

# CAPITA



## **Lazard London Staff Pension Scheme**

**Scheme Registration Number: 1100513542**

**Trustees' Annual Report and Financial Statements  
For the Year Ended 31 December 2017**

**CONFIDENTIAL**

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## Trustees' and their Advisers

### Trustees

Mr D Anderson (*Chairman*)

Mrs H.C.B. Britton

Mrs M Corti\*

Mrs B. Albâge Gough-Cooper

Mr P. Strutt\* (*until 9 November 2017*)

Mr M Trueblood\* (*with effect from 20 March 2018*)

The Law Debenture Pension Trust Corporation plc represented by Andrew Parker (*Independent Trustee*)

\* *Member-nominated Trustees*

### Secretary to the Trustees

Barnett Waddingham

Cheapside House

Cheapside

London EC2V 6BW

### Principal Employer

Lazard & Co, Services Limited

50 Stratton Street

London W1J 8LL

### Actuary

Mr J. Dell

Lane Clark & Peacock LLP

95 Wigmore Street

London W1U 1DQ

### Administrator

Capita Employee Solutions

Hartshead House

2 Cutlers Gate

Sheffield S4 7TL

### Legal Advisers

Linklaters LLP

1 Silk Street

London EC2Y 8HQ

### Investment Adviser

Lane Clark & Peacock LLP

95 Wigmore Street

London W1U 1DQ

### Independent Auditors

Grant Thornton UK LLP

30 Finsbury Square

London EC2P 2YU

### Employer Covenant Adviser

PWC LLP

7 More London Riverside

London SE1 2RT

### Bankers

National Westminster Bank plc

42 High Street

Sheffield S1 2GE

### Investment Managers

Lazard Asset Management Limited

50 Stratton Street

London W1J 8LL

Insight Investment Management Limited

33 Old Broad Street

London EC2N 1HZ

Ruffer LLP

80 Victoria Street

London SW1E 5JL

Janus Henderson Global Investors

201 Bishopsgate

London EC2M 3AE (*Until 05/12/2017*)

Baillie Gifford & Co

Calton Square

1 Greenside Row

Edinburgh EH1 3AN

ICG Longbow

42 Wigmore Street

London W1U 2RY

### AVC Manager

The Prudential Assurance Company Limited

Abbey Gardens

Reading RG1 3UG

## Trustees' and their Advisors

### **Investment Custodians**

RBC Investor Services  
50 Bank Street  
London E14 5NT

### **Investment Custodians**

Northern Trust  
Riverbank House – 2 Swan Lane  
Canary Wharf  
London EC4R 3AF

### **Enquiries**

Enquiries about the Scheme generally, or about an individual's entitlement to benefits should be addressed to Murray McDowall at the Scheme Administrator, Capita (please see address on the previous page) or [pensions2enquiries@capita.co.uk](mailto:pensions2enquiries@capita.co.uk)



## Trustees' Report

The Trustees of Lazard London Staff Pension Scheme ("the Scheme") are pleased to present their report together with the financial statements for the year ended 31 December 2017.

The Scheme is a defined benefit Scheme, provided for former eligible employees of the Principal Employer, Lazard & Co, Services Limited ("the Company") and its predecessors and Lazard Asset Management Limited, together the "UK employing companies". It provides members with a retirement pension based on pensionable salary and years of membership. In addition, members were previously able to secure money purchase benefits by making voluntary contributions.

The Scheme was closed to new entrants with effect from 1 January 2002 and ceased accrual of future benefits from 31 March 2006. This does not affect benefits accrued up to 31 March 2006.

Members of the Lazard London Staff Scheme were contracted out of the State Second Pension (S2P) while they were members of the Scheme.

## Scheme Management

Two thirds of the Scheme Trustees are Company Nominated however in accordance with the Pensions Act 2004, one third of the Trustees are nominated by the members under the rules notified to the members of the Scheme, to serve for an initial period of five years. Nominations from Scheme members are invited and the incumbents may also put themselves forward for an additional five year term. Members are asked to vote to elect the Member Nominated Trustees for the next five year term. In the event that there is only one nomination, the person nominated will automatically be appointed as a Trustee.

