Actuarial Valuation Report at 31 December 2019

Lazard London Staff Pension Scheme

21 April 2021

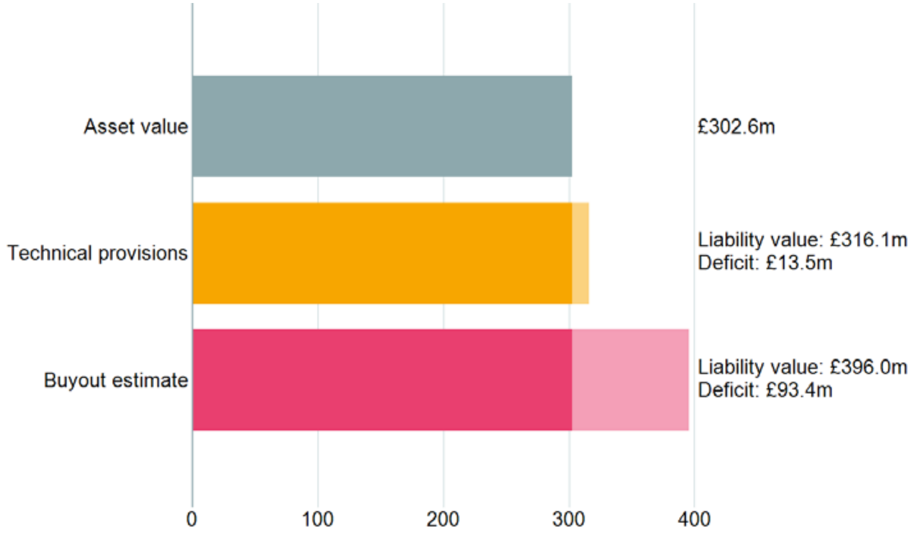
As instructed, I have carried out an actuarial valuation of the Lazard London Staff Pension Scheme ("Scheme") as at 31 December 2019. I now present my report which is addressed to the Trustees of the Scheme.

The main purpose of the report, required by the Pensions Act 2004, is to set out the results of and outcomes from the valuation. Scheme members will receive a Summary Funding Statement relating to the valuation in due course.

The Trustees are responsible for the choice of assumptions for the valuation, and for then setting an appropriate level of future contributions, with the agreement of Lazard & Co., Services Limited and Lazard Asset Management Limited ("the Employers"), the company who sponsors the Scheme.

The main results are summarised here, with further detail in the following sections, appendices and the attached Statement of Funding Principles, Recovery Plan and Schedule of Contributions.

Jeremy Dell FIA
Partner
Appointed Scheme Actuary
+44 (0)20 7432 6744
Jeremy.Dell@lcp.uk.com



Summary of agreed contributions	
Additional contributions to clear the technical provisions deficit	10 annual payments of £0.4m, payable by 31 March each year. The first payment must be paid by 31 March 2021 and the final payment must be made by 31 March 2030.
Other contributions	Each year the Trustees and the Employers will agree an amount to be paid by the Employers towards the expenses of running the Scheme and will also meet the PPF levy.

Contents

Appendix

Key documents

Professional standards

This report is part of the work in connection with the valuation of the Scheme. The report has been produced for the information of interested readers and not with the intention that it should support any decision that they may make. Our work in preparing this report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work , together with Technical Actuarial Standard 300: Pensions.

The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with the Trustees of the Lazard London Staff Pension Scheme ("Our Client").

This work is only appropriate for the purposes described and should not be used for anything else. It is subject to any stated limitations (eg regarding accuracy or completeness). Unless otherwise stated, it is confidential and is for your sole use. You may not provide this work, in whole or in part, to anyone else without first obtaining our permission in writing, although we acknowledge that you are required to pass it to the employer sponsoring the Scheme. We accept no liability to anyone who is not Our Client.

If the purpose of this work is to assist you in supplying information to someone else and you acknowledge our assistance in your communication to that person, please make it clear that we accept no liability towards them.

About Lane Clark & Peacock LLP

The 2005 Funding Agreement

The Trustees' ultimate funding objective is to be able to buy out the Scheme's liabilities with an insurance company.

The Funding Agreement, signed on 30 August 2005 between the Trustees and the Employers refers to this and two interim objectives. It specifies funding targets that the Scheme should be fully funded:

- On the basis of the accounting standard FRS17 by 31 May 2010;
- on the basis of valuing the liabilities by reference to gilt yields by 31 May 2020 (the "2020 Gilts Basis" objective); and
- on a buyout basis by 31 May 2030 (the "2030 Buyout Basis" objective).

The first of these targets was successfully achieved prior to 31 May 2010.

As part of the discussions with the Employers, regarding the 2013 valuation, the Trustees agreed to waive the 2020 Gilts Basis objective which requires the Scheme to be fully funded on a gilts basis by 1 June 2020, in return for additional security. This additional security agreed at the time was in the form of an uncapped guarantee from Lazard Group LLC conditional on the Trustees continuing to follow an investment strategy agreed with the Employers, as well as significant upfront cash contributions from the Employers. The agreement to waive the 2020 Gilts Basis objective was documented in the amendment dated 31 March 2015.

The Trustees and Employers are also required by the Funding Agreement to agree from time to time how to meet the 2030 Buyout Basis objective.

It has been agreed that the technical provisions will be based on the cost of providing benefits on an ongoing basis until 2030 with the remaining benefits being assumed to be bought out with an insurer in 2030. For practical reasons it has been agreed that a proxy to the cost of buying out the Scheme benefits in 2030 will be used, as described in the next Section. The proxy described will be reviewed and agreed between the Trustees and Employers as part of each future valuation.

Adopting a technical provisions measure as described above ensures that for future valuations, the deficit contributions under any resultant recovery plan will be set at a level that seeks to explicitly target the 2030 Buyout Basis objective.

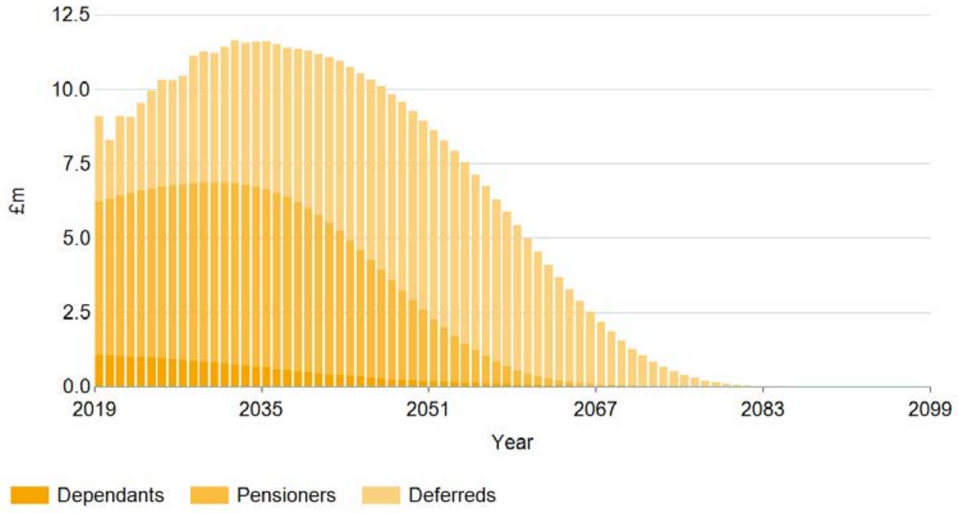
The Trustees consider that the measures agreed with the Employers in respect of the statutory funding objective are sufficient to meet the Trustees' obligations with regard to the 2030 Buyout Basis objective for the purposes of this valuation. The Trustees and Employers will consider whether this remains the case as part of future valuations, and will review the statement of funding principles if required to ensure that the 2030 Buyout Basis objective continues to be on track.

