracted TERs of between 0.035% and 1.500% over the year.

Transaction costs also applied and these ranged between 0% and 1.040% over the year. Note that there can, on occasion, be a negative transaction cost (profit) as a result of the underlying trades in a fund. However, a floor of zero has been used for all transaction costs shown in this statement to avoid potentially understating the total level of costs and charges.

Full details of the member borne costs and charges on all funds offered in the DC Section of the Scheme over the year are set out in the table below. This information was supplied by each provider or, in the case of the Unitised Managed Fund, was derived from information supplied by the underlying investment managers. Note that no Scheme administration costs are borne by members of the DC Section of the Scheme, as these costs are all met by the employer. The below figures therefore represent all costs and charges that were met by members over the year.

Provider	Fund	Total Expense Ratio (p.a.)	Transaction Cost (p.a.) <sup>1</sup>
Aviva	Pension Mixed Investment Fund	0.875%	0.072%
Clerical Medical	Balanced Fund	0.495%	0.200%
Clerical Medical	Cash Fund	0.495%	0.010%
Clerical Medical	Halifax Cash Fund	0.495%	0.000%
Clerical Medical	With-Profits Fund	1.000% <sup>11</sup>	0.220%
Equitable Life	With-Profits Fund <sup>6,7</sup>	1.500% <sup>3</sup>	1.040%
Equitable Life/Utmost Life and Pensions	Managed Fund <sup>6,8</sup>	0.750%	0.135%
Equitable Life/Utmost Life and Pensions	Property Fund <sup>6,8</sup>	1.480% <sup>4</sup>	0.000%
Equitable Life/Utmost Life and Pensions	European Equity Fund <sup>6,8</sup> (previously the European Fund)	0.750%	0.072%
Equitable Life/Utmost Life and Pensions	US Equity Fund <sup>6,8</sup> (previously the North American Fund)	0.750%	0.036%
Equitable Life/Utmost Life and Pensions	Asia Pacific Equity Fund <sup>6,8</sup> (previously the Far Eastern Fund)	0.750%	0.078%
Equitable Life/Utmost Life and Pensions	Global Equity Fund <sup>6,8</sup> (previously the International Fund)	0.750%	0.034%
Equitable Life/Utmost Life and Pensions	Investment Trusts Fund <sup>6,8</sup>	0.750%	0.646%
Equitable Life/Utmost Life and Pensions	UK Equity Fund <sup>6,8</sup> (previously the Pelican Fund)	0.750%	0.130%

Equitable Life/Utmost Life and Pensions	UK Government Bond Fund <sup>6,8</sup> (previously the Gilt and Fixed Interest Fund)	0.500%	0.038%
Equitable Life/Utmost Life and Pensions	UK FTSE All Share Tracker Fund <sup>6,8</sup> (previously the All Share Tracker Fund)	0.500%	0.037%
Equitable Life/Utmost Life and Pensions	Money Market Fund <sup>6,8</sup> (previously the Money Fund)	0.500%	0.001%
Utmost Life and Pensions	Investing by Age Strategy <sup>6,9,10</sup>	0.500% to 0.750%	0.001% to 0.359%
Utmost Life and Pensions	Secure Cash Fund <sup>6,9</sup>	0.500%	0.001%
Utmost Life and Pensions	Multi-Asset Cautious Fund <sup>6,9</sup>	0.750%	0.359%
Utmost Life and Pensions	Multi-Asset Moderate Fund <sup>6,9</sup>	0.750%	0.108%
Utmost Life and Pensions	Multi-Asset Growth Fund <sup>6,9</sup>	0.750%	0.363%
Utmost Life and Pensions	Sterling Corporate Bond Fund <sup>6,9</sup>	0.750%	0.000%
Scottish Widows <sup>2</sup>	With-Profits Fund	0.875% <sup>11</sup>	0.200%
Scottish Widows <sup>2</sup>	Mixed Fund	0.875%	0.260%
Legal & General	UK Equity Index Fund	0.035%	0.000%
Legal & General	World (ex UK) Equity Index Fund	0.091%	0.000%
Clifford Chance	Unitised Managed Fund	0.443% <sup>5</sup>	0.075%

**Notes:**

1. The transaction costs shown are generally over the year to 31 March 2020 (or 31 December 2019 for the Equitable Life with-profits fund and some of the underlying funds of the Unitised Managed Fund), as this is what the managers/providers were able to provide. In general, transaction cost reporting is limited to quarter end dates so information on costs outside of this (e.g. over the period 1 April to 30 April 2020) is generally unavailable. The Trustee Directors' investment advisers are continuing to request this information on behalf of the Trustee Directors and it is expected that provision of this information should improve over time.
2. Members invested with Scottish Widows also pay a policy fee, which over the year was £1.79 per month to 29 February 2020 and £1.84 per month since 1 March 2020.
3. This includes 0.50% p.a. for the cost of guarantees.
4. This includes an allowance for property management expenses.
5. This includes an allowance for property expense ratios.
6. Equitable Life transferred its business to Utmost Life and Pensions with effect from 1 January 2020. The above reporting therefore covers an 8-month period with Equitable Life and a 4-month period with Utmost Life and Pensions.
7. The Equitable Life with-profits fund closed on 1 January 2020, therefore the reporting period is up to 31 December 2019. Unless they elected to choose their own investments, members invested in the Equitable Life with-profits fund were transferred automatically to the Secure Cash Fund for 6 months. Over the following 6 months (i.e. in the next reporting year), members' funds will be gradually transitioned into the Investing By Age Strategy, so that they will be fully invested in this strategy by 31 December 2020.
8. These Equitable Life funds became Utmost Life and Pensions funds from 1 January 2020, with no change to the underlying investments. The reporting is therefore over the full year.
9. These Utmost Life and Pensions funds were launched on 1 January 2020, so the reporting is over the 4 months to 30 April 2020, or in the case of the transaction costs, over the 3 months to 31 March 2020 (see note 1).
10. The Utmost Life and Pensions Investing By Age Strategy is a lifestyle-type strategy designed to help grow a member's assets while they are younger and automatically shift assets into more conservative investments to protect the value of their savings as they approach retirement age. The underlying funds used in this strategy are the Multi-Asset Cautious, Multi-Asset Moderate and Money Market funds. Since this fund invests in different underlying funds over time, the costs and charges will vary depending on the member's term to retirement, therefore a range is shown.
11. The charges on the Clerical Medical and Scottish Widows with-profits funds are not explicit, they are taken into account when the interest rate or annual bonus rate is declared. However, Clerical Medical has confirmed that it aims to take no more than 1% p.a. in charges and Scottish Widows has estimated that charges on the with-profits fund are in line with those on the unit-linked funds i.e. 0.875% p.a.. We have therefore shown these charge estimates in the table.

**Illustrations of the cumulative effect of costs and charges**

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee Directors have provided illustrations of their cumulative effect on the value of a "typical" member's savings over the period to their retirement.

The illustrations have been prepared having regard to statutory guidance, selecting a suitable representative member and funds representative of the Scheme's membership. They are based on a number of assumptions about the future which are set out below. Members should be aware that such assumptions may or may not

hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on a typical member of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their annual Benefit Statements.

The table below illustrates the effect of costs and charges for a typical member of the DC Section of the Scheme. Given the majority of members in the DC Section of the Scheme invest in the internal Unitised Managed Fund, this fund has been used for the illustration. For comparison purposes, we have also shown an illustration for a member invested in the Legal & General UK Equity Index Fund, which has a higher expected return and lower charges. Both illustrations are based on a member currently age 37, with a starting pot value of £50,000.

	Unitised Managed Fund			Legal & General UK Equity Index Fund		
Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges (TER and TCs) £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges (TER and TCs) £
40	54,211	53,418	793	56,879	56,823	56
45	62,031	59,642	2,389	70,510	70,325	185
50	70,979	66,592	4,387	87,408	87,037	371
55	81,218	74,351	6,867	108,355	107,719	636
60	92,934	83,014	9,920	134,322	133,315	1,007
65	106,340	92,687	13,653	166,513	164,994	1,519

Notes:

- i. The projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- ii. For the purpose of these illustrations, inflation has been assumed to be 2.5% each year, the Unitised Managed Fund has been assumed to achieve a return of 5.3% each year (before charges) and the Legal & General UK Equity Index Fund has been assumed to achieve a return of 7.0% each year (before charges). Future charges, allowing for both transaction costs and the total expense ratio, have been assumed to be 0.516% each year for the Unitised Managed Fund and 0.035% each year for the Legal & General UK Equity Index Fund.
- iii. Charges have been assumed to be in line with those over the reporting year, as set out earlier in the statement. The transaction costs have been averaged over a 2 year period in line with statutory guidance to reduce the level of volatility, and a floor of 0% p.a. has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.
- iv. The values shown are illustrations only and are not guaranteed.
- v. The starting fund value used in the projections is representative of the average for the Scheme.
- vi. Data used is predominantly as at May 2020 and was provided by the Clifford Chance HR team.

#### **4. Value for Members assessment**

The Administration Regulations require the Trustee Directors to make an assessment of charges and transaction costs borne by DC members and the extent to which those charges and costs represent good Value for Members. There is no legal definition of "good value" or the process of determining this for Scheme members. Therefore, the Trustee Directors have established a cost-benefit analysis framework in order to assess whether the member borne charges on the DC funds in which members' assets are invested deliver good value for members.

##### Costs

The costs have been identified as the TERs and transaction costs, which are set out in section 3 of this statement. With the exclusion of the with-profits funds, the Trustee Directors have compared the TERs for the Scheme's DC funds to current market rates. The Trustee Directors concluded that for the Unitised Managed Fund, the

TER compares well to the market. For the other funds, although the TERs compare well to similar legacy style arrangements, the Trustee Directors have been informed that it may be possible to obtain more competitive rates elsewhere.

Since transaction cost disclosure is relatively new, there is no market benchmarking data available, so the Trustee Directors have not been able to compare the transaction costs on the Scheme's funds to the market. However, the Trustee Directors have received confirmation from their advisers that the transaction costs associated with the arrangements are reasonable based on their general experience of similar funds, and, in the case of the Equitable Life with-profits fund, the fact that this fund was being closed and its assets were moved to Utmost Life and Pensions as a cash transfer.

### Benefits

The Trustee Directors have considered the benefits of membership under four categories: Scheme governance, investments, administration and member communications. For each category, the Trustee Directors considered the Scheme's practices against the Pensions Regulator's expectations (as set out in the DC Code of Practice) and carried out benchmarking relative to other pension arrangements or industry best practice guidelines. A high-level summary of the assessment is as follows:

- **Scheme governance:**  
The Trustee Directors have built a suitable governance approach for the DC Section of the Scheme. Core financial transactions and other key governance factors are regularly monitored. DC issues are allocated sufficient time at Trustee meetings and included in the Scheme's risk register. The Trustee Directors considered the impact of the COVID-19 pandemic on the Trustee board and put in place appropriate plans to ensure that the board could continue to perform effectively during this time.
- **Investments:**  
The DC Section of the Scheme offers access to a suitable variety of funds and regular strategy reviews and performance monitoring is carried out (monthly for the Unitised Managed Fund and annually for other funds).
- **Administration:**  
As discussed in section 2, the Trustee Directors obtain information to assess the standard of administration, and resulting member experience, through regular reports, feedback and discussions with the Clifford Chance HR team, as Scheme administrator.
- **Member communications:**  
The Trustee Directors provide appropriate communications to members, making use of a variety of communication media. However, the Trustee Directors recognise the increasing importance of members having online access to view their benefits, which is not something currently available in the Scheme.

The Trustee Directors' assessment concluded that the charges and costs borne by members of the DC Section of the Scheme represent good value for members relative to the benefits of Scheme membership, subject to the below comments:

- Since the end of the year covered by this statement, the Trustee Directors have agreed to transfer the assets invested in the Unitised Managed Fund to funds managed by a new provider (Legal & General). There are a number of reasons as to why the Trustee Directors believe this in members' interests. These include providing members with access to a range of good quality funds at more competitive rates and providing members with greater online access to their benefits and other information. The Trustee Directors believe that this will further improve good value for members.
- The Trustee Directors acknowledge that in relation to the Scheme's unit-linked DC funds held with Aviva, Scottish Widows, Clerical Medical and Utmost Life and Pensions, whilst the costs and charges are in some cases higher than current market rates for non-legacy funds, good value is provided relative to other similar legacy style arrangements.
- In the case of the Clerical Medical cash funds, the Trustee Directors are aware that in the past, there

have been periods where these funds have given members a negative return after charges, although this wasn't the case over the year to 30 April 2020. The Clifford Chance HR team have previously advised the Trustee Directors that they have been unable to find any other provider prepared to offer a cash fund, given the size of the fund and no new regular contribution inflows. The Trustee Directors will continue to keep this under review.

- In the case of the with-profits funds with Scottish Widows and Clerical Medical, the Trustee Directors have been advised that, given the discretionary nature of regular and final bonuses on with-profits funds, no meaningful performance analysis of the with-profits funds can realistically be provided. This, coupled with the fact that the costs and charges disclosure for the with-profits funds is not transparent, means it is not possible for the Trustee Directors to make a general statement as to the value for members that the costs and charges represent in relation to the with-profits funds.