Any removal of a Member Nominated Trustee before the end of the five year term requires the agreement of all of the other Trustees.

The Trustees who served during the year ended 31 December 2017 are listed on page 2. Although the appointed Trustees are responsible for the overall management of the Scheme, the operation of the Scheme is delegated to the Secretary and certain third party advisors, whose performance is monitored by the Trustees.

Following the resignation of Mr P Strutt in November 2017, a Member Nominated Trustee selection exercise was carried out, via ballot with Mr M Trueblood being successful and subsequently appointed as a Trustee for a term of five years.

In the year ended 31 December 2017 the Trustees met on eight occasions, including two meetings to focus principally on the actuarial valuation and one meeting to focus principally on investment matters.

### Pension Increases

The post April 1998 Guaranteed Minimum Pension (GMP) was increased by 3% (2016: 1%). This increase did not apply to any GMP which was earned in respect of service before 1988, since such increases are determined separately by the government. Pensions in payment as at 1 January 2017 were increased by 4% (2016: 4%).

### Calculation of Transfer Values

Transfer values paid during the year were calculated and verified in the manner required by the Regulations. None of the transfer values were less than the amount required by the Regulations.

## Trustees' Report

## Scheme Management

## Membership

Details of the membership of the Scheme are given below:

	2017	2016
<b>Pensioners</b>		
Pensioners at the start of the year	405	411
Pensioners re-instated	1	-
Members with deferred benefits reaching retirement	11	20
Pensioners who died during the year	(16)	(7)
New spouse and dependant pensions	8	2
Pensions Suspended	(3)	(1)
Full commutations	-	(20)
<b>Pensioners at the end of the year</b>	<b>406</b>	<b>405</b>
<b>Deferred members</b>		
Deferred members at the start of the year	609	635
Retrospective status changes	1	-
Deferred members becoming pensioners during the year	(11)	(20)
Transfers out	(21)	(7)
Deaths	(1)	(1)
New Deferred member as result of Pension Sharing Credit	-	2
<b>Deferred members at the end of the year</b>	<b>577</b>	<b>609</b>
<b>Deferred members at the end of the year</b>	<b>983</b>	<b>1,014</b>

Of the 406 pensioners at the year end, there were 64 individuals (2016: 60) receiving a pension following the death of their spouse and there were 23 pensioner annuitants (2016: 25) who remain members of the Scheme and have had part of their benefits secured by the purchase of annuities.

These membership figures do not include movements notified to the Administrator after the Scheme year end date.

Note: The pensions were stopped as the result of a pensioner existence exercise.

## Trustees' Report

## Scheme Management

## Financial Development

The development of the Scheme during the year ended 31 December 2017 is summarised as follows:

	£'000
Total contributions received from the employer together with other income	1,276
Less benefits paid & expenses	<u>(13,871)</u>
Net withdrawals from dealings with members	(12,595)
Returns on investments	<u>20,528</u>
Net increase in the Fund during the year	7,933
Net assets of the Scheme at the start of year	<u>299,744</u>
Net assets of the Scheme at the end of year	<u><u>307,677</u></u>

## Preparation and audit of Financial Statements

The Trustees confirm that the financial statements have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of the Pensions Act 1995.

## Summary of Contributions Payable in the year ended 31 December 2017

During the year, the contributions payable to the Scheme by the Employer were as follows:

	Employer £'000
<b>Required by the Schedules of Contributions</b>	
Deficit Contributions	975
Other – Expense Contributions	301
	<u>1,276</u>



## Trustees' Report

### Investment Matters

#### Overview

The Trustees, with the assistance of their appointed investment adviser, determine the overall investment strategy for the Scheme and set out the broad policy to be adopted by each of the appointed fund managers.