Funding objective and method

Principles in setting objective and method

- The Scheme's statutory funding objective is to hold sufficient and appropriate assets to cover its technical provisions.
- The Trustees took advice from me to determine the method and assumptions to use for this valuation with the agreement of the Employer.
- The valuation adopted the "projected unit method", under which the technical provisions are calculated as the amount of assets required as at the valuation date to meet the projected benefit cash flows, based on benefits accrued to the valuation date and the various assumptions made.
- Consistent with the 2013 and 2016 valuations, the Trustees and the Employers have agreed that for the 2019 valuation the technical provisions will be based on the cost of providing benefits on an ongoing basis until 2030 with the remaining benefits being assumed to be bought out with an insurer in 2030. For practical reasons it has been agreed that a proxy to the cost of buying out the Scheme benefits in 2030 will be used. This proxy is equal to the value of the remaining scheme benefit payments discounted at a gilt rate plus an addition of £7m in 2030. This compares to an addition of £12m in 2030 used in the 2016 valuation.
- After considering the strength of the Employer's covenant, the Trustees have set assumptions as set out in the Scheme's Statement of Funding Principles, which is attached. In particular the Trustees took account of the Employer's likely ability to pay additional contributions in the future if future experience proves to be less favourable than projected under the assumptions. They also took into account the additional support provided by the parent company guarantees provided by other entities in the Lazard group, including that provided by Lazard Group LLC.
- See below for details of the assumptions chosen.

Projected benefit cash flows as at the valuation date



- There is a risk that the assumptions are not borne out in practice and that the future progression of the funding position is materially different from that expected. Further details on the risks the Scheme faces are set out in the Appendix.

Assumptions

Key financial assumptions

- The investment model is an important financial assumption, the Trustees have:
    - Chosen an investment model that assumes that over the period to 31 May 2020 the Scheme will invest 42.5% in growth assets, which will fall to 32.5% from 1 June 2020 and remain constant until 31 May 2030. The Scheme's actual strategy is to invest 42.5% of the assets in growth assets, and whilst it is anticipated that some de-risking will take place on the journey to 2030, no formal commitment to the quantum and pace of such de-risking has yet been agreed with the Company.
    - Taken advance credit for returns on the portfolio that are 1.4% pa over the return from gilts (net of investment management expenses), until 31 May 2020;
    - Taken advance credit for returns on the portfolio that are 1.1% pa over the return from gilts (net of investment management expenses), from 1 June 2020 to 31 May 2030.
- Further detail of the investment assumptions as well as all other assumptions is provided in the Statement of Funding Principles attached to this report.

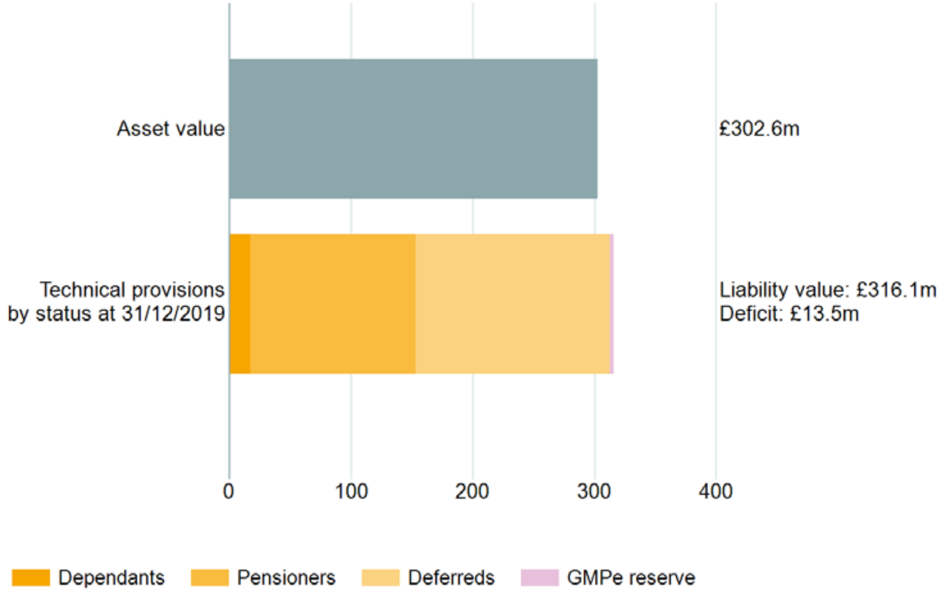
Key assumptions differences compared with the previous valuation

- The assumed return from gilts has reduced from 1.7% pa to 1.2% pa as a result of the fall in yields on fixed interest gilts, and the assumed rate of RPI inflation has reduced from 3.5% pa to 3.2% pa reflecting lower market expectations of RPI inflation.
- The mortality assumption has been updated to the most recently available mortality tables (the "S3" base tables with a Scheme specific adjustment of 95% for men and women) and future projections (the "CMI 2018" future projection tables with a smoothing factor of S=7, an initial improvements parameter of A=0.5% and a long-term rate of improvement of 1.5% pa for males / 1.25% for females).
- Assumed commutation terms have been updated such that at retirement it is assumed members commute for cash on terms 10% higher than the factors in force at the valuation date.
- A provision of 1.0% of total liabilities has been made for the impact of adjusting benefits for any inequalities arising from Guaranteed Minimum Pensions. In previous valuations, no such "GMP equalisation" reserve was made.
- The assumed cost of buying out the remaining benefits with an insurer in 2030 (in excess of the value measured using a gilts flat discount rate) is £7m (compared to £12m at the last valuation). This reflects updated analysis of insurer pricing based on the demographics of the Scheme.

The Appendix shows the effect on the valuation of changing some of the key assumptions.

Technical provisions

Technical provisions as at 31 December 2019



As at the valuation date, the technical provisions were £316.1m and there was a deficit of £13.5m.