## **5. Trustees' Knowledge and Understanding**

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7. The comments in this section relate to the Trustee Directors dealing with the whole Scheme and are not restricted to the DC Section.

Over the year covered by this statement, one new Trustee Director was appointed. The Scheme has a new Trustee Director induction process, with introductory trustee training being provided by the Secretary to the Trustee and the new Trustee Directors being made aware of their responsibilities regarding trustees' knowledge and understanding. However, in this particular instance the new Trustee Director was a professional trustee, so not all of this induction training was required.

The Secretary to the Trustee works with the Chair of the Trustee to manage the Trustee Directors' training schedule, discussing with the Trustee Directors and their professional advisers forthcoming areas of focus and what specific knowledge and understanding requirements may be. A Trustee training record is maintained and regularly updated.

While no specific knowledge gaps were identified over the year covered by this statement, by the end of the year, the Trustee Directors had all completed the Pension Regulator's online learning materials, referred to as the 'Trustee Toolkit'. In addition, the Trustee Directors' professional advisers regularly attended Trustee meetings to provide agenda specific training and advice to support the Trustee Directors' decision-making at each point in time. For example, during the year, the Trustee Directors received training on DC governance requirements, DC investments and Liability Driven Investments (LDI).

The Trustee Directors have engaged with their professional advisers regularly throughout the year to ensure that they exercise their functions properly and take professional advice where needed. Exercising their functions has required knowledge of key Scheme documents such as the Trust Deed & Rules, Trustee Report & Accounts and Statement of Investment Principles. Some of the areas that support this statement are set out below.

The Trustee Directors have:

- made decisions on specific member cases, taking into account the requirements of the Scheme's Trust Deed & Rules and also the wider law relating to pensions and trusts;
- carried out regular annual tasks, such as reviewing and signing off the Trustee Report & Accounts;
- reviewed and discussed an assessment of the DC Section of the Scheme against the legal requirements set out in the Pension Regulator's DC Code of Practice, helping to maintain their knowledge of the law relating to (DC) pensions and trusts;
- reviewed and monitored the investment strategy and investment performance of the Final Salary Section of the Scheme and the Unitised Managed Fund of the DC Section of the Scheme, using their knowledge to consider any options/actions with their professional advisers and reflecting agreed

- changes in updated versions of the Statement of Investment Principles;
- reviewed the investment performance of the other unit-linked funds (i.e. other than the Unitised Managed Fund) in the DC section of the Scheme and communicated with members in relation to the performance of funds;
- considered the longer-term operation of the Unitised Managed Fund and whether members would benefit from moving to alternative funds (see comments in section 4);
- carried out actions and held discussions in relation to the 2019 actuarial valuation of the Final Salary Section of the Scheme;
- regularly monitored movements in the Final Salary Section of the Scheme's funding position;
- considered Equitable Life's proposals in relation to the transfer of policies to Utmost Life and Pensions, together with their advisors, and taken decisions on voting and investment options in relation to the transfer; and
- reviewed communications issued to members in relation to the Equitable Life transfer to Utmost Life and Pensions.

The Trustee Directors therefore consider that they have met the Pensions Regulator's Knowledge and Understanding requirements (as set out under Code of Practice No 7) over the year covered by this statement. Towards the end of the year covered by this statement, the Trustee Directors also considered the impact of the COVID-19 pandemic on the operation of the Scheme and Trustee board. The Trustee Directors put in place appropriate plans to ensure that the board could continue to perform effectively during this time, which included reviewing the regularity and format of Trustee meetings (virtual Trustee meetings have been held). In addition, issues such as key person risks have been considered and mitigated against.

The Trustee Directors have a broad range of additional and complementary skills on which to draw. Areas of expertise include Tax law, Property law, Finance and Human Resource.

In addition to the skills within the Trustee board, and as already noted above, the Trustee Directors have engaged with their appointed professional advisers regularly throughout the year. These advisers include Investment Consultants, Actuaries and Lawyers.

The Trustee Directors remain of the opinion that that their skills, including their wider knowledge and background (discussed above), together with the support provided by the Secretary to the Trustee and the Scheme's appointed professional advisers, ensures that the Scheme is run, and the Trustee Directors' functions are exercised, properly. The Trustee Directors believe that this has been demonstrated and evidenced by the regular meetings and correspondence throughout the year, where training and advice has been provided, discussions held and decisions taken in relation to any matters material to the running of the Scheme.

Approved by the Trustee Directors of the Clifford Chance Pension Scheme

**Robin T Tremaine, Chair of Trustee**

Date of signing: 30 November 2020

## **CLIFFORD CHANCE PENSION SCHEME – MONEY PURCHASE SECTION (“THE SCHEME”) STATEMENT OF INVESTMENT PRINCIPLES (“THE STATEMENT”)**

### **1. Scope of Statement**

This Statement sets out the policy of the Trustee of the Clifford Chance Pension Scheme (“the Trustee”) on various matters governing decisions about the investments of the Money Purchase section of the Clifford Chance Pension Scheme. The Trustee maintains a separate Statement for the Final Salary section. This Statement replaces the previous Statement dated November 2019.

This Statement has been prepared in accordance with Section 35 of the Pension Act 1995 (as amended by the Pension Act 2004 and the Occupational Pension Plans (Investment) Regulations 2005) and the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, which introduced minimum governance standards that apply to all trust-based Defined Contribution (DC) schemes).

In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

The effective date of this Statement is 10 September 2020. The Trustee will review this Statement and the Scheme’s investment strategy no later than three years after the effective date of this Statement and without undue delay after any significant change in investment policy.

### **2. Consultations Made**

The Trustee has consulted with the relevant employer in writing this Statement.

The Trustee is responsible for the investment strategy of the Scheme. The Trustee has obtained and considered written professional advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited (“Aon”), the Scheme’s investment adviser for the Money Purchase section, whom the Trustee believes to be suitably qualified and experienced to provide such advice and who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Scheme's assets has been delegated to investment managers who are appropriately authorised and regulated as required under the Financial Services and Markets Act 2000 (amended by the Financial Services Act 2012). A copy of this Statement is available to Scheme members on request and is stored on the Scheme's website.

### **3. Objectives and Policy for Securing Objectives**

The Trustee’s primary objectives for setting the investment strategy of the Money Purchase section of the Scheme are:

- “asset choice” to ensure members have an appropriate choice of assets for investment
- “return objective” to enable members to benefit from investment in “growth” assets until they approach retirement, when they will be able to switch to “matching” assets which are more related to the purchasing cost of their income and cash in retirement

### **4. Choosing Investments**

The investment options offered to members of the Money Purchase section are deemed appropriate, given the profile of the membership. A range of funds is available to members. A summary of the investment options available is set out in the Appendix.

In setting the Scheme’s investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from its investment adviser when setting the Scheme asset allocation, when selecting managers and when monitoring their performance.



Day to day selection of stocks is delegated to the fund managers appointed by the Trustee. The Trustee takes regular professional advice when formally reviewing managers or funds offered to members.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to give effect to the principles in this Statement, so far as is reasonably practicable.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

#### **5. The Balance between Different Kinds of Investments**

The Trustee recognises that the key source of financial risk (in relation to meeting their objectives) arises from fund selection for the Money Purchase section. The Trustee therefore retains responsibility for selecting a range of appropriate funds for the members to subsequently choose from for the Money Purchase section. The Trustee takes expert advice as required from professional advisers.

#### **6. Implementation of the investment arrangements**

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriate investments.

Details of the investment managers are set out in the Appendix.

The Trustee has signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers. The Trustee is supported in this monitoring activity by its investment advisers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. The duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the

Scheme's investment mandates.

**7. Investment Risk Measurement and Management**

The Trustee recognises that members take the investment risk. The Trustee takes account of this in the selection and monitoring of the investment managers and the choice of funds offered to members.

**8. Custody**

The assets managed by all managers are invested in pooled funds which gives the Trustee a right to the cash value of the units rather than to the underlying assets. The investment managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the underlying assets.

**9. Expected Returns on Assets**

Returns achieved by the fund managers within the Money Purchase section are assessed against performance benchmarks set by the Trustee in consultation with the advisers and fund managers.

**10. Realisation of Investments/Liquidity**

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (through the sale of units in pooled funds).

**11. Consideration of financially material and non-financial matters**

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds but expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) as the managers consider appropriate where relevant to financial performance. The Trustee seeks to appoint fund managers that have appropriate skills and processes to do this.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

**12. Stewardship**

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee has limited influence over managers' stewardship practices where assets are held in pooled funds.

**13. Costs & Transparency**

The Trustee believes it is important to understand all the different costs and charges, which are paid by members. These include:

- explicit charges, such as the annual management charge, and additional expenses that are disclosed by fund managers as part of the Total Expense Ratio ('TER');
- investment platform costs;
- implicit charges, such as the portfolio turnover costs (transaction costs) borne within a fund.

The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within each fund's portfolio. These are incurred on an ongoing basis and are implicit within the performance of each fund.

Other costs of providing the Scheme, including Scheme administration and Scheme adviser costs, are not charged to members.

The member borne costs of the Scheme are met through annual charges on the funds in which the Scheme members are invested; these charges being a fixed percentage of the value of the assets.

The Trustee collects information on all the member-borne costs and charges on an annual basis, where available, and sets these out in the Scheme's Annual Chair's Statement ("the Chair's Statement"), which is made available to members in a publicly accessible location.

No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee expects its investment adviser to highlight if these costs and charges appear unreasonable when they are collected as part of the Chair's Statement exercise.

**14. Effective Decision Making**

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. It also recognises that where it takes investment decisions, it must have sufficient expertise and appropriate training to be able to evaluate critically any advice it takes.

**15. Voluntary Contribution ("VC") Arrangements**

Some members obtained further benefits by paying VCs to the Scheme. These funds are now closed to new contributions. A summary of the investment options that are available for existing contributions is set out in the Appendix.

**R T Tremaine**  
Signature

Director for Clifford Chance Pension Trustees Ltd

**A Drakeford**  
Signature

Director for Clifford Chance Pension Trustees Ltd

10 September 2020  
Date

## Appendix to Statement of Investment Principles

This Appendix sets out the Trustee's current fund range available for the Money Purchase section of the Scheme and for Voluntary Contributions and is supplementary to the Trustee's Statement of Investment Principles (the "attached Statement").

The Trustee has made a range of Money Purchase and VC investment options available to the members of the Scheme. In addition, the Firm has opened up its Group Personal Pension Plan to Scheme members wishing to have a wider fund choice in which to invest their VCs. Some members have existing Money Purchase and VC monies invested in previously available investment funds with Utmost Life and Pensions (formerly Equitable Life), Aviva and Scottish Widows.

Although the funds are closed to new contributions, a summary of both the investment options that have been available in the past and also the investment options still currently available for existing funds is set out below:

Fund	Provider	Investment Objectives	Notes	Annual Management Charge
Unitised Mixed Managed Fund	The Unitised Mixed Managed Fund is made up of a range of funds with a target asset allocation as follows; <b>Equity 50%</b> - LGIM UK Equity Index & LGIM World (ex-UK) Equity Index <b>Diversified Growth 22.5%</b> - Invesco Global Targeted Returns & Nordea Stable Return <b>Bonds 15%</b> - PIMCO Unconstrained Bond & M&G Total Return Credit <b>Property 12.5%</b> - Schroders UK Real Estate, BlackRock UK Property & M&G UK Property These funds are all also invested in by the Final Salary Section (except for the LGIM UK Equity Index Fund).	The investment objectives for the underlying funds are the same as for the assets of the Final Salary section of the Scheme as set out in the Statement of Investment Principles for the Final Salary section (or, in the case of the LGIM UK Equity Index Fund, see below).	Available from April 1996	As for underlying assets in Final Salary section as set out in the Statement of Investment Principles for the Final Salary section (or, in the case of the LGIM UK Equity Index Fund, see below).
UK Equity Index Fund	LGIM	To track the FTSE All-Share Index gross of fees.	Available from 1 May 2015	0.05%
World (ex UK) Equity Index Fund	LGIM	To track the FTSE World (ex- UK) Index gross of fees.	Available from 1 May 2015	0.13%

With-profits* and unit-linked funds	Utmost Life and Pensions (formerly Equitable Life), Scottish Widows and Aviva	To invest in a diverse range of assets. In the case of With-Profits, in order to support the guarantees offered by the contracts, the funds maintain a larger exposure to fixed interest investments and a correspondingly smaller amount in equities, compared to typical unit-linked managed funds.	Scottish Widows and Aviva available until March 1996. Equitable Life available until December 2000.	0.5%-1.44% for unit-linked funds Inherent within the bonus declarations for with-profits
With-profits*	Clerical Medical	Aims to generate capital growth over the medium to long term (at least 5 years), with some stability against market volatility in the short term. The fund invests in shares in UK and overseas companies, property, fixed-interest investments (such as Government bonds) and other types of investment (e.g. cash).	Replacement following closure of Equitable Life to new business, available from June 2001	Inherent within the bonus declarations
Cash fund	Clerical Medical	The fund aims to give a rate of return in addition to liquidity through investing in short term cash deposits and other forms of interest bearing money instruments where the capital is at low risk - normally in the UK.	Available from October 2004	0.5%
Halifax cash fund	Clerical Medical	The fund invests in deposits within the Lloyds Banking Group. The rate of return varies in line with changes in interest rates which, together with the annual management charge, is reflected in the unit price.	Available from October 2004	0.5%

\*The growth is achieved by way of a regular bonus added to member's funds each year. By awarding a regular bonus, the with-profits fund aims to smooth out any fluctuations in market performance. At retirement, or on leaving the Scheme, members may also receive an additional bonus payment to reflect the investment earnings from the with-profits funds. This will depend on the performance of the fund over the period they are invested.