#### Investment managers

The names of those who have managed the Scheme's investments during the year are listed on page 2. The Trustees have delegated the day-to-day management of investments to their appointed fund managers. A written agreement between the Trustees and each manager sets out the terms on which the manager will act.

The managers' duties include the consideration of social, environmental or ethical issues in the selection, retention and realisation of investments as well as voting and corporate governance in relation to the Scheme's assets. The Trustees have reviewed each of the investment managers' policies on these issues. The Trustees believe that the policies adopted by the managers are consistent with their own views.

#### Investment principles

In accordance with Section 35 of the Pensions Act 1995, the Trustees have prepared a Statement of Investment Principles (SIP) which includes the Trustees' policy relating to ethical investment and the exercise of the rights attaching to investments. Any member may request a copy from the Secretary to the Trustees, details of which are listed on page 2. This Statement may change from time to time according to advice received from the investment adviser and with input from the investment managers.

#### Departures from investment principles

To the best of their knowledge, The Trustees can report that they have not been made aware of any departure from the SIP by the Scheme's investment managers during the year ended 31 December 2017.

#### Custodial arrangement

The Scheme's equity managers are each responsible for custody of their assets of the pooled equity funds in which the Scheme invests, with BNY Mellon the sub-custodian for both Baillie Gifford and Lazard Asset Management.

Under the investment management agreement with Ruffer LLP, the Trustees use RBC Investor Services as custodian, with the custody being arranged by Ruffer.

Deutsche Bank Luxembourg S.A. is the depositary for pooled funds invested with ICG-Longbow IV GP.

Northern Trust is custodian for the pooled funds invested with Insight Investment Management Limited.

The custodians and depositary are responsible for the safekeeping, monitoring and reconciliation of documentation relating to the ownership of listed investments and are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

Investments are held in the name of the custodians' nominee companies, in line with common practice for pension Scheme investments.

#### Employer-related investments

The Scheme's investment managers have confirmed that, as at 31 December 2017, there were no direct or indirect employer-related investments held by the Scheme.

## Trustees' Report

## Investment Matters

## Employer-related investments (continued)

Investments under management by Lazard Asset Management Limited represented 13.9% of the net assets.

## Investment Managers

As at 31 December 2017, the Scheme had five investment managers:

- Ruffer LLP ("Ruffer"), which manages a multi-asset absolute return portfolio;
- Lazard Asset Management ("LAM"), which manages a defensive global equity portfolio;
- ICG-Longbow IV GP ("Longbow"), which manages a private credit portfolio;
- Baillie Gifford & Co ("Baillie Gifford"), which manages a global equity portfolio; and
- Insight Investment Management ("Insight"), which manages a liability matching portfolio, which includes pooled liability matching funds, absolute return bond funds, an asset backed securities fund and cash funds.

## Asset Allocation

The Scheme's asset allocation as at 31 December 2017 (excluding AVC investments, money purchase accounts and cash held to meet net outflows), was split approximately as follows:

Name	Portfolio	Asset allocation at 31 December 2017 (%)
Ruffer	Absolute return portfolio	10.3%
LAM	Defensive equities	14.1%
Baillie Gifford	Global equities	15.2%
Longbow	Private credit <sup>1</sup>	4.5%
	<b>Total "growth" assets</b>	<b>44.1%</b>
Insight	Liability matching portfolio	55.9%
	<b>Total "defensive" assets</b>	<b>55.9%</b>
	<b>Total Scheme</b>	<b>100.0%</b>

The asset allocation has been set by the Trustees such that the Scheme's investments (excluding cash held to meet net outflows) should comprise 42.5% 'growth' assets and 57.5% 'defensive' assets. The Trustees will review the Scheme's asset allocation from time to time, to ensure that the split between growth and defensive assets remains within 5% of the target allocation.

In November 2017, the Trustees decided to terminate the secured loans mandate with Janus Henderson Investors with the proceeds being invested in the Insight LIBOR Plus Fund on 6 December 2017.