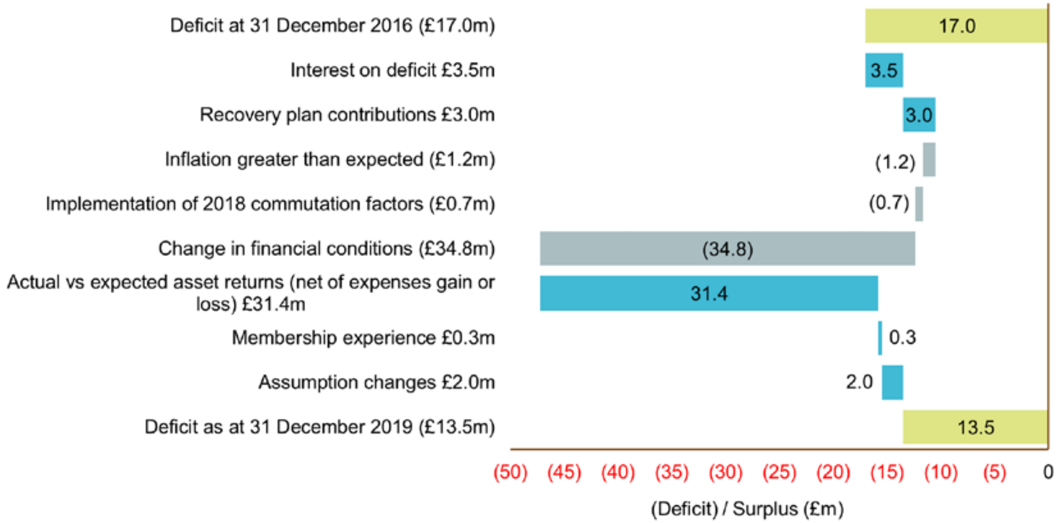
Our calculations are based on the membership data, benefits and assets as summarised in the Appendix.

Certification of technical provisions

Under the Pensions Act 2004, I am required to certify that the technical provisions have been calculated in accordance with the legislation, and my certificate is attached.

Reconciliation of experience to 31 December 2019

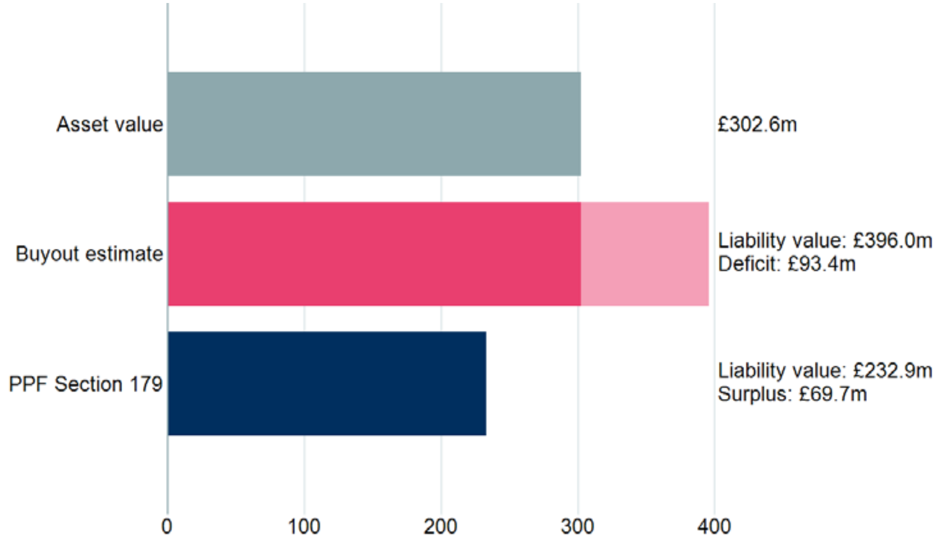
Explanation of movement from previous valuation



- As at the valuation date the deficit was £13.5m.
- Had experience since the previous valuation been in line with the assumptions adopted for that valuation, and allowing for contributions paid over the period, the Scheme would have had a deficit of £10.5m at this valuation date.
- The actual position is therefore £3.0m worse than expected and the reasons for this are shown in the chart.
- The contribution paid since the previous valuation are shown under the “Recovery plan contributions” item. This was £3m in 2018.
- The “Change in financial conditions” item refers to the change in the yields on index-linked and fixed interest gilts since the previous valuation.
- The assumption changes include the change in buyout proxy, mortality assumption and commutation terms.

Discontinuance at the valuation date

The position were the Employers to have ceased sponsoring the Scheme on the valuation date



Derivation of the solvency position

- The solvency position has been calculated by estimating the cost of securing all benefits by purchasing annuities with an insurance company and winding up the Scheme. We have included an allowance for the expenses that would be incurred in winding up the Scheme. This measure of solvency is referred to as the "buy-out cost".
- We have not obtained quotations, but have produced our estimate using the assumptions described in the Appendix. In practice, the actual cost can be determined only by completing a buy-out and will depend on factors including market conditions at the time of buy-out, competition in the insurance market, actual expenses of buy-out, the insurer's view of Scheme members' life expectancy, and how much (if any) additional funding was available from the Employers, so could be very different from the estimate shown.
- The estimated buy-out deficit at the valuation date was c£93m. This corresponds to an estimated buy-out level of 76%, which compares with 68% as at the previous valuation. The reasons for the change are similar to those explaining the change in the technical provisions, together with changes in insurers' buy-out pricing.

Interaction with the PPF

- Where a pension scheme is discontinued because of the insolvency of the employers, the Pension Protection Fund ("PPF") is required to assess whether the scheme is eligible to enter the PPF. This includes assessing whether the scheme is insufficiently funded.
- In broad terms, if the PPF is satisfied that the scheme's assets are insufficient to buy-out benefits equal to PPF compensation with an insurance company, then the assets would be transferred to the PPF to pay members PPF compensation in place of scheme benefits.
- If the assets are sufficient, the scheme can be wound up outside the PPF with the assets first used to secure benefits equal in value to PPF compensation, and the balance applied to secure benefits above that level in accordance with the scheme's rules.
- As a proxy for the financial assessment required by the PPF in these circumstances, we consider a statutory "Section 179" valuation. On this basis, there was a surplus in the Scheme of £69.7m as at 31 December 2019.
- This indicates that, had the Employers become insolvent at the valuation date, with no other sponsor to succeed them and no additional funding, it is likely the Scheme would not have entered the PPF.
- Further details relating to the Section 179 valuation, including the assumptions used, are set out in my formal report on the Section 179 valuation dated 26 March 2021 with the full results set out in my formal Section 179 certificate.

Experience since the valuation date

Development of position since 31 December 2019

- The valuation considers the financial position of the Scheme as at the valuation date. Since the valuation date there have been fluctuations in investment markets which have affected the value of the assets and the technical provisions.
- The chart shows the projection of the net position of the technical provisions and buy-out estimate since the valuation date.
- It illustrates that there was significant volatility in the funding level over the period since the valuation, particularly as a result of the COVID-19 pandemic.
- However, as at 31 March 2021 the funding position had recovered such that we estimate that there was a technical provisions deficit of c1m; and a buy-out deficit of c£60m
- Our projection of the technical provisions and assets allows for investment returns in line with market indices, contributions paid, the impact of actual inflation on member benefits, and changes in gilt yields. All other experience is assumed to be in line with the Statement of Funding Principles.
- We have used a similar methodology to project the buy-out deficit and have also allowed for changes in insurers' buy-out terms.

Contributions and future projections

Contributions

As the Scheme had a deficit of £13.5m as at 31 December 2019, the Trustees have determined, with the agreement of the Employers, that the Employers will pay contributions to clear this deficit.