#### 1.1 Fee structure for advisers and managers

##### **Advisers**

The Trustee's investment advisers are paid for advice received on the basis of the time spent by the adviser. For significant areas of advice (for example one off special jobs, or large jobs), the Trustee will endeavour to agree a project budget.

These arrangements recognise the bespoke nature of the advice given, and that no investment decisions have been delegated to the adviser.

#### 1.2 Investment managers

The investment managers are remunerated as a set percentage of the assets under management as per the annual management charges set out in the table above. This is in keeping with market practice.

# **INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE OF THE CLIFFORD CHANCE PENSION SCHEME**

## **Report on the audit of the Financial Statements**

### ***Opinion***

In our opinion, Clifford Chance Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 April 2020, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the annual report and financial statements, which comprise: the statement of net assets available for benefits as at 30 April 2020; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Independence***

We remained independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### ***Conclusions relating to going concern***

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme's ability to continue as a going concern.

### ***Reporting on other information***

The other information comprises all the information in the Annual Report and Financial Statements other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent

material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

### ***Responsibilities for the financial statements and the audit***

#### ***Responsibilities of the Trustee for the financial statements***

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared in accordance with the applicable framework and for being satisfied that they show a true and fair view. The Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### ***Auditors' responsibilities for the audit of the financial statements***

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### ***Use of this report***

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

# FUND ACCOUNT FOR THE YEAR ENDED 30 April 2020

	Notes	2020			2019		
		Final Salary £'000s	Money Purchase £'000s	Total £'000s	Final Salary £'000s	Money Purchase £'000s	Total £'000s
<b>Contributions and Benefits</b>							
Employer Contributions	4	18,188	-	18,188	17,654	-	17,654
		18,188	-	18,188	17,654	-	17,654
Benefits paid or payable	5	(6,005)	(66)	(6,071)	(4,829)	-	(4,829)
Transfers out to other schemes	6	(856)	(1,619)	(2,475)	(3,900)	(1,504)	(5,404)
Other payments	7	(369)	(13)	(382)	(369)	(13)	(382)
		(7,230)	(1,698)	(8,928)	(9,098)	(1,517)	(10,615)
<b>Net additions/(withdrawals) from dealings with members and employer</b>		10,958	(1,698)	9,260	8,556	(1,517)	7,039
<b>Net returns on investments</b>							
Investment income	9	1,823	28	1,851	1,692	33	1,725
Investment management expenses	10	(312)	(5)	(317)	(313)	(6)	(319)
Change in market value of investments	11	3,445	(263)	3,182	17,726	(1,350)	16,376
		4,956	(240)	4,716	19,105	(1,323)	17,782
<b>Net increase/(decrease) in the fund</b>		15,914	(1,938)	13,976	27,661	(2,840)	24,821
<b>Opening net assets</b>		528,572	11,048	539,620	500,911	13,888	514,799
<b>Closing net assets</b>		544,486	9,110	553,596	528,572	11,048	539,620

The notes on pages 32 to 42 of this report form an integral part of these financial statements.



## STATEMENT OF NET ASSETS

### AVAILABLE FOR BENEFITS AS AT 30 April 2020

	Notes	Final Salary £'000s	2020 Money Purchase £'000s	Total £'000s	Final Salary £'000s	2019 Money Purchase £'000s	Total £'000s
<b>Investment assets</b>	11						
Pooled Investment Vehicles		508,035	7,540	515,575	491,687	9,198	500,885
Voluntary Contributions		29,081	1,462	30,543	30,039	1,720	31,759
		537,116	9,002	546,118	521,726	10,918	532,644
Current assets	19	7,370	108	7,478	6,846	130	6,976
<b>Total net assets available for benefits</b>		544,486	9,110	553,596	528,572	11,048	539,620

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee Directors. They do not take account of obligations to pay pensions and benefits which fall due after the end of the accounting period.

The actuarial position of the Scheme which does take account of such obligations for the Final Salary section, is dealt with in the report on actuarial liabilities on pages 5 and 6 of the annual report and these financial statements should be read in conjunction with them.

The notes on pages 32 to 42 of this report form an integral part of these financial statements.

The financial statements on pages 30 to 42 were approved by the Trustee Directors on 30 November 2020

Signed on behalf of the Trustee Directors of Clifford Chance Pension Trustees Limited:

**Robin T Tremaine (Trustee Director)**

## **Notes to the financial statements**

### **For the year ended 30 April 2020**

#### **1. General information**

The Clifford Chance Pension Scheme (the "Scheme") is an occupational pension scheme established as a trust under English law.

The Scheme was established to provide retirement benefits to employees of Clifford Chance London Limited. The address of the Scheme's office is 10 Upper Bank Street, London E14 5JJ.

The Scheme has a Final Salary and a Money Purchase section which are both closed to new members and, since 1 May 2011, to future benefit accrual.

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees, at the time, are normally eligible to tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

#### **2. Statement of compliance**

The individual financial statements of the Clifford Chance Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised June 2018) ("the SORP").

In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee Directors have adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on these financial statements. However, it has required certain additions to or amendments of disclosures in the financial statements.

#### **3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) **Currency**

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end. Any foreign currency transactions would be translated into sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

(b) **Contributions**

Contributions are dealt with on an accruals basis in the period to which they relate.

Any employers' augmentation and additional funding contributions are accounted for in accordance with any agreement under which they may be paid or, in the absence of such an agreement, when received.

Employers' deficit repair funding contributions are accounted for on the due dates set out in the schedule of contributions, or on receipt if earlier, with the agreement of the employer and the Trustee Directors. These have been paid by the employer for the period 1 May 2019 to 30 April 2020 in accordance with the Schedule of Contributions certified by the Scheme Actuary on 27 June 2017.

- (c) Transfers from and to other plans  
Transfer values represent the capital sums either receivable in respect of members from other investment funds or to the pension plans of new employers or alternative pension arrangements for members who have left the Scheme. They are accounted on an accruals basis on the date when the receiving scheme has accepted liability for the member. In the case of individual transfers, this is normally when the payment of the transfer value is made.
- (d) Benefits and payments to and on account of leavers  
Pensions in payment are accounted for in the period to which they relate.
- Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.
- Other benefits are accounted for on an accruals basis on the date of retirement or death as appropriate.
- Where the Trustee Directors agree or are required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and is shown separately with Benefits.
- (e) Administrative and other expenses  
Administrative expenses are met by the employer. Premiums on term insurance policies are accounted for on an accruals basis.
- (f) Investment income and expenditure  
Income from pooled investment vehicles which distribute income, is accounted for on an accruals basis on the date stocks would be quoted ex-dividend, or in the case of unquoted instruments, when the dividend is declared.
- Interest on cash and short term deposits and income from other investments are accounted for on an accruals basis.
- Investment income includes withholding taxes. Withholding tax is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense within investment returns.
- The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.
- Any transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs which may be charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and shown separately within investment returns.
- (g) Valuation and classification of investments  
Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

Where quoted or other unit prices are not available, the Trustee Directors adopt valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements where used.

The methods of determining fair value for the principal classes of investments are:

- Pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before the year end.
- The value of pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustee Directors. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.
- With profits insurance policies (including those held as AVC investments) are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.
- Unitised insurance policies are valued on the same basis as pooled investment vehicles with similar characteristics.

	2020			2019		
	Final Salary £'000s	Money Purchase £'000s	Total £'000s	Final Salary £'000s	Money Purchase £'000s	Total £'000s
<b>4. Employer contributions</b>						
Deficit Funding (*)	17,806	-	17,806	17,272	-	17,272
Premiums on term insurance policies	382	-	382	382	-	382
	18,188	-	18,188	17,654	-	17,654

(\*) Clifford Chance London Limited paid deficit funding contributions in accordance with the Schedule of Contributions dated 24 July 2017. Monthly payments of £583,333 were made.

The deficit funding also include £4.06m current year benefits and £6.64m deficit repair payments made by Clifford Chance London Limited during the year. Under the Schedule dated 24 July 2017, deficit funding contributions are due to be paid at £17m per annum for the period up to 31 May 2026, with the first deficit repair payment due to be paid at this rate on 31 May 2018. The amounts payable will also include benefits paid by Clifford Chance London Limited on behalf of the Scheme. The amounts reflected in the financial statements may, in future years, be greater than the deficit funding contributions set out in the Schedule. The amount of each overall deficit funding contribution payment should also increase annually in line with the increase in the Retail Prices Index. The triennial actuarial valuation of the Scheme due as at 30 April 2019 was completed on 24 July 2020 and a new Schedule of Contributions was agreed under which contributions will be reflected in the following year's financial statements. Under the new Schedule dated 24 July 2020, deficit funding contributions are due to be paid at £22m per annum for the period up to 31 May 2030, with the first deficit repair payment due to be paid at this rate on 31 May 2021, in addition to a single payment of £6m being paid by 31 August 2020. The amounts payable will also include benefits paid by Clifford Chance London Limited on behalf of the Scheme. The amounts reflected in the financial statements will, in future years, be greater than the deficit funding contributions set out in the new Schedule. The amount of each overall deficit funding contribution payment will also increase annually in line with the increase in the Retail Prices Index.

	Final Salary £'000s	2020 Money Purchase £'000s	Total £'000s	Final Salary £'000s	2019 Money Purchase £'000s	Total £'000s
<b>5. Benefits paid or payable</b>						
Pensions	4,064	-	4,064	3,788	-	3,788
Commutations and lump sum retirement benefits	1,500	66	1,566	857	-	857
Lump sum death benefits	441	-	441	184	-	184
	6,005	66	6,071	4,829	-	4,829

	Final Salary £'000s	2020 Money Purchase £'000s	Total £'000s	Final Salary £'000s	2019 Money Purchase £'000s	Total £'000s
<b>6. Transfers out to other schemes</b>						
Individual transfers to other schemes	856	1,619	2,475	3,900	1,504	5,404

	Final Salary £'000s	2020 Money Purchase £'000s	Total £'000s	Final Salary £'000s	2019 Money Purchase £'000s	Total £'000s
<b>7. Other payments</b>						
Premiums on term insurance policies	369	13	382	369	13	382

**8. Administrative expenses**  
All administrative, legal, accounting and audit costs are borne by Clifford Chance LLP and are not recharged to the Scheme.

	Final Salary £'000s	2020 Money Purchase £'000s	Total £'000s	Final Salary £'000s	2019 Money Purchase £'000s	Total £'000s
<b>9. Investment income</b>						
Interest on cash deposits	21	1	22	9	2	11
Income from pooled investment vehicles	1,802	27	1,829	1,683	31	1,714
	1,823	28	1,851	1,692	33	1,725

	Final Salary £'000s	2020 Money Purchase £'000s	Total £'000s	Final Salary £'000s	2019 Money Purchase £'000s	Total £'000s
<b>10. Investment management expenses</b>						
Investment fees	312	5	317	313	6	319

Management fees in respect of pooled investment vehicles are recovered from the fund and units in issue.

## 11. Reconciliation of net investments

The investments of the Scheme are divided between the Final Salary and the Money Purchase sections.

	Opening value	Purchases	Sales	Change in	Closing value
	£'000s	at cost £'000s	proceeds £'000s	market value £'000s	£'000s
<b>Final Salary section</b>					
Pooled investment vehicles					
Main fund	491,687	355,402	(342,455)	3,401	508,035
VC investments	24,190	12,425	(13,372)	(512)	22,731
	<u>515,877</u>	<u>367,827</u>	<u>(355,827)</u>	<u>2,889</u>	<u>530,766</u>
External VC investments	<u>5,849</u>	<u>-</u>	<u>(55)</u>	<u>556</u>	<u>6,350</u>
	<u>521,726</u>	<u>367,827</u>	<u>(355,882)</u>	<u>3,445</u>	<u>537,116</u>
	<u>Opening value</u>	<u>Purchases</u>	<u>Sales</u>	<u>Change in</u>	<u>Closing value</u>
	£'000s	at cost £'000s	proceeds £'000s	market value £'000s	£'000s
<b>Money Purchase section – all designated to members</b>					
Pooled investment vehicles					
Main fund	8,009	3,855	(5,286)	(243)	6,335
VC investments	1,720	851	(1,073)	(36)	1,462
	<u>9,729</u>	<u>4,706</u>	<u>(6,359)</u>	<u>(279)</u>	<u>7,797</u>
External MP investments	<u>1,189</u>	<u>-</u>	<u>-</u>	<u>16</u>	<u>1,205</u>
	<u>10,918</u>	<u>4,706</u>	<u>(6,359)</u>	<u>(263)</u>	<u>9,002</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year, along with any transfer of units in the Unitised fund between the Main fund and VC investments under the Final Salary and Money Purchase sections.