<sup>1</sup> The allocation to Longbow shown above includes some cash held with Insight, which is earmarked for investment with Longbow, expected to broadly cover the next capital call issued at each point in time.

## Trustees' Report

### Investment Matters

#### Review of investment performance

The investment performance in this section is for the Scheme's invested assets. The returns from the Scheme's AVC investments, insurance policies, Insight's cash sub-portfolio and Trustees' bank accounts are not included. Unless otherwise stated, all the returns are shown after the deduction of investment management fees.

The overall Scheme benchmark return is calculated as a composite of each of the underlying investment manager's benchmark returns weighted by each manager's asset allocation.

Total Returns	2017	3 Years Annualised	5 Years Annualised
Scheme (% pa)	7.0%	10.3%	11.1%
Benchmark (% pa)	5.7%	9.5%	10.4%
Relative Performance (% pa)	+1.3%	+0.8%	+0.7%

Over 2017, the Scheme's assets returned 7.0%.

Over three years to 31 December 2017, the Scheme outperformed its benchmark return by 0.8% per annum. Outperformance was driven by strong relative performance from the Scheme's active global equity manager, Baillie Gifford, and the Insight LDI portfolios.

Over five years to 31 December 2017, the Scheme outperformed its benchmark return by 0.7% per annum.

#### Investment risk disclosures

Investment risks are disclosed in note 17 on pages 29 to 31.



## Trustees' Report

### Report on Actuarial Liabilities

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. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustees and the Employers and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The Trustees of the Lazard London Staff Pension Scheme agreed with the UK employing companies the terms of the Funding Deed, which was executed on 30 August 2005, and amended on 31 March 2015.

The main ongoing funding objective of the Deed is to achieve full funding on a "Buyout Basis" by 31 May 2030.

As part of discussions with the UK employing companies regarding the 2013 valuation, the Trustees agreed additional security in the form of an uncapped guarantee from Lazard Group LLC. The security is conditional on the Trustees and UK employing companies continuing to work together to agree the Scheme's investment strategy over the period to 2030.

The most recent actuarial valuation of the Scheme, at 31 December 2016, showed the funding position on a Technical provisions basis as follows:

Assets	£297.9m
Amount needed to provide benefits	£314.9m
Deficit	£17.0m
Funding level	95%

In order to remove this deficit the Trustees agreed with the Company that the Company will contribute cash payments into the Scheme of:

- £3m by 31 March 2018, £975,000 of which was received on 22 December 2017 and the remainder was received on 3 January 2018; and
- £0.2m per year from 2021 to 2030.

The agreed contributions, as set out above, were expected to repair the deficit (based on market conditions at the valuation date) by 31 March 2030.

The Scheme Actuary has estimated that, as at 31 December 2017, the funding level of the Scheme had improved to an estimated deficit of £9.7m. The improvement since 31 December 2016 is primarily driven by very strong asset performance and the deficit reduction contribution of £1m received from the Company on 22 December 2017, despite the fall in government bond yields that has acted to increase the amount needed to provide benefits.

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

## Trustees' Report

## Report on Actuarial Liabilities

## Assumptions

**Discount interest rate:** Term dependent rates set by reference to the fixed interest gilt curve (as derived from Bank of England data) at the valuation date plus an overall return in excess of gilts (summarised in the table below):

Period	Overall return in excess of gilts
31/12/2016 – 31/05/2020	1.4% pa
01/06/2020 – 31/05/2030	1.1% pa
From 01/06/2030	0.0% pa

**Future Retail Price inflation:** Term dependent rates derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date.

**Future Consumer Price inflation:** Term dependent rates derived from the assumption for future retail price inflation less an adjustment equal to 1.0% per annum.

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

**Mortality:** For the period in retirement, standard tables S2NA with a scaling factor of 92% projected from 2007 in line with the CMI 2016 core projections with a long-term annual rate of improvement of 1.5% for males and 1.25% for females. For pre-retirement mortality the AC00 tables are used.