Details of these deficit contributions, as well as other contributions to be paid to the Scheme are set out in the Recovery Plan and Schedule of Contributions in the Appendix.

Projected funding levels at the next valuation

The projected funding levels three years after the valuation date are shown below.

These projections are made on the basis that:

- experience from the valuation date is in line with the assumptions set out in the Statement of Funding Principles, including allowance for returns on assets in line with the recovery plan assumption;
- contributions are paid as set out in the Schedule of Contributions; and,
- there is no change in the insurers' buy-out pricing.

Experience from the valuation date is likely to be different from the assumptions made. Therefore, the position at the next valuation is likely to be different to that illustrated.

Measure	31 December 2019	31 December 2022
Technical provisions	96%	97%
Buy-out	76%	83%

Certification of contributions

Under the Pensions Act 2004, I am required to certify that the Schedule of Contributions is consistent with the Statement of Funding Principles, and that payment of contributions at the agreed rates can be expected to lead to the Scheme having sufficient assets to cover its technical provisions by the end of the Recovery Plan. My certificate forms part of the Schedule of Contributions.

There is provision under the legislation for me to have regard to the position as at the valuation date when providing this certificate, and I have adopted this approach, albeit given the improvement in position since the valuation date the agreed Scheme is currently expected to be in surplus on a technical provisions basis by the next valuation date (if experience is in line with assumptions from this point).

Appendix

- Key risks faced by the Scheme
- Membership data and benefits
- Assets and investment strategy
- Sensitivity to assumptions
- Assumptions used for assessing solvency

Appendix

Key risks faced by the Scheme

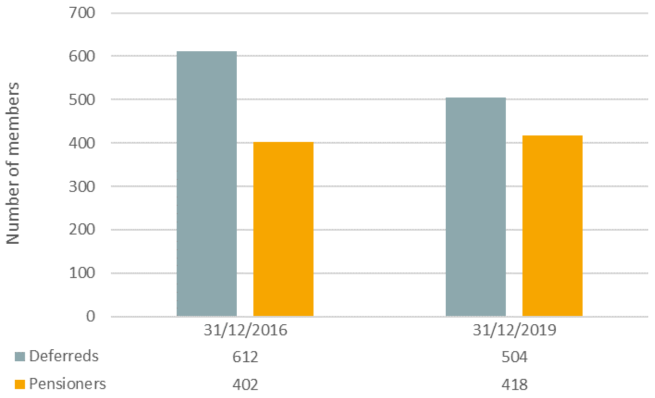
Risk	Comment
Employers and guarantors' covenant	The Employers and guarantors are not able to support the Scheme, and in particular are not able to pay increased contributions if experience is unfavourable. If this happened, then it is unlikely that the Scheme would be able to pay full benefits or buyout benefits in 2030.
Investment strategy	Changes in asset values are not matched by changes in the technical provisions. The technical provisions are linked to gilt yields, but the Scheme assets include a holding in return-seeking assets, so the two may move out of line as investment conditions change. For example, if equity values fall with no changes in gilt yields, the deficit would increase.
Investment returns	Future investment returns are lower than anticipated. The greater the allowance made in the technical provisions for returns on assets other than gilts, the greater the risk that those returns are not achieved. In particular, no allowance is made for specific risks, such as climate change, which may have an effect on investment returns.
Gilt yields	Asset values and the technical provisions do not move in line as a result of changes in the yields available on fixed interest and index-linked gilts. This may arise because of a mismatch between the Scheme's holding in gilts and its technical provisions in terms of their nature (ie fixed or inflation-linked) and/or their duration.
Inflation	Actual inflation is higher, and so benefit payments are higher, than anticipated. In addition there is a potential mismatching risk if inflation linked liabilities behave differently to the inflation linked assets held to protect against inflation changes – for example where RPI linked assets are used to match CPI linked liabilities
Mortality	Scheme members live longer, and so benefits are paid longer, than anticipated. In particular, no allowance is made for specific risks, such as climate change, so members may live for a different length of time than assumed.
Member options	The incidence of Scheme members exercising benefit options which are potentially not "neutral" to the Scheme's funding position (such as early retirement or commutation) is different from that anticipated.
Regulatory	In future the Scheme may have backdated claims or liabilities arising from equalisation or discrimination issues or from future legislation or court judgments. In particular, the actual impact of any adjustment to benefits required to remove any inequalities arising from Guaranteed Minimum Pensions may well be different to any allowance made.
Insurer pricing	The ultimate cost of buyout in 2030 may be higher than assumed under the technical provisions basis, for example due to future unfavourable changes in insurer pricing.

Appendix

Membership data and benefits

Summary as at 31 December 2019 (31 December 2016 in brackets)

	Number		Average age		Total Pensions at date of leaving / date of valuation (£'000 pa)	
Deferred members	504	*(612)*	54	*(52)*	2,200	*(3,000)*
Pensioners and dependants	418	*(402)*	73	*(73)*	6,300	*(5,800)*
Total	**922**	***(1,014)***				

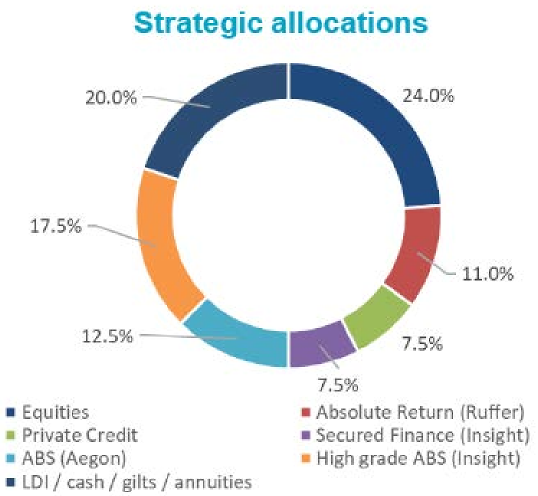


- We have been provided with a full membership data extract as at the valuation date by the Scheme's administration team. We have relied on this data and have no reason to doubt its overall accuracy for the purposes of the valuation.
- The pension figures for deferred members have been obtained by totalling members' deferred pensions as at the date of leaving service. The pension figures for pensioners and dependants have been obtained by totalling members' pensions in payment at the valuation date, including allowance for the 1 January 2020 increase of 3%.
- Pensions in payment (in excess of GMPs where relevant) were increased since the previous, as required under the Scheme's Rules. There have been no discretionary benefits granted since the previous valuation. The general increases (ie based on RPI capped at 5% and floored at 3%) over the period were 4.0%, 3.3% and 3.0%.
- The valuation and this report relate solely to defined benefits in the Scheme, except where specified otherwise. The benefits valued are as set out in the Trust Deed and Rules dated 1 January 1995, as subsequently amended. In summary there are provisions for the revaluation and indexation of pensions and death benefits, and details of various benefit and contribution scales that have applied in the past.