There were material purchases and sales during the year in relation to pooled investment vehicles reflecting the change in investment arrangements, in particular the transition into a sole investor fund and the investment in infrastructure resulting in disinvestment from other fund types.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. In addition to the transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of transaction and indirect costs are not separately provided to the Scheme.

## 12. Pooled investment vehicles

	2020			2019		
	Final Salary	Money Purchase	Total	Final Salary	Money Purchase	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Equities	81,906	3,913	85,819	169,626	5,582	175,208
LDI	217,296	-	217,296	126,374	-	126,374
Bond/Absolute Return Bonds (ARBs)	45,317	1,105	46,422	48,842	921	49,763
Diversified growth	97,644	1,781	99,425	106,403	2,007	108,410
Infrastructure	25,065	-	25,065	-	-	-
Property	63,538	997	64,535	64,632	1,219	65,851
	<u>530,766</u>	<u>7,796</u>	<u>538,562</u>	<u>515,877</u>	<u>9,729</u>	<u>525,606</u>

Any indirect transaction costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It is not possible to quantify any such indirect transactions costs.

The aggregate amounts for the Final Salary and Money Purchase sections are identified separately for information purposes.

Between March 2020 and October 2020 the three property fund investments totalling £64.5m (which represented 11.6% in total of the total net assets of the Scheme at 30 April 2020) were subject to gating and material uncertain valuations.

### 13. Sole Investor Fund

The Scheme invests in the BMO LDI funds during the year of which it is the sole investor. This is set out as the LDI pooled investment balance shown in note 12 and a breakdown of the underlying investment classes held within the fund has been included below.

	2020			2019		
	Final Salary £'000s	Money Purchase £'000s	Total £'000s	Final Salary £'000s	Money Purchase £'000s	Total £'000s
Bonds	402,452	-	402,452	-	-	-
Liquidity Funds	47,015	-	47,015	-	-	-
Derivatives - net	14,823	-	14,823	-	-	-
Repurchase agreements – net	(258,950)	-	(258,950)	-	-	-
Cash	11,956	-	11,956	-	-	-
	217,296	-	217,296	-	-	-

BMO were unable to provide the direct transactions costs incurred on the sole investor arrangement at the time of reporting.

### 14. Voluntary contribution (VC) investments

For those members who had elected to invest their own voluntary contributions (VCs) and/or the employer's contribution to the Money Purchase section a number of their assets are held separately in the form of insurance policies. The remainder of the assets are held in the form of units held in the main Unitised Fund. Members participating in these external arrangements and in the Unitised Fund receive an annual statement confirming the amounts held in their account and the movements in the year. The aggregate amounts for the Final Salary and Money Purchase sections for all types of investments are as follows:

		2020 £'000s	2019 £'000s
<b>Final Salary section</b>			
VCs	- Pooled investment vehicles	22,731	24,190
	- Scottish Widows	1,406	1,346
	- Aviva	261	249
	- Clerical Medical	2,450	2,473
	- Utmost Life (formerly Equitable Life)	2,233	1,781
		29,081	30,039
		2020 £'000s	2019 £'000s
<b>Money Purchase section</b>			
External MP	- Clerical Medical	1,028	1,056
	- Utmost Life (formerly Equitable Life)	177	133
VCs	- Pooled investment vehicles	1,462	1,720
		2,667	2,909

Contributions invested in the unitised fund are included in the main assets of the Scheme. All units in managed funds held during the year were controlled by companies registered in the UK.

The external VC and MP contracts (Scottish Widows, Aviva, Clerical Medical and Utmost Life) contain a mix of investments under with-profits and unit linked funds.

## 15 Fair value of investments

The fair value of investments has been determined using the following hierarchy:

- Level 1** Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date
- Level 2** Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
- Level 3** Inputs are unobservable, i.e. for which market data is unavailable.

The Scheme's assets have been included at fair value within these categorisations in the table below:

As at 30 April 2019	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Total (£m)
Legal & General UK Equity Fund	-	69.5	-	69.5
Legal & General Overseas Equity Fund	-	35.3	-	35.3
Majedie UK Equity Fund	-	70.5	-	70.5
Nordea Fund	-	56.9	-	56.9
BMO	-	126.4	-	126.4
Invesco	-	-	51.5	51.5
GAM Alternative Bonds Fund	-	2.8	-	2.8
M&G Alternative Bonds Fund	-	36.4	-	36.4
PIMCO	-	10.5	-	10.5
BlackRock Property Fund	-	-	32.3	32.3
Schroder Property Fund	-	-	23.1	23.1
M&G Property Fund	-	-	10.5	10.5
External AVC Funds	-	5.8	-	5.8
External Money Purchase Funds	-	1.2	-	1.2
<b>Total</b>	<b>-</b>	<b>415.3</b>	<b>117.4</b>	<b>532.7</b>

Analysis for the current year end is as follows:

As at 30 April 2020	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Total (£m)
Legal & General UK Equity Fund	-	6.0	-	6.0
Legal & General Overseas Equity Fund	-	79.8	-	79.8
IFM Infrastructure	-	-	25.1	25.1
BMO	-	217.3	-	217.3
Nordea Fund	-	72.0	-	72.0
Invesco	-	-	27.4	27.4
M&G Alternative Bonds Fund	-	36.1	-	36.1
PIMCO	-	10.3	-	10.3
BlackRock Property Fund	-	-	31.7	31.7
Schroder Property Fund	-	-	22.8	22.8
M&G Property Fund	-	-	10.1	10.1
External AVC Funds	-	6.4	-	6.4
External Money Purchase Funds	-	1.2	-	1.2
<b>Total</b>	<b>-</b>	<b>429.1</b>	<b>117.1</b>	<b>546.2</b>

## 16. Investment risks

### Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:



- **Credit risk:** This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- **Market risk:** This is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables.

The maximum risk resulting from financial instruments, except for written options and securities sold short, equals their value.

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

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

The Trustee Directors determine their investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below.

### **Risk management structure**

The Trustee Directors are responsible for identifying and managing risks, including risks arising from the investment activities.

The Trustee Directors appoint investment managers to manage the investments of the Scheme under agreed mandates. These mandates set out target allocations, benchmarks and risk tolerance levels consistent with the Statement of Investment Principles.

The Trustee Directors review the performance of each investment manager against the agreed performance objectives.

### **Risk measurement and reporting**

The Trustee Directors monitor the Scheme's risks periodically.

The Trustee Directors measures risks both qualitatively and quantitatively.

The Trustee Directors monitor and measure the overall risk in relation to the aggregate risk exposure across all risk types and activities, including employer covenant and funding risks.

### **Risk mitigation**

The Scheme has investment guidelines that set out its overall investment strategy and its general approach to risk management, as set out in the Statement of Investment Principles.

The Trustee Directors have appointed an investment adviser to assist them in determining and implementing the investment strategy for the Scheme.

The Trustee Directors acknowledge that its investment managers may use derivatives and other instruments for trading purposes and in connection with its risk management activities.

### **The Scheme's assets**

The Scheme invests in pooled investment vehicles, the underlying assets of which are held separate to the assets of the investment manager.

The Scheme's current assets comprise of:

- A UK equity fund with L&G
- An overseas equity fund with L&G
- A diversified growth fund with Nordea

- A diversified growth fund with Invesco
- An alternative bond fund with M&G
- An alternative bond fund with PIMCO
- A LDI fund with BMO
- A property fund with BlackRock
- A property fund with Schroders
- A property fund with M&G
- AVC funds with Clerical Medical, Utmost Life (formerly Equitable Life), Scottish Widows and Aviva
- Money Purchase funds with Clerical Medical and Utmost Life (formerly Equitable Life)

### Total risks

The figures in the table indicate the amount of the portfolio which is subject to the specific risk. For example the majority of the portfolio is subject to credit and other price risk; whereas only a portion is subject to currency and interest rates.

	30 April 2020 (£m)			30 April 2019 (£m)		
	Final Salary	Money Purchase	Total	Final Salary	Money Purchase	Total
Total direct credit risk	537.2	9.0	546.2	522.8	9.9	532.7
Total indirect credit risk	421.5	6.2	427.7	345.3	5.1	350.4
Total currency risk	247.1	3.6	250.7	189.8	3.6	193.4
Total interest rate risk	357.8	5.3	363.1	279.2	5.3	284.5
Total other price risk	485.0	7.1	492.1	474.1	8.9	483.0

### Direct credit risk

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager.

A summary of pooled investment vehicle by type of arrangement is as follows:

Legal nature of the pooled arrangements	30 April 2020 (£m)			30 April 2019 (£m)		
	Final Salary	Money Purchase	Total	Final Salary	Money Purchase	Total
Unit linked insurance contracts	121.5	1.8	123.3	163.7	3.1	166.8
Authorised unit trusts	31.2	0.5	31.7	31.6	0.6	32.2
UK Open ended investment companies	22.5	0.3	22.8	91.9	1.7	93.6
Limited liability partnerships	24.7	0.4	25.1	-	-	-
Sole investor authorised fund	214.2	3.1	217.3	-	-	-
Luxembourg Société d'investissement à Capital Variable (SICAV)	106.5	1.6	108.1	91.6	1.7	93.3
Luxembourg Fonds commun de placement (FCP)	-	-	-	124.1	2.3	126.4
Irish Investment Company with Variable Capital (ICVC)	10.2	0.1	10.3	13.1	0.2	13.3
	<b>530.8</b>	<b>7.8</b>	<b>538.6</b>	<b>515.9</b>	<b>9.7</b>	<b>525.6</b>

## 17. Concentration of investment

The following investments represent more than 5% of the total value of the net assets of the Scheme at the year end.

	2020	2019
BMO LDI funds - LDI		
Market Value (£,000)	217,296	126,374
Percentage of net assets (%)	39.79%	23.42%
Legal & General Investment Management – Overseas Equity		
Market Value (£,000)	79,824	35,267
Percentage of net assets (%)	14.62%	6.54%
Nordea – Diversified Growth		
Market Value (£,000)	72,000	56,887
Percentage of net assets (%)	13.19%	10.54%
M&G – Bonds		
Market Value (£,000)	36,116	36,440
Percentage of net assets (%)	6.61%	6.75%
BlackRock – Property		
Market Value (£,000)	31,687	32,244
Percentage of net assets (%)	5.80%	5.98%
Invesco – Diversified Growth		
Market Value (£,000)	27,426	51,523
Percentage of net assets (%)	5.02%	9.55%
Legal & General Investment Management - UK Equity		
Market Value (£,000)	5,994	69,463
Percentage of net assets (%)	1.10%	12.87%
Majedie – UK Equity		
Market Value (£,000)	-	70,478
Percentage of net assets (%)	-	13.06%

## 18. Employer related investments

There were no employer-related investments at 30 April 2020 (2019 – nil).

	2020			2019		
	Final Salary	Money Purchase	Total	Final Salary	Money Purchase	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
<b>19. Current assets</b>						
Cash at bank	7,219	106	7,325	6,697	126	6,823
Tax rebate	151	2	153	149	4	153
	7,370	108	7,478	6,846	130	6,976

## 20. Related party transactions

Six Directors of the Trustee Company have a beneficiary interest as members of the Scheme (2019 – Six Directors). Where relevant, benefits and contributions in respect of these members have been paid in accordance with the Schedule of Contributions. Clifford Chance LLP is one of the appointed legal advisers to the Scheme and Clifford Chance London Limited, the sponsoring employer and a service company which is funded by Clifford Chance LLP, is the appointed administrator for the Scheme.

There are no payments made to Clifford Chance LLP or Clifford Chance London Limited for the provision of these services.

## **21. Contingencies and commitments**

In the opinion of the Trustee Directors, the Scheme had no contingent liabilities or commitments at 30 April 2020 (2019: nil).

## **22. Subsequent events**

In March 2020, the World Health Organisation officially declared COVID-19, the disease caused by a coronavirus, a pandemic. Its emergence and reactions to it have already had a profound effect on domestic and global economies. These have continued since the Scheme's year-end. There has been disruption and volatility in the financial markets. The Trustee, in conjunction with its advisers, have monitored the situation closely and reviewed any actions that are deemed necessary.

The extent of the impact on the financial performance of the Scheme's investments will depend on future developments in financial markets and the overall economy, all of which are highly uncertain and cannot be predicted.

Since the year end, consequent on the global impact of the Coronavirus (Covid-19) pandemic, the value of investment assets and liabilities in both the DB and MP sections have been impacted. It is not practical, at this time, to quantify the change in market value as the situation is fluid and unpredictable.