## Trustees' Report

### Statement of Trustees' Responsibilities

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, are the responsibility of the Trustees. Pension Scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which :

- 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 that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes".

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustees are also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

The Trustees are responsible for the maintenance and integrity of the financial information of the Scheme included on the pension Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

## Trustees' Report

### Statement of Trustees' Responsibilities

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them 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.

Signed on behalf of the Lazard London Staff Pension Scheme by:

DJS-And

Trustee

Date: 21/6/18

BA Gough-Loper

Trustee

Date: 21/6/18



# Actuary's Certification of the Schedule of Contributions



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## Actuary's certification of schedule of contributions

Page 1 of 2

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 21 December 2017.

### 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 21 December 2017.

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:

21-12-2017

Name: Jeremy Dell

Qualification: Fellow of the Institute and  
Faculty of Actuaries

Address: Lane Clark & Peacock LLP  
95 Wigmore Street  
London  
W1U 10Q

Name of employer: Lane Clark & Peacock LLP  
(if applicable)

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## Actuary's Certification of the Schedule of Contributions



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### Notes not forming part of the certification

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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 21 December 2017 and their Recovery Plan dated 21 December 2017 and without any further allowance for adverse contingencies. My opinion does not necessarily hold in any other scenarios.



## Independent Auditor's Statement about Contributions to the Trustees of the Lazard London Staff Pension Scheme

We have examined the summary of contributions to the Lazard London Staff Pension Scheme (the 'Scheme') in respect of the Scheme year ended 31 December 2017 which is set out in the Trustees' report on page 6.

In our opinion, contributions for the Scheme year ended 31 December 2017 as reported in the summary of contributions and payable under the schedules of contributions have, in all material respects been paid at least in accordance with the schedules of contributions certified by the Scheme actuary on 21 December 2017 and 31 March 2015.

### Who we are reporting to

This statement is made solely to the Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereafter. Our work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustees as a body, for our work, for this statement, or for the opinions we have formed.

### Scope of work on Statement about Contributions

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 at least in accordance with the schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedules of contributions.

### Respective responsibilities of Trustees and the auditor

As explained more fully in the statement of Trustees' responsibilities set out on page 12, the Trustees are 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 the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the schedules of contributions and to report our opinion to you.



Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
LONDON

Date

21<sup>st</sup> June 2018

# Independent Auditor's Report to the Trustees of the Lazard London Staff Pension Scheme

## Opinion

We have audited the financial statements of the Lazard London Staff Pension Scheme (the 'Scheme') for the year ended 31 December 2017 which comprise the fund account, the statement of net assets available for benefits and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2017, 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; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Who we are reporting to

This report is made solely to the Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

## Conclusions relating to going concern

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

- the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustees have 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.



## Independent Auditor's Report

### Other information

The Trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

### Responsibilities of Trustees for the financial statements

As explained more fully in the Trustees' responsibilities statement set out on page 12, the Trustees are responsible for the preparation of financial statements which show a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are 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 Trustees either intend to wind up the Scheme, or have no realistic alternative but to do so.

### Auditor's 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 auditor's 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
LONDON

Date

21st June 2018

## Fund Account

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Employer contributions		1,276	269
<b>Total contributions</b>	3	<b>1,276</b>	269
Other income	4	-	94
		<b>1,276</b>	363
Benefits paid or payable	5	(5,902)	(6,844)
Payment to and on account of leavers	6	(7,613)	(3,865)
Administrative expenses	7	(356)	(361)
		<b>(13,871)</b>	(11,070)
<b>Net withdrawals from dealings with Members</b>		<b>(12,595)</b>	(10,707)
<b>Returns on investments</b>			
Investment income	8	1,185	1,331
Change in market value of investments	9	19,671	56,644
Investment management fee rebate	10	231	126
Investment management expenses	10	(559)	(764)
<b>Net returns on investments</b>		<b>20,528</b>	57,337
<b>Net increase in the fund during the year</b>		<b>7,933</b>	46,630
<b>Net assets of the Scheme at start of year</b>		299,744	253,114
<b>Net assets of the Scheme at end of year</b>		<b>307,677</b>	299,744

The notes on pages 21 to 32 are an integral part of these financial statements.