Appendix

Assets and investment strategy: Summary as at 31 December 2019

Total assets: £302.6m



Asset class	31 December 2019 (strategic allocation)	31 December 2019 (actual allocation)
Equities	24.0%	29.0%
Absolute return (Ruffer)	11.0%	11.0%
Private credit	7.5%	4.0%
Secured Finance (Insight)	7.5%	7.0%
Asset backed security (ABS) (Aegon)	12.5%	13.0%
High grade ABS (Insight)	17.5%	17.0%
Liability Driven Investment / cash / gilts / annuities	20.0%	19.0%
Net current assets/cash	-	0.0%
Total	**100%**	**100%**

- We have used the assets as set out in the audited accounts as at 31 December 2019, adjusted as follows:
  - We have excluded the value of AVCs; and
  - We have replaced the value shown in the accounts for the Scheme's annuities held with insurers, with a revised value based on the assumptions adopted for calculating the technical provisions.

Appendix

Sensitivity to assumptions

- The valuation results are sensitive to the assumptions chosen and we illustrate here the effects of changes to some of the key assumptions.
- The results are particularly sensitive to the advance credit for future investment returns. By way of illustration, the effect on the technical provisions of changing the investment return assumption for the 2019 - 2030 is shown in the table.
- The results are also sensitive to the mortality assumption in terms of both life expectancy at the valuation date and how life expectancy may change in the future. To the extent that the mortality assumption under-estimates life expectancies, the technical provisions will be too low, all other things being equal.
- As an illustration, if it were assumed that life expectancies were one year longer than implied by the mortality assumption adopted, the technical provisions would be broadly 3-4% higher.

Advance credit for returns above gilts on the overall investment portfolio	**% pa**	**Deficit £m**
Actual rate used		13.5
- 2010 to 2020	1.4	
- 2020 to 2030	1.1	
- From 2030	0.0	
Lower rate		27.7
- 2010 to 2020	0.9	
- 2020 to 2030	0.6	
- From 2030	0.0	
No credit (ie a gilts only basis)		46.1
- 2010 to 2020	0.0	
- 2020 to 2030	0.0	
- From 2030	0.0	

Appendix

Assumptions used for assessing solvency

- We have based our estimate of the solvency position on our in-house insurer buy-out pricing model. The model is based on similar but simplified principles to those used by insurance companies in setting their prices. It is calibrated against actual quotations and final transaction prices received for other schemes.
- We have not obtained an actual quotation for the Scheme, and there is considerable volatility in prices. Therefore, were the benefits actually to be bought out, the position could be very different from that illustrated. The basis used has no relevance beyond this estimate of the buy-out cost and my statutory estimate of solvency.
- These assumptions differ from those set out in the Statement of Funding Principles and they result in an estimated buy-out cost that is higher than the technical provisions.
- All else being equal, non-pensioners are more expensive to insure than pensioners, due to the more limited appetite from the insurers and the additional uncertainty (for example, due to the longer duration of non-pensioners' benefit payments and uncertainty around the particular options that can be exercised by members before and at retirement).
- The demographic assumptions we have used are generally the same as those used for the technical provisions (where relevant) except as shown opposite.
- We have calculated our estimate of the solvency position assuming that the insurer's terms for members' options are adopted.
- Additionally, we have included a provision of £6.2m for the costs that would be incurred by the Trustee in winding up the Scheme and the cost of administration with an insurer, we have included an allowance of 1% for GMP equalisation. In practice, the actual expenses could be very different.

Main financial assumptions

Assumption	
Illustrative single equivalent assumptions	
Discount rate	1.0% pa
Rate of RPI inflation	3.2% pa
Rate of CPI inflation	2.5% pa
Pension increases in payment	Set consistently with market-based pricing for the relevant minimums and maximums

Main demographic assumptions

Assumption	
Commutation	None
Proportion with dependants	85%
Mortality assumption	As for 2019 technical provisions but using the 95% of the S3NA base tables, projected with CMI 2017 mortality improvements from 2013 with a smoothing factor of 7.5 and a long term trend rate of 1.5% pa

Key documents

- Certification of the calculation of the technical provisions
- Statement of Funding Principles
- Schedule of Contributions and certificates
- Recovery Plan

Actuary's certification of the calculation of technical provisions

Lazard London Staff Pension Scheme

This certificate is provided for the purpose of Section 225(1) of the Pensions Act 2004 and Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Lazard London Staff Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 December 2019 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the scheme and set out in the Statement of Funding Principles dated 30 March 2021.

Signature:

Date: 30 March 2021

Name:
Jeremy Dell
Appointed Scheme Actuary
Fellow of the Institute and Faculty of Actuaries

Address:
Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

About Lane Clark & Peacock LLP

Statement of Funding Principles

Lazard London Staff Pension Scheme

March 2021

Introduction

This document ("the Statement") constitutes the Statement of Funding Principles applicable to the Lazard London Staff Pension Scheme ("the Scheme"). The purpose of the Statement is to document the principles established for funding the Scheme in a manner conforming to the requirements of section 223 of the Pensions Act 2004 ("the Act") and to assist Scheme members in understanding the manner in which the Scheme is being funded.

The Statement was prepared by the Trustees for the purposes of the actuarial valuation of the Scheme as at 31 December 2019 after obtaining the advice of Jeremy Dell, the Scheme Actuary. It has been agreed by Lazard & Co., Services Limited and Lazard Asset Management Limited (together "the Employers"). The Statement will be reviewed within 15 months of the effective date of every valuation and revised if necessary.

1. Characteristics of the Scheme's liabilities

The main characteristics of the Scheme's liabilities that are relevant to the development of appropriate funding principles are as follows:

- the Scheme's pension liabilities are to make payments stretching many years into the future; the amount and timing of these payments can be predicted with some precision but not with absolute certainty;
- accrual of pension benefits under the Scheme ceased on 31 March 2006;
- the Scheme has a mature liability profile, with current pensioners accounting for around half of the technical provisions.
- increases to pensions in payment are linked to retail price inflation, but subject to a minimum of 3% and a maximum of 5% each year.

2. Funding Objectives

This Statement sets out:

- our policy for assessing the "technical provisions" – that is the amount of money the Scheme should aim to hold from time to time in order to have a reasonable expectation of being able to make provision for the Scheme's liabilities; and
- how we intend to achieve the objective of holding this amount of money in the Scheme (this is known as meeting the "statutory funding objective"); and
- our policy for achieving the level of funding at 1 June 2030 (the "2030 Buyout Basis objective") described in the deed agreed between the Trustees of the Scheme and the Employers (and related parties) dated 30 August 2005 (the "Funding Agreement").

These policies are used for setting the level of contributions to be paid to the Scheme.

This statement has been prepared as part of the Scheme's actuarial valuation as at 31 December 2019. We have taken advice from the scheme actuary, Jeremy Dell, when drawing up this statement, and we have agreed its provisions with the Employers.

3. Investment strategy

The funding level of the Scheme will depend on the returns achieved on its assets. The Trustees are responsible for the investment strategy in consultation with the Employers.

Under the terms of the Funding Agreement, the investment policy of the Scheme from 1 June 2010 onwards shall be agreed from time to time between the Trustees and Employers.

The Trustees and the Employers have agreed to maintain the existing investment strategy at this stage, which targets an investment split as follows:

- 27.5% in equities;

- 15% in absolute return / private credit; and
- 57.5% in defensive assets.