## **INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE CLIFFORD CHANCE PENSION SCHEME**

### **Statement about contributions**

#### ***Opinion***

In our opinion, the contributions payable under the schedule of contributions for the Scheme year ended 30 April 2020 as reported in Clifford Chance Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedule of contributions certified by the Scheme actuary on 24 July 2017.

We have examined Clifford Chance Pension Scheme's summary of contributions for the Scheme year ended 30 April 2020 which is set out on the following page.

#### ***Basis for opinion***

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedule of contributions and the timing of those payments.

#### ***Responsibilities for the statement about contributions***

##### ***Responsibilities of the Trustee in respect of contributions***

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by employers in accordance with relevant requirements.

##### ***Auditors' responsibilities in respect of the statement about contributions***

It is our responsibility to provide a statement about contributions and to report our opinion to you.

#### ***Use of this report***

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

### Summary of contributions payable to the Scheme in the year

During the year ended 30 April 2020 the contributions payable to the Scheme were as follows:

	<b>Final Salary £'000s</b>	<b>Money Purchase £'000s</b>	<b>Total £'000s</b>
Deficit Funding	17,806	-	17,806
Total contributions payable under the Schedule of Contributions and as reported on by the Scheme Auditors	17,806	-	17,806
Additional Employer Contributions			
- Premiums on term insurance policies	382	-	382
<b>Total contributions per the financial statements</b>	<b>18,188</b>	<b>-</b>	<b>18,188</b>

Approved by the Trustee Directors of Clifford Chance Pension Trustees Limited and signed on their behalf by:

**Robin T Tremaine (Trustee Director)**

Date: 30 November 2020

## THE CLIFFORD CHANCE PENSION SCHEME

### SCHEDULE OF CONTRIBUTIONS (JULY 2020)

1. ***Effective date of valuation: 30 April 2019.***
2. ***PERIOD COVERED BY THIS SCHEDULE: THE PERIOD BEGINNING WITH THE DATE OF THE CERTIFICATE OF THE SCHEME ACTUARY IN RELATION TO THIS SCHEDULE (WHICH IS ATTACHED TO THIS SCHEDULE) AND ENDING ON 31 MAY 2030.***
3. ***Employers covered by this Schedule:*** Clifford Chance London Limited ("CC London").
4. ***Rates of employer contributions:-***
  - 4.1 Final Salary Section deficit repair - CC London shall pay the following contributions in respect of deficit repair, in accordance with the Scheme's recovery plan:
    - a) £6,000,000 by 31 August 2020; PLUS
    - b) In respect of each 31 May commencing 31 May 2021 up to (and including) 31 May 2030: £22.0m

The amount of each of the above payments, other than that due at 31 August 2020, shall be increased annually in line with the increase in the Retail Prices Index (as defined in the Scheme rules) for the period from 1 January 2021 to 1 January immediately preceding the 31 May by which the payment is due.
  - 4.2 The employers shall in addition pay such further contributions (if any) as may be required from time to time in accordance with the provisions of the Scheme, including pursuant to Clause 24 of the Definitive Trust Deed of the Scheme (augmentation of benefits).
5. ***Dates for payment of employer contributions:-***
  - 5.1 The contributions under paragraph 4.1 b) above shall be payable and due for payment by each respective 31 May. Throughout the Scheme Year preceding each 31 May payment date under this Schedule CC London shall pay monthly contributions of at least £583,333 on account of the contributions due under paragraph 4.1 of this Schedule (such sum to be reduced by making appropriate allowance for the netting off arrangements referred to in paragraph 6 below, if applicable). The Scheme administrators will carry out a reconciliation of the total contributions due by each respective 31 May payment date against the payments made on account during the Scheme Year preceding 31 May payment date in order to determine the balancing payments to be made to the Scheme by CC London or the balancing prepayment credit for CC London. The contributions payable under 4.1a) are in addition to the payment due of £22.0m by 31 May 2021.
6. ***Netting-off against benefit payments*** - the total of the contributions payable to the Scheme by CC London by each respective 31 May shall, unless and until agreed otherwise by the Principal Employer and the Trustee, be reduced by an amount equal to the total of the

benefit payments made by (or on behalf of) CC London on an agency basis for and on behalf of the Trustee for the preceding twelve month period to each respective preceding 30 April. For example, the contribution due by 31 May 2021 shall be reduced by an amount equal to the total of the benefit payments made by (or on behalf of) CC London on an agency basis for and on behalf of the Trustee between 1 May 2020 and 30 April 2021. CC London confirms it will continue to pay all benefit payments due from the Trustee on its behalf.

7. ***Date of this Schedule*** - the date of this Schedule shall be the latest of the dates of signature under paragraph 8 below.
8. This Schedule has been agreed between CC London and the Trustee:-

**Signed: Robin T Tremaine (Trustee Director)**

**Date: 29 July 2020**

**Signed: Jane Kola (Director of Pensions Legacy Trustees Limited as Corporate Trustee of the Scheme)**

**Date: 29 July 2020**

**For and on behalf of Clifford Chance Pension Trustees Limited (as Trustee)**

**Signed: David Harkness (Director)**

**Date: 29 July 2020**

**For and on behalf of Clifford Chance London Limited**



## Notes to the Schedule

- (i) This Schedule supersedes the previous schedule of contributions for the Scheme (signed on 24 July 2017) with effect on and from the date of the certificate of the Scheme actuary in relation to this Schedule (which is attached to this Schedule).
- (ii) At the date of this Schedule, the "Scheme Year" for the Scheme is the period of 12 months beginning on 1 May in each year.
- (iii) Subject as provided in Clause 20 of the Definitive Trust Deed of the Scheme, the Principal Employer bears the administration and management costs and expenses (including PPF levy and other levies) of the Scheme (other than expenses connected with the investment of Scheme funds, which are provided for in the funding of the Scheme and paid from the Scheme funds) and the cost of life assurance premiums. The costs and expenses borne by the Principal Employer on behalf of or as agent for the Trustee are paid on an indemnity basis as they fall due for payment.
- (iv) The certificate of the Scheme actuary in relation to this Schedule is attached to and forms part of this Schedule.
- (v) This Schedule is subject to review at each triennial valuation of the Scheme and otherwise may be reviewed by agreement between the Scheme employers and the Trustee (in which case the revised schedule of contributions for the Scheme must again be certified by the Scheme actuary).
- (vi) Save as provided by legislation, nothing in this Schedule shall affect the employers' rights and obligations regarding the payment of contributions to the Scheme in accordance with the rules of the Scheme from time to time and for the avoidance of any doubt:-
  - (a) It shall not be a breach of the requirements of this Schedule for the employer to pay more contributions to the Scheme in respect of any period than are provided for in paragraph 4 of this Schedule.
  - (b) It shall not be a breach of the requirements of this Schedule for the employer to pay the contributions to the Scheme at an earlier date than as set out in this Schedule.

### **Certificate of schedule of contributions**

Clifford Chance Pension Scheme


### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 30 April 2019 to be met by the end of the period specified in the Recovery Plan dated 29 July 2020.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 29 July 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature: 	Date: 29 July 2020
Name: Keith Poulson	Qualification: Fellow of the Institute and Faculty of Actuaries
Address: Aon Solutions UK Limited Verulam Point, Station Way, St Albans, AL1 5HE	Name of employer: Aon Solutions UK Limited

# APPENDIX I - Implementation Statement for the Final Salary section, covering 1 May 2019 to 30 April 2020

The Trustee of the Clifford Chance Pension Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles (“SIP”) during the year, as well as details of any review of the SIP during the year, subsequent changes made with the reasons for the changes, and the date of the last review of the SIP. As at 30 April 2020 the Trustee maintained two separate SIPs for the Scheme covering the Final Salary and Money Purchase sections respectively. This Implementation Statement provides details in relation to the Final Salary section only. A separate Implementation Statement has been provided for the Money Purchase Section. Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-16 below.

Implementation Statements are also required to include a description of the voting behaviour during the year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 17 below.

**This Statement uses the same headings as the Scheme’s SIP for the Final Salary Section dated September 2019 and should be read in conjunction with the SIP.**

## 1. Introduction - Last review of the SIP

At the start of the Scheme year the Scheme maintained one SIP covering both the Final Salary and Money Purchase sections. This SIP was reviewed and updated in July 2019 to reflect:

- the appointment of LCP as the investment adviser for the Final Salary section of the Scheme (LCP were appointed as the investment adviser in January 2019);
- changes to the Long-Term Asset Allocation for the Final Salary Section, reflecting the Investment Strategy Review undertaken in January 2019. These included:
  - the introduction of a Liability Driven Investment (“LDI”) portfolio managed by BMO;
  - the introduction of an infrastructure allocation, to be managed by IFM and another fund manager (that was yet to be decided as at the SIP date); and
  - the removal of references to the investment in the Standard Life GARS Fund, which had previously been replaced with an investment in the Nordea Stable Return Fund;
- Updates to the composition of the Unitised Mixed Managed Fund for the Money Purchase section to exclude the new allocations to LDI and Infrastructure.

In September 2019 the SIP separated into two separate documents covering the Final Salary and Money Purchase sections. The Trustee agreed to separate the SIP as they had appointed two different advisors for each section. In addition to the removal of aspects relating to the Money Purchase section, the SIP for the Final Salary section was also updated to reflect:

- the Trustee’s updated policies on ESG, climate change and stewardship in line with the new regulations that came into effect on 1 October 2019;
- wording on how the Scheme will implement investments, address the requirements of the 2019 SIP regulations which implement the European Union Shareholder Rights Directive;
- the addition of JPMorgan as the Scheme’s second infrastructure manager; and
- the removal of the GAM Absolute Return Bond Plus Strategy following the receipt of the final proceeds from the liquidation of the fund.

As part of the SIP updates outlined above, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed the policies in the Scheme’s SIP during the year. The following Sections provide detail on and commentary about how and the extent to which it did this.

## **2. Objectives and Policy for Securing Objectives**

Progress against the Scheme's funding objective is reviewed as part of the monthly and quarterly performance monitoring. As at 30 April 2020, the Scheme was not on track to achieve full funding by the end of the Scheme's recovery plan (based on the 2019 valuation, ending 31 May 2030). The Scheme's funding position worsened following the agreement of the recovery plan as a result of falling real yields, which increased the value placed on the Scheme's liabilities. As at 30 April 2020, the Scheme required an additional two years of deficit contributions in order to reach full funding (ie to 31 May 2032).

## **3. Choosing Investments**

The Trustee, with the help of its investment adviser and in consultation with the sponsoring employer, reviewed the liability hedging strategy of the Scheme in May 2019 and concluded that the target hedge ratio should be increased from 35% to 50% of the Scheme's Technical Provisions liabilities. This was implemented in September 2019 in conjunction with the move from pooled LDI funds to a bespoke LDI and synthetic equity mandate with BMO. The bespoke LDI mandate is managed against a liability benchmark based on the cashflow profile of the Scheme.

The Trustee reviewed the Scheme's equity exposure in September 2019 and agreed to reduce the Scheme's bias towards the UK market from 60% of total equity exposure to 40%, to increase diversification in the portfolio. This was implemented through a full redemption from the Scheme's active UK equity mandate with Majedie. The proceeds were invested into the passive equity mandate with LGIM.

The liability hedging ratio was reviewed again in February 2020 and increased to 65%, broadly in line with the Scheme's funding level. In order to increase the level of liability hedging, the Trustee reduced its allocation to physical equities and increased the allocation to the synthetic equity mandate by the same amount, along with the increase to the bespoke LDI account.

The SIP was updated to reflect these changes after the Scheme year end.

When the Trustee reviewed elements of the investment strategy over the year to 30 April 2020, it considered the investment risks set out in section 7 of the SIP dated September 2019. It also considered a wide range of asset classes for investment, taking into account the expected returns and risks associated with those asset classes as well as how these risks can be mitigated.

It is the Trustee's policy to only invest in derivatives for the reduction of investment risks or for efficient portfolio management. The bespoke fund makes extensive use of derivatives to provide liability hedging and synthetic equity exposure. The liability hedging provided by the mandate provides a significant reduction in the level of interest rate and inflation risk for the Scheme. The synthetic equity allows the Trustee to gain equity exposure in an efficient manner whilst allowing the Trustee to increase liability hedging to reduce risk. The Trustee believes that increases to the allocation to the bespoke fund over the period are consistent with this policy.

Counterparty risk within the bespoke fund is managed by BMO and reported to the Trustee on a quarterly basis.

## **4. The Balance between Different Kinds of Investments**

This is covered in Section 3 above.

## **5. Implementation of the investment arrangements**

The Trustee formalised its views on the implementation of investment arrangements and updated its policies in the SIP accordingly in September 2019.

The Trustee appointed IFM Investors and JPMorgan in July 2019 to manage infrastructure mandates on behalf of the Scheme. The Trustee agreed to maintain BMO as their LDI and synthetic equity manager in September 2019 when switching from pooled LDI and synthetic equity funds to a bespoke mandate, but considered other managers for the appointment to ensure the most suitable manager was selected.

Before appointing the managers, the Trustee received information on the investment process and philosophy, the investment team and past performance. The Trustee obtained formal written advice from its investment adviser, LCP, before investing in the funds and made sure the investment portfolio of the funds chosen were suitably diversified.