# Statement of Net Assets available for Benefits

## As at 31 December 2017

	Note	2017 £'000	2016 £'000
<b>Investment assets:</b>	9		
Equities		11,954	9,381
Bonds		11,197	13,790
Pooled investment vehicles	12	276,534	269,773
Insurance policies	14	556	649
Derivatives	13	69	362
AVC investments	15	1,891	1,767
Cash		2,436	1,239
Other investment balances*		1,436	2,339
		<b>306,073</b>	299,300
<b>Investment liabilities:</b>	9		
Derivatives	13	(10)	(52)
		<b>(10)</b>	(52)
<b>Total net investments</b>		<b>306,063</b>	299,248
<b>Current assets</b>	18	1,833	1,019
<b>Current liabilities</b>	19	(219)	(523)
<b>Net assets of the Scheme at end of year</b>		<b>307,677</b>	299,744

\*Other investment balances is made up of accrued income and cash in transit.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does not take account of such obligations, is dealt with in the Report on Actuarial Liabilities on page 10 and these financial statements should be read in conjunction with this report.

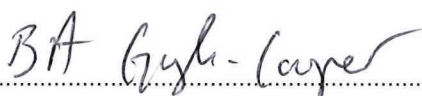
The notes on pages 21 to 32 are an integral part of these financial statements.

These financial statements were approved by the Trustees on  
signed on their behalf by:

21/01/2018 and



Trustee



Trustee



# Notes to the Financial Statements

## 1. Basis of preparation

The financial statements 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 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with guidance set out in the Statement of Recommended Practice (Revised November 2014).

In March 2016, amendments were made to FRS 102 revising the disclosure requirements for financial institutions and retirement benefits plans with respect to the fair value hierarchy disclosure. Schemes shall apply these amendments for accounting periods commencing on or after 1 January 2017. The Trustees previously elected to early adopt the revisions and therefore no change was required in this financial year.

## 2. Accounting policies

The principal accounting policies of the Scheme are as follows:

### Contributions

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier.

Employer administration contributions are accounted for as and when they fall due for payment.

### Payments to members

Benefits, and any associated taxation due to lifetime or annual allowances where the member has elected for the Scheme to settle the liability on their behalf, are accounted for in the period in which the member notifies the Trustees of his / her decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving.

Pensions in payment are accounted for in the period to which they relate.

Individual transfers in or out of the Scheme are accounted for when member liability is accepted or discharged, which is normally when the transfer amount is paid or received.

### Expenses

Expenses are accounted for on an accruals basis.

### Investment income

Income from cash and short term deposits is accounted for on an accruals basis.

Dividends from equities are accounted for on the ex-div date.

Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Receipts from annuity policies are accounted for as investment income on an accruals basis to match the timing of the related benefits payable.

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 in the Fund Account.



## Notes to the Financial Statements

## 2. Accounting policies (continued)

**Investments**

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.

Investments are included at fair value as described below:

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Accrued interest is excluded from the market value of fixed income securities and is included in invested income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

Over the counter (OTC) derivatives are valued using the following valuation techniques:

Forward foreign exchange (Forward FX) – the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Annuities have been valued by the Scheme Actuary at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date.

**Presentation currency**

The Scheme's functional and presentation currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

## 3. Contributions

	2017 £'000	2016 £'000
<b>Employer contributions</b>		
Deficit funding	975	-
Other	301	269
	<u>1,276</u>	<u>269</u>

Under the Schedule of Contributions dated 31 March 2015, no deficit contributions were payable.