Over the period to 2030, Lazard and the Trustees will regularly consider the opportunities for reducing risk in the Scheme, with a view to reducing the risk of failing to achieve the 2030 target, by potentially increasing the allocation to defensive assets and reducing the allocation to return-seeking assets. This analysis will take into account, amongst other things, the level of progress made towards the 2030 target.

4. Technical provisions

The calculation of the Technical Provisions involves estimating the present value of the benefits payable in future to members and their dependants under the rules of the Scheme. Benefits are payable on retirement or death.

Assumptions are made about the likelihood of a benefit becoming payable at any future date and the period for which it will be payable, as well as about financial matters such as future increases in members' pensions and investment returns. The assumptions for determining the Technical Provisions are chosen prudently, as required by the Act, and take account of the Scheme's commitments which arise out of members' accrued pension rights. The assumptions are designed to provide an appropriate margin for adverse future experience, taking into account relevant risks, including the following:

- that the Employers will not be able to continue to pay contributions or make good funding deficits in the future;
- that the future investment returns on assets will not be sufficient to meet the funding objectives;
- that falls in asset values will not be matched by similar falls in the value of the liabilities; and
- that anticipated future changes in the expectation of how long the Scheme's pensioners will live will increase the cost of providing benefits.

The discount rates used in the valuation of the liabilities represent the returns which it is anticipated will be achieved on the Scheme's assets and are chosen having regard to the Scheme's future investment strategy, including an allowance for a reduction in the allocation to the return-seeking portfolio (from the current level) over the period to 2030, and with a margin incorporated for prudence.

We have decided that the technical provisions should be calculated using the method and assumptions set out in Appendix 1 to this document.

We chose this method and these assumptions with the agreement of the Employers, as required by law. In arriving at them, we took advice from the scheme actuary, and we took account of various relevant factors (in particular the ability of the Employers to support the Scheme).

4.1. Recovery plan (if there is a failure to meet the statutory funding objective)

The Trustees and the Employers have agreed that, if the assets are less than the Technical Provisions, then the deficit shall be eliminated over a fixed period by cash contributions from the Employers. In determining the recovery period, the Trustees will take into account the following factors:

- the size of the deficit;
- the Trustees' assessment of the financial covenant provided by the Employers to the Scheme; and
- any contingent security offered by the Employers (including the parent company guarantee from Lazard Group LLC).

The Trustees and the Employers have agreed that any deficit disclosed by the valuation as at 31 December 2019 will be made good by annual contributions of £0.4m payable by the Employers from 2021 to 2030.

In calculating the amount of these contributions, account may be taken of the expected return of the Scheme's assets without necessarily having to incorporate the degree of prudence included in the discount rates used to calculate the Technical Provisions.

If deficits are disclosed at future valuations, the period within which, and the manner in which, they will be removed will be agreed by the Trustees and the Employers at the time, having regard to the funding objectives established in the Funding Agreement and to the Statutory Funding Objective. The details will be set out in future Statements of Funding Principles.

5. Plan to meet the funding objectives described in the Funding Agreement

In addition to the statutory funding objective, the Funding Agreement describes levels of funding to be achieved by 1 June 2020 and by 1 June 2030.

As part of the discussions with the Employers, regarding the 2013 valuation, the Trustees agreed to waive the 2020 Gilts Basis objective which required the Scheme to be fully funded on a gilts basis by 1 June 2020, in return for additional security. This additional security agreed at the time was in the form of an uncapped guarantee from Lazard Group LLC conditional on the Trustees continuing to follow the investment strategy agreed with the Employers, as well as significant upfront cash contributions. The agreement to waive the 2020 Gilts Basis objective was documented in the amendment dated 31 March 2015.

The Trustees and Employers are also required by the Funding Agreement to agree from time to time how to meet the 2030 Buyout Basis objective.

It has been agreed that the technical provisions will be based on the cost of providing benefits on an ongoing basis until 2030 with the remaining benefits being assumed to be bought out with an insurer in 2030. For practical reasons it has been agreed that a proxy to the cost of buying out the Scheme benefits in 2030 will be used, as described in Appendix 1. The proxy described will be reviewed and agreed between the Trustees and Employers as part of each future valuation.

The Trustees consider that the measures agreed with the Employers in respect of the statutory funding objective are sufficient to meet the Trustees' obligations with regard to the 2030 Buyout Basis objective for the purposes of this valuation. The Trustees and Employers will consider whether this remains the case as part of future valuations, and will review the statement of funding principles if required to ensure that the 2030 Buyout Basis objective continues to be met.

6. Discretionary benefits

Under Rule 16 of the Scheme's rules the Employers can require the Trustees to provide discretionary benefits, subject to the Employers meeting the associated funding requirements. However, there is no current expectation that discretionary benefits will be provided and no allowance is made for them in the funding of the Scheme

7. Payments to the Employers

There are no provisions for payments to be made from the Scheme to the Employers.

8. Contributions other than from the Employers who sponsors the Scheme or the members

There are no arrangements with any party other than the Employers and the guarantor to make payments to the Scheme.

9. Cash equivalent transfer values

At each valuation, the Trustees will ask the Scheme Actuary to advise them of the extent to which the Scheme's assets are sufficient to provide cash equivalent transfer values ("CETVs") for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries. If coverage is less than 100% of benefits in excess of those in the highest priority category, ie broadly those benefits which would be provided were the Scheme to be admitted to the Pension Protection Fund, the Trustees will consider whether to reduce CETVs as permitted under legislation, after obtaining actuarial advice as to the appropriate extent. As at 31 December 2019, the assets were sufficient for CETVs to be paid without prejudicing the security of benefits in the Scheme.

If at any other time, after obtaining advice from the Scheme Actuary, the Trustees are of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustees may commission an appropriate report from the Scheme Actuary. They will use the above criterion to decide whether, and to what extent, CETVs should be reduced.

10. Reviewing the valuation position and this statement

This Statement relates to the Scheme's fifth actuarial valuation under Part 3 of the Act, the effective date of which is 31 December 2019. Subsequent valuations will, in normal circumstances, be carried out every three years thereafter.

An actuarial report on developments affecting the Scheme's funding level will be obtained as at each intermediate anniversary of the most recent valuation date. The Trustees may call for a full actuarial valuation instead of an actuarial report at any other time when, after considering the Scheme Actuary's advice, they are of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions.

This statement was prepared on 30 March 2021 and replaces the previous statement of funding principles, which was signed on 21 December 2017.

We will review and, if necessary, revise this statement as part of each valuation. We may review it at other times.

Signed on behalf of the Trustees

Signature: ……………………………………………………...

Name: David Anderson

Position: Chairman

Date: March 30, 2021

Agreed for and on behalf of Lazard Asset Management Limited

Signature: ……………………………………………………...

Name: Jeremy Taylor ……………………………………………

Position: CEO and Director ……………………………………

Date: March 30, 2021 ……………………………………………

Agreed for and on behalf of Lazard & Co., Services Limited

Signature: ……………………………………………………...