The Scheme's investment adviser, LCP, monitors the investment managers on an ongoing basis, through regular research meetings. LCP monitors any developments with managers and informs the

Trustee promptly about any significant updates or events they become aware of with regard to the Scheme's investment managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Scheme invests in, or any material change in the level of diversification in the funds.

The Trustee monitors the performance of the Scheme's investment managers on a monthly and quarterly basis, using regular performance monitoring reports. The quarterly report shows the performance of each manager over the quarter, 1 year and 3 years. Performance is considered in the context of the manager's benchmark and objectives.

Following a period of long-term underperformance and as a result of concerns over high active management fees, the Trustee made the decision to make a full redemption from the Majedie UK Equity Fund in October 2019. The Trustee invested the redemption proceeds in the Scheme's existing passive equity mandate with LGIM.

In January 2020 LCP informed the Trustee of a change in their view on the M&G UK Property Fund as a result of factors including poor performance and concerns over the asset allocation of the portfolio. The Trustee submitted a full redemption request from the Fund in March 2020. Due to large volumes of redemption requests from the fund, M&G implemented a deferral of redemptions on the fund. As at 30 April 2020 the fund was still deferring redemptions and the Scheme had yet to receive its redemption proceeds.

During the year the Trustee continued to monitor the Scheme's investment managers' fees. The Trustee, with the help of its investment advisers, has obtained favourable terms on the fees with some of the Scheme's investment managers.

The Trustee agreed a discounted fee basis on the Scheme's holding in the JP Morgan Infrastructure Investments Fund which was agreed in July 2019. In addition, the Trustee negotiated a discount to the fees offered by BMO for the new investment in the bespoke LDI and synthetic equity mandate that was implemented in September 2019.

Overall the Trustee believes the investment managers provide reasonable value for money.

## **6. Investment Risk Measurement and Management**

Risks are monitored on an ongoing basis with the help of the Scheme's investment adviser.

The Trustee maintains a risk register and this is discussed regularly.

The Trustee's policy for some risks, given their nature, is to understand them and to address them if it becomes necessary, based upon the advice of the Scheme's investment advisers or information provided to the Trustee by the Scheme's investment managers. Key investment risks include credit risk, equity risk and currency risk.

The Scheme's interest and inflation hedging levels are monitored on an ongoing basis in the quarterly monitoring report. Over the period the Scheme's hedging levels were broadly in line with the target levels.

The Scheme accesses LDI via a bespoke fund managed by BMO. In order for the Scheme to manage collateral adequacy risk, the Trustee ensures that the leverage of the bespoke fund is well below the duration trigger in which BMO would ask for more capital. In the instance that BMO require cash to be posted for a deleverage event, the Scheme holds sufficient liquid assets in diversified growth, and physical equities to meet a capital call. The Scheme has also invested in synthetic equities within the BMO Bespoke Fund so that it is able to achieve its target return whilst investing in the LDI portfolio.

Together, the investment and non-investment risks set out in the SIP give rise generally to funding risk. The Trustee formally reviews the Scheme's funding position as part of its annual actuarial report to allow for changes in market conditions. On a triennial basis the Trustee reviews the funding position allowing for membership and other experience. The Trustee also informally monitors the funding position more regularly, on a monthly basis in monthly reports and also discusses the position at quarterly Trustee meetings.

The following risks are covered earlier in this Statement: counterparty risk in Section 3, diversification risk in Sections 3 and 5, investment manager risk and excessive charges in Section 5, risk of inadequate returns in Section 8, illiquidity/marketability risk in Section 9 and ESG risks in Section 10.

## **7. Custody**

There are no specific policies in this section of the Scheme's SIP.

## **8. Expected Returns on Assets**

When making changes to the Long-Term Asset Allocation Strategy over the year the Trustee considered the expected return on the proposed portfolios and whether they believed they were sufficient to meet the Scheme's funding objective.

For example, when increasing the liability hedging in February 2020, the Trustee also increased the synthetic equity exposure to ensure the expected return on the portfolio did not fall as a result of the change.

With regard to the risk of inadequate returns, the required return for the Scheme to be fully funded on a Technical Provisions basis by May 2028 (in line with the recovery plan) was assessed as gilts + 4.4% pa as at 30 April 2020. The best estimate expected return on the Scheme's strategic asset allocation was gilts + 4.0% pa. As mentioned in Section 2, due to a rise in the value of the Scheme's liabilities the Scheme, the Scheme would require deficit contributions to continue to May 2032 in order to reach full funding.

As mentioned in Section 5, the Trustee monitors the performance of the Scheme's managers against their performance targets on a monthly and quarterly basis.

## **9. Realisation of investments/Liquidity**

The Trustee's policy is to have access to sufficient liquid assets in order to meet any outflows while maintaining a portfolio which is appropriately diversified across a range of factors, including suitable exposure to both liquid and illiquid assets. The majority of the Scheme's assets had daily or weekly liquidity over the year under review.

Over the year to 30 April 2020 the majority of the Schemes cash outflows were met by regular employer contribution payments.

The Trustee receives income from the BlackRock UK Property Fund which is retained in the Trustee's bank account and used towards benefit payments.

## **10. Considerations of financially material and non-financial matters**

The Trustee considered its views on ESG and Stewardship in September 2019 and updated its policies on the considerations of financially material and non-financial matters and stewardship in the SIP.

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

In April 2020, the Trustee reviewed LCP's responsible investment (RI) scores for the Scheme's existing managers and funds, along with LCP's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 2020.

The Trustee was satisfied with the results of the review and no further action was taken.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of the Employer, members and beneficiaries) in the selection, retention and realisation of investments.

## **11. Stewardship**

This is covered in Section 7 above.

## **12. Effective decision making**

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. It also recognises that where it takes investment decisions, it must have sufficient expertise and appropriate training to be able to critically evaluate any advice it takes.

In October 2019 the Trustee received refresher training on LDI to improve their understanding on the asset class and why it is appropriate for the Scheme. This training subsequently fed into the decision to increase the Scheme's liability hedging in February 2020 and increase the allocation to the Bespoke Fund with BMO.



In April 2020 the Trustee received additional training on how leverage operates within the BMO bespoke LDI and synthetic equity fund, and under what circumstances BMO may call for additional collateral into the fund.

The performance of the professional advisers is considered on an ongoing basis by the Trustee. The Trustee has put in place formal objectives for its investment advisers and will review the adviser's performance against these objectives on a regular basis (the first review is due in late 2020).

### **13. Voluntary Contribution ("VC") Arrangements**

There are no specific policies in this section of the Scheme's SIP. The details of the VC arrangements are detailed in the SIP for the Money Purchase section.

### **14. Asset allocation (Section 1 of the Appendix to the SIP)**

The Trustee monitors the asset allocation for the Scheme quarterly and compares this to the Long-Term Asset Allocation Strategy outlined in section 1.1 of the Appendix.

Over the period under review, the Scheme remained underweight to infrastructure as it waited for the drawdown of its commitments to the IFM and JPMorgan infrastructure mandates respectively. IFM issued a capital call for the Scheme's full commitment to their fund in October 2019 which was funded from the Scheme's DGF mandate. As at 30 April 2020 JPMorgan had yet to issue a capital call notice for the Scheme's commitment to their fund which is due to be funded from the Scheme's overweight allocation to Absolute Return Bonds.

Over the year under review the Trustee agreed to make a full redemption from its active UK equity fund. The proceeds were invested in the Scheme's passive equity mandate with LGIM. The SIP was updated following the Scheme's year end to update their policy on their active/passive equity strategy.

### **15. Investment manager arrangements (Section 2 of the Appendix to the SIP)**

As mentioned in Section 5, the Trustee assesses the performance of the Scheme's investments on an ongoing basis as part of the quarterly monitoring reports it receives.

During the Scheme year the Scheme's administrator notified the Trustee of surplus cash in the Trustee Bank Account as a result of employer contributions and the final proceeds from the GAM Absolute Return Bond Plus Strategy liquidation.

The Trustee agreed to invest the surplus cash (outlined in Section 15.1 above) into the Scheme's DGF mandate to help rebalance the allocation back in line with the DB section's Long-Term Asset Allocation Strategy.

### **16. Fee structure for advisers and managers**

There are no specific policies in this section of the Scheme's SIP.

### **17. Description of voting behaviour during the year**

All of the Trustee's holdings in equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the year.

In this section we have included voting data on the Scheme's funds that hold equities as follows:

- LGIM World (ex UK) Equity Index Fund
- LGIM UK Equity Index Fund
- Majedie UK Equity Fund
- Invesco Global Targeted Return Fund
- Nordea Diversified Return Fund

We have not included information relating to the BMO Bespoke Fund as this fund gains equity exposure synthetically through the use of futures. BMO and the Trustee do not have any voting rights in relation to the equities that the futures reference.

In addition to the above, the Trustee contacted the Scheme's other asset managers that don't hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the period. These funds include:

- BlackRock UK Property Fund;

- M&G UK Pooled Pensions Property Fund;
- Schroders UK Real Estate Fund; and
- IFM Investors Global Infrastructure Investments Fund

Commentary provided from these managers is set out in Section 17.4.

## **17.1 Description of the voting processes**

### **17.1.1 Legal and General Investment Management (“LGIM”)**

LGIM's voting and engagement activities are driven by Environment, Social and Governance (ESG) professionals and its assessment of the requirements in these areas seeks to achieve the best outcome for all its clients. LGIM's voting policies are reviewed annually and take into account feedback from its clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of LGIM's Investment Stewardship team. The views expressed by attendees during this event form a key consideration as they continue to develop LGIM's voting and engagement policies and define strategic priorities in the years ahead. LGIM also takes into account client feedback received at regular meetings and/or ad-hoc comments or enquiries.

All voting decisions are made by LGIM's Investment Stewardship team and in accordance with its relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents, which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This helps ensure LGIM's stewardship approach is consistent throughout the engagement and voting process, and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

LGIM's Investment Stewardship team uses Institutional Shareholder Services' (“ISS”) ‘ProxyExchange’ electronic voting platform to electronically vote. All voting decisions are made by LGIM and it does not outsource any part of the strategic decisions. The use of ISS's recommendations is to augment LGIM's own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports received from ISS for UK companies when making specific voting decisions

To ensure LGIM's proxy provider votes in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers are minimum best practice standards that all companies globally should observe, irrespective of local regulation or practice.

LGIM retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows LGIM to apply a qualitative overlay to its voting judgement. LGIM has strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by the service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

#### **17.1.2 Majedie Asset Management Limited (“Majedie”)**

Majedie's customised voting policy is run in parallel with the recommendations of its chosen advisory, proxy voting and research provider, Institutional Shareholder Services (ISS). The majority of areas in which its policy differs from that of ISS are within the smaller company sector, where it is a leading UK participant, and relates to capital raising with pre-emptive shareholder rights and the composition of boards; these issues are by their nature often associated with smaller companies.

One area where research does show a strong relationship between good governance and good share price performance is for smaller companies. Inalytics and PIRC1 show that governance is a much greater determinant of corporate success or failure for smaller companies than larger ones which tend to survive governance missteps. This is unsurprising – smaller companies tend not to have the resources or the experienced boards of large ones.



Majedie recognises that smaller companies may need more flexibility, but it actively supports smaller companies towards improving governance over time. For all stakeholders, an improving ESG signature makes sense. It is worth noting that it regards a UK smaller company as one that is outside the FTSE 350.

It is not inconceivable that it will make exceptions and vote against its own policy: as with all of Majedie's voting, it proceeds on a case by case basis.

Majedie will also consider the Investment Association's Principles of Remuneration for 2019 when reviewing remuneration proposals; it takes a comply or explain approach, so it looks to companies to explain why they deviate from the Principles and it explains if it is minded to support a change which is similarly not consistent.

Majedie reviews its policy annually to ensure it is consistent with current best practice.

### 17.1.3 Nordea Investment Management Limited ("Nordea")

Nordea strives to vote for all funds. This includes both internally and externally managed funds. Nordea votes in about 400 companies (which typically represents around 60% of equity AUM) and it is striving to extend its coverage outside Europe.

Proxy voting is supported by two external vendors (ISS & Nordic Investor Services) to facilitate the voting and provide analytic input, but the final analysis and decision always remains with Nordea Funds.

Nordea's publicly available Voting Portal shows how it has voted in AGMs for stocks held across its funds.

Where all funds managed by Nordea are concerned, corporate governance shall be exercised on the basis of the shareholders' common interest in good returns. The Management Company generally consider that exercising sound corporate governance is crucial to creating value in the companies. As a significant owner in several listed companies, Nordea's funds play a key role in promoting the companies' progress towards better results by being an active owner. This is achieved by participation in nomination committees, participation in shareholders' meetings and through regular dialogue with the companies concerning key ownership issues. Cooperation with other owners is an important part of the possibility of exerting influence where necessary. Nordea's funds are generally in favour of equal voting rights for all shares.