A new Schedule of Contributions was signed on 21 December 2017 and deficit funding contributions of £3,000,000 are payable by 31 March 2018. However, with agreement of the employer and Trustees, £975,000 was paid and recognised in December 2017. In addition and in accordance with the recovery plan dated 21 December 2017, annual deficit contributions of £200,000 are payable from 31 March 2021 to 31 March 2030. Other contributions relate to employer reimbursements of the expenses of administration, professional fees and levies up to an agreed maximum.

## Notes to the Financial Statements

## 4. Other Income

	2017 £'000	2016 £'000
Compensation from Capita*	-	94

\* the compensation above is in relation to the transition from the previous Scheme Administrator.

## 5. Benefits paid or payable

	2017 £'000	2016 £'000
Pensions	5,788	5,646
Commutations of pensions and lump sum retirement benefits	114	1,198
	<b>5,902</b>	<b>6,844</b>

## 6. Payments to and on account of leavers

	2017 £'000	2016 £'000
Individual transfers out to other Schemes	<b>7,613</b>	3,865

## 7. Administrative expenses

	2017 £'000	2016 £'000
Actuarial*	109	86
Administration and processing*	52	65
Audit fee*	19	25
Professional fees*	76	110
PPF Levy*	46	35
Fees in respect of Trustees Services	48	40
Bank charges	6	-
	<b>356</b>	<b>361</b>

\* reimbursed by the Company, up to a ceiling agreed annually, as agreed in the Schedule of Contributions, see note 3.

## Notes to the Financial Statements

## 8. Investment income

	2017 £'000	2016 £'000
Dividends from equities	241	219
Income from bonds	42	61
Income from pooled investment vehicles	120	124
Annuity income	72	71
Interest on cash deposits and other	1	3
Income from private credit	709	853
	<b>1,185</b>	<b>1,331</b>

## 9. Reconciliation of investments

The movements in total investments during the year were as follows:

	Value at 1 January 2017 £'000	Purchases at cost & derivative payments £'000	Sales proceeds & derivative receipts £'000	Change in market value £'000	Value at 31 December 2017 £'000
Equities	9,381	5,513	(3,806)	866	11,954
Bonds	13,790	8,548	(10,958)	(183)	11,197
Pooled investment vehicles	269,773	52,707	(64,429)	18,483	276,534
Derivatives	310	313	(1,026)	462	59
Insurance policies	649	-	-	(93)	556
AVC investments	1,767	-	(12)	136	1,891
	<b>295,670</b>	<b>67,081</b>	<b>(80,231)</b>	<b>19,671</b>	<b>302,191</b>
Cash deposits	1,239				2,436
Other investment balances	2,339				1,436
	<b>299,248</b>				<b>306,063</b>

The investments are held in the name of the custodians' nominee companies, as detailed in the Trustees' Report.

## Notes to the Financial Statements

### 9. Reconciliation of investments (continued)

#### Concentration of Investments

Each of the following investments account for more than 5% of the Scheme's net assets, as at 31 December 2017:

	2017 %	2016 %
Insight Global Funds LIBOR	18.69	11.84
Baillie Gifford Global Alpha	15.01	12.55
Lazard Global Managed	13.90	14.92
Insight LDI Enhanced	12.42	11.28
Insight LDI Solutions Bonds	9.70	13.26
Insight LDI Solutions Plus Bonds 400s	7.58	6.00
Henderson Secured Loan	-	6.64

#### Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

Transaction costs analysed by main asset class and type of cost are as follows:

	Commission £'000	Stamp Duty £'000	Total 2017 £'000
Equities	9	4	13

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	Commission £'000	Stamp Duty £'000	Total 2016 £'000
Equities	9	7	16

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

## Notes to the Financial Statements

**10. Investment management expenses**

	2017 £'000	2016 £'000
Administration, management and custody	559	764
Investment manager fee rebates	(231)	(126)
	<u>328</u>	<u>638</u>

**11. Taxation**

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

**12. Pooled investment vehicles**

The Scheme's investments in pooled investment vehicles at the year end comprised:

	2017 £'000	2016 £'000
Equity	91,072	84,871
Bonds	115,372	102,169
Hedge funds	53,853	58,951
Cash	2,958	10,807
Precious metals	1,602	1,371
Private credit	11,677	11,604
	<u>276,534</u>	<u>269,773</u>

**13. Derivatives****Objectives and policies**

The Trustees have authorised the use of derivatives by certain investment managers as part of their investment strategy for the Scheme as follows:

Forward FX – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in GBP, a currency hedging programme, using forward FX contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.