Name: Robert Rountree ……………………………………………

Position: Director ……………………………………………

Date: March 30, 2021 ……………………………………………

Lazard London Staff Pension Scheme
Statement of Funding Principles
Actuarial method and assumptions

Appendix 1

The method and assumptions for calculating the technical provisions and the recovery plan are set out below.

Technical provisions

Actuarial method

Projected unit method.

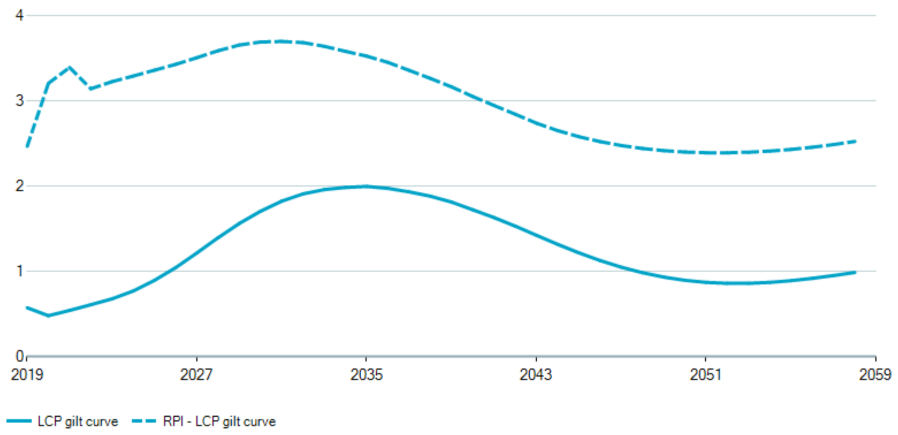
Gilt return and price inflation assumptions

The assumptions for the future return on gilts and price inflation are derived consistently as described below:

- The return from gilts over each future year is taken from the LCP gilt yield curve as at the valuation date for fixed interest gilts.
- Price inflation as measured by the Retail Prices Index ("RPI") over each future year is as derived from the LCP breakeven RPI curve.
- Price inflation as measured by the Consumer Prices Index ("CPI") over each future year is calculated as the corresponding assumption for RPI less 1% pa (albeit allowance is made with the buyout proxy for the anticipated insurer pricing of CPI liabilities beyond 2030 – which reflects a lower assumed gap).

For illustration, as at 31 December 2019, the assumptions for the return on gilts and RPI inflation were as shown in the chart below:

Gilt returns and implied RPI inflation as at 31 December 2019



For illustration, as at 31 December 2019 the single equivalent average rates (weighted by reference to the projected future benefit cashflows) were:

	Rate
Gilt returns	*1.2% pa*
RPI inflation	*3.2% pa*
CPI inflation	*2.2% pa*

Investment returns

The table below shows the assumed investment strategy for the purpose of calculating the discount rates, together with the Trustees' assumed returns, in excess of gilts, from each asset class as at 31 December 2019.

	Return-seeking portfolio		Defensive portfolio		
	Equities	**Alternatives / absolute return funds**	**Bond type investments**	**Liability driven investment / gilts**	**Total**
Assumed return above gilts	3.75% pa	3.10% pa	1.00% pa	0.0% pa	
31/12/2019 – 31/05/2020	27.5%	15.0%	28.7%	28.8%	100.0%
01/06/2020 – 31/05/2030	21.0%	11.5%	33.7%	33.8%	100.0%
From 01/06/2030	0.0%	0.0%	0.0%	100.0%	100.0%

The discount rates are determined by taking appropriately weighted averages of the returns assumed for each asset class and then deducting a margin for prudence. The following table summarises the margins for prudence and the resultant overall returns in excess of gilt yields:

Period	Margin for prudence	Overall return in excess of gilts
31/12/2019 – 31/05/2020	0.35% pa	1.4% pa
01/06/2020 – 31/05/2030	0.35% pa	1.1% pa
From 01/06/2030	0.0% pa	0.0% pa

The assumed investment returns for calculating the contributions required to repair the deficit under the Recovery Plan are described at the end of this Appendix.

Additional costs of buying out the Scheme's benefits in 2030

There is an allowance, within the calculation of the Technical Provisions, for the broad anticipated cost of buying out the remaining benefits in 2030, in excess of the pricing assumed using the other assumptions set out in this Appendix (ie in excess of valuing the benefits on a gilts basis).

For the purpose of this valuation that additional cost is recognised as £7m in 2030. This figure has been agreed by the Trustees and the Employers, for the purpose of this valuation, and is based on broad insurer pricing as at 31 December 2019 along with the expected nature of the Scheme in 2030 and expected level of CPI. This anticipated additional cost is sensitive to market conditions and changes to insurer pricing and as such will be reviewed and agreed by the Trustees and Employers as part of any future valuations.

Other financial assumptions

Future benefit payments are projected using the assumptions set out below.

Pension increases to pensions in payment

It is assumed that RPI volatility will be 1.8% pa around the central RPI rate derived above. The assumed CPI volatility is 1.5% pa around the central CPI rate derived above.

Different elements of pension are increased in line with inflation but subject to different measures of inflation and different minima and maxima. The assumed annual rates of increase are calculated from the assumed rate of RPI/CPI, the assumed volatility and the relevant minima and maxima. The table below summarised the minima and maxima relevant for the Scheme:

Pension element	Pre 1988 GMP	Post 1988 GMP	Non GMP
Inflation measure used	n/a	CPI	RPI
Minimum annual increase	0.0%	0.0%	3.0%
Maximum annual increase	0.0%	3.0%	5.0%

For illustration, as at 31 December 2019 the resulting single equivalent average assumed rates of pension increase were:

Pension increase	*Assumption*
CPI subject to a minimum of 0% pa and a maximum of 3% pa	*2.00% pa*
RPI subject to a minimum of 3% pa and a maximum of 5% pa	*3.70% pa*

Revaluation of deferred pensions as follows:

Revaluation rate	Assumption
Guaranteed minimum pensions (GMPs)	At the required statutory rate
Pensions in excess of GMP	In line with statutory requirements assuming revaluation from 2011 in line with CPI over the period to retirement subject to a cap of 5% pa over the period since date of leaving. The assumption for future revaluation will be consistent with the inflation based assumptions described above.

Demographic assumptions

- All retirements of deferred pensioners to take place at the earliest age at which the pension is payable unreduced. This is at age 60 for all members. Deferred members over age 60 at the valuation date are assumed to retire immediately.
- Non-pensioners choose to exchange pension for cash at retirement and that the amount commuted will be 75% of the maximum permissible. The maximum permissible amount is assumed to be 25% of the members' pension at retirement.
- It is assumed that the terms for future commutation will be in line with the factors in force at the valuation date increased by c10% at age 60 - reflecting the anticipated improvement in terms stemming from the review due shortly after the valuation date.
- The mortality assumptions will be based on up-to-date information published by the Continuous Mortality Investigation (CMI) and National Statistics, making allowance for future improvements in longevity. The mortality tables used for the valuation at 31 December 2019 are as follows (for mortality post-retirement and pre-retirement).

Mortality	Assumption
Base table	95% of S3NMA tables for males, 95% of S3NFA tables for females;
Future improvements	projected from 2013 in line with the CMI 2018 extended model with a long-term annual rate of improvement of 1.5% (males) / 1.25% (females), a smoothing parameter of 7 and an initial improvement parameter of 0.5%.