### 17.1.4 Invesco Asset Management Limited ("Invesco")

At Invesco, proxy voting is a part of the investment process. Invesco's investor-led, investor-driven proxy voting approach ensures that each meeting is voted in the firm's clients' best interests and each proposal, both management and shareholder, is considered in light of the risk and materiality to the portfolios.

Invesco's fund managers champion Invesco's high-conviction approach and this in turn reflects a purposeful approach to proxy voting. Investment teams maintain full discretion on voting of shares and may split vote under the firm's framework.

Invesco's proxy voting is driven by three guiding principles:

- Invesco votes for proposals that maximize long-term shareholder value.
- Invesco believes in corporate accountability and supports governance structures that rein-force management's accountability to its board of directors and a board of directors' accountability to its shareholders.
- In addition to the performance-driven considerations noted above, Invesco also believes that ESG proposals can influence long-term shareholder value and should be voted in a manner where such value is maximized.

## 17.2 Summary of voting behaviour over the year

A summary of voting behaviour over the period is provided in the table below. Note that numbers may not sum exactly due to rounding.

Manager name	LGIM	LGIM	Majedie	Invesco	Nordea
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<b>Fund name</b>	World (ex UK) Equity Index Fund	UK Equity Index Fund	UK Equity Fund	Global Targeted Return Fund	Diversified Return Fund
<b>Total size of fund at end of reporting period (£bn)</b>	6.0	21.9	2.6	8.5	2.5
<b>Value of trustee's assets at end of period (£m)<sup>1</sup></b>	79.8	6.0	- <sup>2</sup>	27.4	72.0
<b>Number of holdings at end of period</b>	2,627	683	140	288	268
<b>Number of meetings eligible to vote</b>	2,074	789	119	316	158
<b>Number of resolutions eligible to vote</b>	24,967	11,314	1,911	4,732	1,765
<b>% of resolutions voted</b>	98.6%	99.8%	100.0%	97.0%	44.0%
<b>Of the resolutions on which voted, % voted with management</b>	81.1%	93.6%	94.1%	94.0%	89.0%
<b>Of the resolutions on which voted, % voted against management</b>	18.8%	6.4%	5.3%	6.0%	10.0%
<b>Of the resolutions on which voted, % abstained from voting</b>	0.1%	0.0%	0.6%	0.0%	1.0%
<b>Of the resolutions voted on, % with at least one vote against management</b>	75.0%	69.6%	54.6%	30.0%	27.0%
<b>Of the resolutions voted on, % voted contrary to recommendation of proxy advisor</b>	12.3%	5.2%	4.2%	5.0%	12.0%

<sup>1</sup> The value of the trustee's assets is inclusive of Final Salary and Money Purchase amounts.

<sup>2</sup> The Majedie UK Equity Fund was fully disinvested from in October 2019.

### 17.3 Most significant votes over the year

Commentary on the most significant votes over the period is set out below. The Trustee requested details of significant votes made by the managers on behalf of the Scheme over the year, including votes that were deemed to have a potential impact on the financial outcomes or stewardship, were high-profile or considered controversial, posed a conflict of interest for the manager or were in respect of a large holding in the manager's portfolio.

In this Section we have provided a sub-set of these significant votes from each manager with a focus on those votes relating to financial performance as well as ESG and Stewardship, given the new policies implemented by the Scheme over the year.

### 17.3.1 LGIM – World (ex UK) Equity Index Fund

#### **EssilorLuxottica, France, May 2019:**

In 2018, French lenses producer Essilor merged with Italian frame manufacturer Luxottica. Upon conclusion of the merger, the executive chair of Luxottica's holding company (Delfin) owned 32.7% of the merged company's share capital. Under the terms of the merger agreement, the aforementioned executive chairman and Essilor's executive vice-chairman were both given equal powers. A board was also established, with membership split equally between Essilor and Delfin.

In March 2019 an internal disagreement between the two heads of the merged entity occurred. Two of the company's shareholders – Comgest and Valoptec – put forward three board nominees in a bid to break the impasse.

LGIM contacted EssilorLuxottica to discuss the issue, but received no reply. They engaged extensively with Comgest, Valoptec and the board nominees. LGIM publicly announced their support for the board nominees ahead of the AGM to ensure the current board knew their intentions and to raise awareness to the other shareholders.

#### **Bayer AG, Germany, April 2019:**

Following its acquisition of agribusiness Monsanto, Bayer was asked to pay millions in damages in several court cases where plaintiffs claimed that Monsanto's glyphosate-based weed killer RoundUp was linked to causing cancer. The damages were reduced upon appeal, and Bayer was adamant that RoundUp was not carcinogenic.

LGIM is concerned that the Bayer supervisory and management boards had not fully considered the significant risks related to glyphosate litigation in the US. Although at the time of the merger agreement in 2016 there were only about a hundred such lawsuits, by the end of 2019, the number grew to over 40,000. From the finalisation of the acquisition in May 2018 until July 2019 Bayer's share price fell by approximately 45%.

LGIM spoke to Bayer ahead of its 2019 AGM to gain a better understanding of the decision-making process in relation to the Monsanto acquisition and the legal advice it received for litigation risk. LGIM recommended establishing advisory and M&A committees, staffed by members appointed with specific expertise; appointing non-executive directors with specific expertise; and appointing new executives. In addition, LGIM suggested that these incidents should have a bearing on remuneration awarded for the year. Bayer subsequently established a glyphosate litigation committee to monitor litigation and consult with the board.

### 17.3.2 LGIM – UK Equity Index Fund

#### **BP Plc, UK, May 2019:**

LGIM and other major shareholders put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change. LGIM worked with the board of BP to secure its support for the motion.

At BP's annual general meeting, the proposal was passed with overwhelming 99.1% approval from shareholders. LGIM has since met BP repeatedly – including its chair and incoming CEO – to advise on implementing the resolution. BP has announced industry-leading targets: net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells.

LGIM continues to engage with the company and monitor progress.

#### **FirstGroup, UK, June 2019:**

Following a profit warning in February 2018, the chief executive of FirstGroup stepped down. On 25 June 2019, shareholder activist Coast Capital convened a shareholder meeting to appoint seven directors to the board of the company and remove six company directors including the board chair and the chief executive.

Coast Capital made strategy proposals such as: the company exits its rail business; separate the company's US and UK assets; and the immediate payment of a dividend.

LGIM engaged directly with both sides: the company's Senior Independent Director (SID) and the activist. LGIM also consulted other top shareholders on their views. LGIM decided to

cast a vote against the board chair to signal its concerns around the pace of execution of the strategy and poor performance. LGIM supported the rest of the board and opposed the activist's nominees.

Many of the company's top shareholders publicly preannounced their support to the activist's proposals. More than 20% of shareholders voted in favour of several resolutions against the board's recommendations. The activist's proposal to remove the chair from the board obtained 29% of support from shareholders.

LGIM subsequently met the new board chair to discuss the composition of the board, but also the performance of the management team and execution of the strategy.

### 17.3.3 Majedie – UK Equity Fund

#### **BP Plc, UK, May 2019:**

Majedie voted in favour of the Climate Action 100+ shareholder resolution on climate change disclosures, which called for BP to describe how its strategy was consistent with the goals of the Paris Agreement. This proposal was also supported by the BP Board.

In contrast, Majedie voted against approval of a shareholder resolution tabled by the group 'Follow This', in connection to climate change targets. Majedie felt the proposal was prescriptive in nature, that it would impact the company's flexibility in this area and was unnecessary, given that BP was responding to the issues raised in its support of the Climate Action 100+ shareholder resolution, which was deemed to be less prescriptive.

#### **Ryanair, UK, September 2019:**

Majedie voted against Ryanair's Remuneration Report and Remuneration Committee Chair, as it disagreed with the size of the award that the CEO could receive in the context of targets that it did not feel was particularly stretching. Earlier in the year, Majedie had written to the company expressing its concern that the potential pay-out to the CEO was disproportionate given the level of improvement for which he may have been rewarded. Majedie's vote against was a consequence of its unheeded engagement.

### 17.3.4 Invesco – Global Targeted Return Fund

#### **Allied Minds Plc, UK, November 2019:**

Invesco voted to approve disposal by the Company of its entire shareholding in the share capital of HawkEye 360 as the proposal was in line with the company's strategy.

#### **Royal Bank of Scotland Group Plc, UK, April 2020:**

Invesco voted to authorise issue of equity in connection with equity convertible notes as it identified no concerns regarding the Company's capital allocation policy.

### 17.3.5 Nordea – Diversified Return Fund

#### **Starbucks, USA, March 2020:**

Nordea voted against management on the re-election of Jorgen Vig Knudstorp as Director.

Nordea has been engaged with the company for several years. Since Starbucks' new sustainability goals do not include any human rights related issues it voted against re-election of Mr. Knudstorp as Director since he is Chair for the Nominating and Corporate Governance Committee, responsible for sustainability.

#### **Comcast, USA, June 2019:**

Nordea voted for a proposal so that there was a requirement for an Independent Board Chairman (shareholder proposal).

Nordea's opinion is that it is in the best interest of shareholders to separate the Chief Executive Officer ("CEO") and Chairman of the Board functions to reduce conflicts of interest. Nordea therefore supported the shareholder proposal as well as voted against appointing Brian L Roberts (the current CEO of Comcast) as Chairman of the Board.

## 17.4 Votes in relation to assets other than listed equity

The following comments were provided by the Scheme's asset managers who don't hold listed equities, but invest in assets that had voting opportunities during the period.

#### **17.4.1 BlackRock UK Property Fund, M&G UK Pooled Pensions Property Fund and Schroders UK Real Estate Fund**

Whilst proxy voting is not applicable to the real estate class, the Scheme's property funds may vote as a unitholder in relation to holdings in indirect property unit trusts or joint ventures.

BlackRock, Schroders and M&G have confirmed that no such activity was undertaken during the reporting period with respect to their funds.

#### **17.4.2 IFM Investors ("IFM") – IFM Global Infrastructure Investments Fund**

IFM have confirmed that due to the nature of the underlying assets no voting activity was undertaken during the reporting period with respect to their funds. The below commentary outlines how IFM engages with the portfolio assets within their fund to ensure good governance structures are in place.

IFM has an active ownership style and seeks to make investments with an equity stake sufficient to ensure control or, at least, to secure meaningful oversight of each infrastructure asset. IFM seeks board representation and will only invest in an asset that has governance structures that ensure it has sufficient protections and rights in place. Through shareholder agreements, IFM negotiates pre-emptive rights and 'drag-and-tag' provisions. This is complemented by the hands-on asset management of its experienced investment professionals.

With more than 60 board seats on portfolio companies across its two infrastructure equity funds, it has full visibility of its assets and actively manage each asset to improve performance. Board and sub-committee representation allow IFM to drive the business actively. It evaluates and can influence, among other things, the business strategy, potential acquisitions and divestments, the capital structure, risk management frameworks, and capital expenditure. IFM also plays a role in the selection and compensation of company executives.

IFM takes minority holdings only where it can negotiate robust shareholder protections, such as the right to appoint a director, negative control protections, the ability to participate in board sub-committees, and/or, for strategic reasons, the opportunity to build equity stakes over time. In short, IFM assesses each potential asset individually and will only invest where there are governance structures in place to allow it to manage the asset effectively, and where it believes there are sufficient protections and rights in place. IFM recognises that there are also situations where it may be advantageous to have co-investors; for example, if it needs additional equity to complete a transaction or if a strategic partner can provide a competitive advantage, e.g. through superior operational or regulatory knowledge.

When an asset is acquired for its funds, IFM aims to enhance the responsible investment performance of the investee company in a manner that is consistent with its investment objectives and fiduciary duties. We encourage responsible corporate behaviour through engagement and voting, incorporate responsible investment principles into decision making, and seek to protect and enhance the value of its investments in the long-term.

## *APPENDIX II - Implementation Statement for the Money Purchase section, covering 1 May 2019 to 30 April 2020*

The Trustee of the Clifford Chance Pension Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles (“SIP”) during the year, as well as details of any review of the SIP during the year, subsequent changes made with the reasons for the changes, and the date of the last review of the SIP.

As at 30 April 2020 the Trustee maintained two separate SIPs for the Scheme covering the Final Salary and Money Purchase sections respectively. This Implementation Statement provides details in relation to the Money Purchase section only. A separate Implementation Statement has been provided for the Final Salary section.

Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP over the year in Sections 2-12 below.

Implementation Statements are also required to include a description of the voting behaviour during the year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided, as far as the Trustee has been able to obtain information from the underlying managers, in Section 13 below.

Please note that:

- This Statement uses the same headings as the Scheme’s Money Purchase section SIP dated November 2019 and should be read in conjunction with that SIP.
- This Statement relates to the Money Purchase section of the Scheme, which for this purpose, means all defined contribution assets held in the Scheme. This includes the assets held in the Money Purchase section of the Scheme and also the assets held in the Scheme’s Voluntary Contribution Arrangements, all of which are covered by the Scheme’s Money Purchase section SIP.

### **1. Last review of the SIP**

At the start of the Scheme year, the Scheme maintained one SIP covering both the Final Salary and Money Purchase sections. This SIP was reviewed and updated in July 2019. Please refer to the Implementation Statement for the Final Salary section of the Scheme for further details of this review.