- 86% of male members and 70% of female members are assumed to be married or have a spouse/civil partner/dependant at 31 December 2019 who would qualify to receive a pension on the death of the member.
- Spouses/civil partners are assumed to be three years younger (male members) or three years older (female members) than the member.
- The Employers make regular contribution towards the administrative expenses of the Plan so no specific allowance has been made within the Technical Provisions. The Employers also pay the Pension Protection Fund levy directly and the cost of other fees for professional advisers to the Scheme. These payments will not exceed an amount agreed in writing each year in advance between the Trustees and the Employers plus the amount of the Pension Protection Fund levy and are intended to include (but are not limited to) reasonable actuarial fees, investment advisor fees, auditor fees and legal fees.

- Where data on spouse pensions is unavailable it has been assumed that retired members commuted on average 25% of their pension at retirement. Therefore, the spouses’ benefit is assumed to be 89% of the member pension in payment at the valuation date. The electronic data in respect of current pensioners provides evidence that this assumption is reasonable.
- An allowance for the cost of adjusting benefits to remove any inequalities arising from Guaranteed Minimum Pensions has been made by increasing the technical provisions by 1%.

Recovery plan

The allowance for the return on existing assets and new contributions during the period covered by the recovery plan are based on best-estimate assumptions as summarised in the table below:

	Return above gilts
Return-seeking assets (Equities / alternatives / absolute return funds):	3.5% pa
Defensive portfolio (Bond type investments / LDI / gilts):	0.5% pa

Schedule of Contributions

Lazard London Staff Pension Scheme

Name of Employer(s): **Lazard & Co., Services Limited ("The Principal Employer")**

Lazard Asset Management Limited

(together "the Employers")

This Schedule of Contributions has been prepared in accordance with Part 3 of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations (SI 2005/3377). It sets out the contributions payable to the Lazard London Staff Pension Scheme ("the Scheme") over the period from the date that the Actuary certifies the Schedule to 31 March 2030.

The Trustees of the Scheme and the Employers have agreed this Schedule as indicated below by authorised signatories.

The following contributions are payable to the Scheme:

Employers' contributions in respect of shortfall funding

Contributions from the Employers	
Contributions from Employers in respect of the shortfall in funding in accordance with the recovery plan dated 30 March 2021	10 annual payments of £0.4m, each payable by 31 March each year. The first payment must be paid by 31 March 2021 and the final payment must be made by 31 March 2030.

Employers' Contributions in respect of benefit augmentations – The Employers will pay any additional contributions as decided by the Trustees, on the advice of the Actuary, and in accordance with the Scheme Rules, to meet benefit augmentations. Such contributions will be paid within 30 days of the due date notified by the Trustees.

Employers' contributions in respect of administration and other costs - The Employers will in addition make payments to the Scheme to meet the expenses of administering the scheme, the Pension Protection Fund levy and the cost of other fees for professional advisors to the Scheme. These payments will not exceed an amount agreed in writing each year in advance between the Trustees and the Employers plus the amount of the Pension Protection Fund levy and are intended to include (but not limited to) reasonable actuarial fees, investment adviser fees, auditor fees and legal fees. These payments will be made within 30 days of the due date notified by the Trustees.

This schedule of contributions has been agreed by the Employers and the Trustee of the Scheme on 30 March 2021. It replaces the previous Schedule of Contributions dated 21 December 2017 with effect from the date of certification.

This Schedule of Contributions is agreed:

on behalf of the Trustees of the Scheme:

Signature: DJF Ander ……………………………… authorised signatory

Name: David Anderson

Position: Chairman

Date: March 30, 2021

on behalf of Lazard Asset Management Limited:

Signature: ……………………………… authorised signatory

Name: Jeremy Taylor

Position: CEO and Director

Date: March 30, 2021

on behalf of Lazard & Co., Services Limited:

Signature: ……………………………… authorised signatory

Name: Robert Rountree

Position: Director

Date: March 30, 2021

Actuary's certification of schedule of contributions

Lazard London Staff Pension Scheme

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Lazard London Staff 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 can be expected to be met by the end of the period specified in the recovery plan dated 30 March 2021.

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 30 March 2021.

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: 30 March 2021

Name: *Jeremy Dell*
Appointed Scheme Actuary
Fellow of the Institute and Faculty of Actuaries

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

About Lane Clark & Peacock LLP

We are a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK (Regd. TM No 2315442) and in the EU (Regd. TM No 002935583). All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 95 Wigmore Street, London, W1U 1DQ, the firm's principal place of business and registered office.

The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. Locations in London, Winchester, Ireland, and - operating under licence - the Netherlands.

Notes not forming part of the certification

In giving the above opinion I have interpreted the phrase "can be expected to be met" as being satisfied by consideration of the proposed contributions under the economic and demographic scenario implied by the trustees' funding assumptions as set out in their statement of funding principles dated 30 March 2021 and their Recovery Plan dated 30 March 2021 and without any further allowance for adverse contingencies. My opinion does not necessarily hold in any other scenarios.

Recovery Plan

Lazard London Staff Pension Scheme

Name of Employer: Lazard & Co., Services Limited ("The Principal Employer")

Lazard Asset Management Limited

(together "the Employers")

Name of the Scheme: Lazard London Staff Pension Scheme ("the Scheme")

The actuarial valuation of the Scheme as at 31 December 2019 revealed a deficit of £13.5m.

In accordance with Section 226 of the Pensions Act 2004, the trustees of the Scheme have prepared this recovery plan, after obtaining the advice of Jeremy Dell, the scheme actuary.

Steps to be taken to ensure that the statutory funding objective is met

The trustees and the Employers who sponsor the Scheme, have agreed to eliminate the funding shortfall by the payment of the following contributions by the Employers.

Contributions to be made to the Scheme

Amount £m	Dates
£0.4m pa	10 annual payments of £0.4m, each payable by 31 March each year. The first payment must be paid by 31 March 2021 and the final payment must be made by 31 March 2030.

Period in which the statutory funding objective should be met

The deficit is expected to be eliminated by 31 March 2030. This is based on the following assumptions:

- Technical provisions are calculated according to the method and assumptions set out in the Scheme's Statement of Funding Principles dated 30 March 2021.
- The return above gilts on existing assets and new contributions during the period are as set out below

	Return above gilts
Return-seeking portfolio	3.5% pa
Defensive portfolio	0.5% pa

Agreement by the trustees and the Employers

This recovery plan was prepared on 30 March 2021.

Signed on behalf of the Trustees of the Scheme:

Signature: D J F Ander ……………………………… authorised signatory

Name: David Anderson

Position: Chairman

Date: March 30, 2021

Signed on behalf of Lazard & Co., Services Limited:

Signature: ……………………………… authorised signatory

Name: Robert Rountree

Position: Director

Date: March 30, 2021

Signed on behalf of Lazard Asset Management Limited:

Signature: ……………………………… authorised signatory

Name: Jeremy Taylor

Position: CEO and Director

Date: March 30, 2021