In September 2019, the SIP was separated into two separate documents covering the Final Salary and Money Purchase sections. The Trustee agreed to separate the SIP as they had appointed two different advisors for each section. In addition to the removal of aspects relating to the Final Salary section, the SIP for the Money Purchase section was also updated to reflect:

- The Trustee’s updated policies on Environmental, Social and Governance (ESG) factors, climate change and stewardship in line with the new regulations that came into effect on 1 October 2019;
- The requirements of the 2019 SIP regulations which implement the European Union Shareholder Rights Directive and describe how the Scheme will implement investments; and
- The removal of the GAM Absolute Return Bond Plus Strategy following the receipt of the final proceeds from the liquidation of the fund.

A further update was made to the Money Purchase section SIP in November 2019 to reflect:

- The removal of Majedie as an investment manager for the Scheme; and
- An update to the Appendix, to set out the strategic asset allocation for the Unitised Mixed Managed Fund, rather than simply referring to the Final Salary section assets (with certain exclusions) as was previously the case.

As part of the SIP updates outlined above, the employer was consulted and confirmed it was comfortable with the changes.



The Trustee has, in its opinion, followed the policies in the Scheme's SIP during the year. The following sections provide detail on and commentary about how and the extent to which it did this, in relation to the Money Purchase section of the Scheme.

## **2. Objectives and Policy for Securing Objectives**

The Trustee's primary objectives for setting the investment strategy of the Money Purchase section of the Scheme are:

- 'asset choice' to ensure members have an appropriate choice of assets for investment.
- 'return objective' to enable members to benefit from investment in 'growth assets' until they approach retirement, when they will be able to switch to 'matching' assets which are more related to the purchasing cost of their income and cash at retirement.

The Trustee provided a range of investment options for members to invest their Money Purchase savings throughout the Scheme year. The fund range provides access to equity, multi-asset (including with profits), pre-retirement and cash funds and therefore ensures members have an appropriate choice of assets for investment, though members may need to switch between arrangements to access lower risk funds.

## **3. Choosing Investments**

The Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk including the risk that ESG factors including climate change negatively impact the value of investments held if not understood and evaluated properly.

With the exception of the Infrastructure (managed by IFM Investors) and LDI (managed by BMO) funds, the Unitised Mixed Managed Fund invested in the same funds as the Final Salary section of the Scheme over the year. Please therefore refer to the Final Salary section Implementation Statement for details of the actions taken by the Trustee to review the equity investments of the Final Salary section of the Scheme, and hence also the Unitised Mixed Managed Fund, over the year.

The Trustee, supported by its professional advisers, began a full market review of defined contribution providers, to establish whether it would be in members' best interests to establish a separate arrangement for the investment of the assets held in the Unitised Mixed Managed Fund. This review included consideration of which investments should be offered to members of the Money Purchase section and the ESG credentials of the prospective investment managers. The review was not concluded until after the Scheme year end and the relevant changes are currently in the process of being implemented. Further details will therefore be provided in next year's Implementation Statement.

At the start of the year, Equitable Life was one of the Scheme's existing defined contribution providers. Equitable Life's business and policies were transferred to Utmost Life and Pensions on 1 January 2020, with the Equitable Life With Profits Fund closing from this date. The Trustee took advice on the investments offered by Utmost Life and Pensions before the transfer took place.

## **4. The Balance between Different Kinds of Investments**

This is covered in sections 2 and 3 above.

## **5. Implementation of the investment arrangements**

The Trustee formalised its views on the implementation of investment arrangements and updated its policies in the SIP accordingly in September 2019.

As noted above, with the exception of certain funds, the Unitised Mixed Managed Fund invested in the same funds as the Final Salary Section of the Scheme over the year. Please therefore refer to the Final Salary section Implementation Statement for details of the performance monitoring undertaken over the year for the underlying funds in which the Unitised Mixed Managed Fund invests, along with comments on actions taken for underperforming funds and investment managers' fees.

In addition to the above monitoring, the Trustee also reviews the performance of the Unitised Mixed Managed Fund as a whole on a monthly basis, comparing this performance to Scheme and Industry benchmarks.

The Trustee reviews the performance of the Scheme's other unit-linked Money Purchase funds on an annual basis, comparing performance to suitable Industry benchmarks. The latest review was discussed at the November 2019 Trustee meeting, where it was agreed to inform members invested in unit-linked funds with Equitable Life about recent fund performance and their options.

As noted in section 3, the Trustee obtained formal written advice from its investment adviser, Aon, regarding the closure of the Equitable Life With Profits Fund, and the transfer of the Scheme's Equitable Life policies to Utmost Life and Pensions on 1 January 2020.

The Trustee collates details of the costs and charges borne by members invested in the Scheme's Money Purchase funds, as far as it is able to do so, and reports these in the annual 'Chair's Statement'. An assessment of whether members receive 'good value' for these costs and charges is also reported on in the Chair's Statement and the quality of the investments is one of the areas considered in this assessment. A copy of the Chair's Statement for the Scheme year ending 30 April 2020 can be found in the Trustee Report and Accounts.

## **6. Investment Risk Measurement and Management**

The Trustee recognises that members of the Money Purchase section of the Scheme take the investment risk. The Trustee takes account of this in the selection and monitoring of the investment managers and the choice of funds offered to members, which is covered in sections 2 and 3 above.

## **7. Custody**

There are no specific policies in this section of the Scheme's SIP.

## **8. Expected Returns on Assets**

As mentioned in Section 5, over the Scheme year the Trustee monitored the investment performance of the Scheme's unit-linked Money Purchase funds against suitable Industry benchmarks.

## **9. Realisation of investments/Liquidity**

For the Unitised Mixed Managed Fund, the majority of the underlying funds had daily or weekly liquidity over the year under review.

All other Money Purchase section funds are dealt daily and are realisable at short notice through the sale of units in pooled funds, though dis-investment of With Profits holdings at any time other than the policy maturity date (or in the event of death) may result in the application of a market value reduction.

## **10. Considerations of financially material and non-financial matters**

The Trustee considered its views on ESG and Stewardship in September 2019 and updated its policies on the considerations of financially material and non-financial matters and stewardship in the September 2019 SIP.

For the Unitised Mixed Managed Fund, please refer to the Final Salary section Implementation Statement for the actions the Trustee has taken in relation to the underlying funds in which the Unitised Mixed Managed Fund invests.

In regards to the Scheme's other Money Purchase funds, the Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) as the managers consider appropriate where relevant to financial performance.

The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of the Employer, members and beneficiaries) in the selection, retention and realisation of investments.

## **11. Stewardship**

The Trustee has delegated the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations to its investment managers.

The investment managers' voting behaviour during the year is set out in section 13 below.



## 12. Effective decision making

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. It also recognises that where it takes investment decisions, it must have sufficient expertise and appropriate training to be able to evaluate critically any advice it takes.

The Trustee received general training on defined contribution arrangements and investments in November 2019. At the November 2019 and March 2020 Trustee meetings, the Trustee received discussion and advice papers in relation to the current operation of the Unitised Mixed Managed Fund and potential alternative options. This information all fed into the Trustee's decision to begin a full market review of defined contribution providers, to establish whether it would be in members' best interests to establish a separate arrangement for the investment of the assets held in the Unitised Mixed Managed Fund. As noted in section 3, this review was still ongoing at the Scheme year end.

The Trustee has put in place formal objectives for its investment advisers and will review the adviser's performance against these objectives on an annual basis (the first review is due in late 2020).

## 13. Description of voting behaviour during the year

As already noted, with the exception of the Infrastructure and LDI funds, the Unitised Mixed Managed Fund invested in the same funds as the Final Salary Section of the Scheme over the year. Please therefore refer to the Final Salary section Implementation Statement for details of the voting behaviour over the year by the investment managers of the underlying funds (which held assets with voting opportunities) in which the Unitised Mixed Managed Fund invested.

The Scheme's Money Purchase funds that are not also held by the Final Salary section of the Scheme are provided by Aviva, Clerical Medical, Scottish Widows and Utmost Life and Pensions (Equitable Life until 1 January 2020). The Trustee has taken a proportionate approach to the disclosures on these arrangements as the assets under management are small, relative to the assets held in the Unitised Mixed Managed Fund and the Final Salary section of the Scheme, and these arrangements have been closed to new contributions for some time.

For some funds, the provider does not disclose the underlying managers. Furthermore, the assets are invested in a large number of underlying funds and the Trustee has decided not to obtain specific fund level information on voting behaviour for this reporting period. For this Implementation Statement, the Trustee has provided an overview of voting behaviour at manager level.

The Trustee is content that the managers appear to be exercising their respective voting and engagement duties, where applicable, to a satisfactory level at this stage, and that the Trustee's stewardship policy is being appropriately implemented on its behalf.

### With Profits Funds

The underlying manager of the Equitable Life With Profits Fund was BlackRock Investment Management (UK) Limited, until the fund closed on 1 January 2020.

At a manager level, BlackRock engaged with 61% of the value of its clients' equity assets. An example of engagement carried out by BlackRock is with regards to a UK self-storage company. Following votes against management on executive pay dating back to 2017 and BlackRock's multi-year engagement with the company, the company announced it would make changes to its compensation practices. These changes were reflected in the management's updated compensation policy and long-term incentive plan, which BlackRock supported; both received nearly 98% shareholder support.

BlackRock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. BlackRock's voting decisions are informed by internally-developed proxy voting guidelines, their pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Clerical Medical and Scottish Widows do not disclose the underlying managers of their With Profits Fund assets, and they have not provided information about voting behaviour with respect to these funds.

#### Unit-linked Funds

We have set out the underlying managers for the unit-linked funds in the table below:

<b>Provider</b>	<b>Underlying fund manager(s)</b>
Aviva	Aviva Investors
Clerical Medical	Aberdeen Standard Investments ('ASI') until 29 February 2020 <sup>1</sup> and HBOS Investment Fund Managers Limited
Scottish Widows	ASI until 29 February 2020 <sup>1</sup>
Equitable Life / Utmost Life and Pensions	ASI and (for new funds available from 1 January 2020) J.P. Morgan Asset Management ('JPMAM').

Over the year to 30 April 2020, the majority of unit-linked funds were managed by ASI, JPMAM and Aviva Investors.

#### *ASI:*

ASI make use of the ISS for proxy voting research and voting recommendations. This is alongside ASI's own analysis from AGMs and other shareholder meetings. ASI seek to discuss any vote against a resolution with the company before, explaining the reasons for doing so. More detail on ASI specific votes can be found here: <https://www.aberdeenstandard.com/en/ireland/responsible-investing/proxy-voting>

ASI state that they seek to generate the best long-term outcomes for clients and will actively take steps as stewards and owners to protect and enhance the value of their clients' assets. ASI generally meet representatives of investee companies at least once a year, while also routinely engaging on voting issues. If necessary, ASI will escalate an issue to ensure their views are represented by those with appropriate seniority and experience.

#### *JPMAM:*

JPMAM retains the services of the ISS voting agency to implement its voting policy, and uses research from ISS and Glass Lewis as an input in evaluating how a proxy should be voted. JPMAM 'tag' certain votes in the ISS system, to allow them to be subject to extra scrutiny. For example, if engagement is ongoing, or if the company has been flagged as an 'ESG outlier', or if an analyst or portfolio manager has requested it be reviewed in more detail.

JPMAM votes at approximately 8,000 shareholder meetings per year, in over 80 markets worldwide. For key issues or core shareholdings, or where there is ongoing engagement, they endeavour to inform companies when opposing the company's recommendations.

In their engagement with the companies they invest in, JPMAM have five main investment stewardship priorities that they believe are most applicable: governance, strategy alignment with the long-term, human capital management, stakeholder engagement and climate risk. Please see the link here for more information on Investment Stewardship at JPMAM. <https://am.jpmorgan.com/blob-gim/1383664293468/83456/J.P.%20Morgan%20Asset%20Management%20investment%20stewardship%20statement.pdf>

#### *Aviva Investors:*

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<sup>1</sup> Lloyds Banking Group (the parent company for Clerical Medical and Scottish Widows) replaced ASI with Schroders as the underlying manager of the majority of its actively managed funds.

Aviva Investors (Aviva Investors Global Services Limited 'AIGSL') has a Corporate Governance and Corporate Responsibility Voting Policy which set out how it exercises its responsibilities. The Voting Policy is an integral part of its approach to responsible investment, in particular to its stewardship responsibilities. The Voting Policy covers all funds managed in the UK. In making voting decisions, AIGSL use governance and other research from a number of sources. They use research for data analysis only and do not automatically follow any external voting recommendations. They believe that subscribing to a wide range of research gives a better and more objective overview of the governance arrangements at companies and enables them to check their own assessments.

AIGSL exercises its voting rights for the large majority of its holdings globally. This typically equates to over 4,000 shareholder meetings each year. Over the 12-month period to 31 December 2019, they voted at 92.4% of votable meetings and at 68.5% of those meetings, there was at least 1 vote withheld, abstained or against management recommendations.