## Notes to the Financial Statements

## 13. Derivatives (continued)

## (i) Forward Foreign Exchange (FX)

Contract	Settlement date	Currency bought	Value of currency bought £'000	Currency sold	Value of currency sold £'000	Aggregate asset £'000	Aggregate liability £'000
Forward OTCs	2-3 months	CAD	406	GBP	698	-	(4)
Forward OTCs	2-3 months	EUR	1,013	GBP	1,144	-	(6)
Forward OTCs	2-3 months	JPY	2,776	GBP	419,589	15	-
Forward OTCs	2-3 months	USD	5,612	GBP	7,526	54	-
<b>Total 2017</b>						<b>69</b>	<b>(10)</b>
<b>Total 2016</b>						362	(52)

The use of foreign exchange contracts have been put in place by certain investment managers to reduce the currency exposure.

## 14. Insurance policies

The Scheme held insurance policies at the year end as follows:

	2017 £'000	2016 £'000
Annuities with Prudential	533	624
Annuities with Generali	23	25
Total annuities	<b>556</b>	649

## 15. AVC investments

The Trustees hold assets invested separately from the main Defined Benefit Section investments to secure additional benefits on a money purchase basis for those Defined Benefit Section members electing to pay Additional Voluntary Contributions. Members participating in this arrangement are sent statements at least annually confirming the amounts held in their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

	2017 £'000	2016 £'000
Prudential Deposit Fund	19	14
Prudential Discretionary	970	693
Prudential With-Profits Cash Accumulation Fund	902	1,060
Total	<b>1,891</b>	1,767



## Notes to the Financial Statements

### 16. Fair value determination

The fair value of financial instruments have been determined using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

As at 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	11,954	-	-	11,954
Bonds	11,197	-	-	11,197
Pooled investment vehicles	-	264,857	11,677	276,534
Derivatives	-	59	-	59
Insurance policies	-	-	556	556
AVC investments	-	989	902	1,891
Cash	2,436	-	-	2,436
Other investment balances	1,436	-	-	1,436
	<b>27,023</b>	<b>265,905</b>	<b>13,135</b>	<b>306,063</b>

As at 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	9,381	-	-	9,381
Bonds	13,790	-	-	13,790
Pooled investment vehicles	-	258,169	11,604	269,773
Derivatives	-	310	-	310
Insurance policies	-	-	649	649
AVC investments	-	707	1,060	1,767
Cash	1,239	-	-	1,239
Other investment balances	2,339	-	-	2,339
	<b>26,749</b>	<b>259,186</b>	<b>13,313</b>	<b>299,248</b>

## Notes to the Financial Statements

### 17. Investment risk disclosures

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 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, either directly or indirectly.

Market risk comprises currency risk, interest rate risk and other price risk, defined as follows:

- Currency risk 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 is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk 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), 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 Trustees determined the Scheme's investment strategy after taking advice from their investment adviser. The Scheme has exposure to the aforementioned risks via the investments held to implement the investment strategy. The Trustees manage investment risks, including credit risk and market risk, considering the Scheme's investment objectives and strategy, and the advice of their investment advisers.

Within each investment portfolio, investment objectives and restrictions to manage risk are implemented through the legal agreements in place with the Scheme's investment managers. The Trustees monitor the performance of the strategy and associated risks, and each investment manager against its objectives and restrictions, on a regular basis.

Further information on these risks and the approach of the Trustees to risk management is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

#### Investment Strategy

The investment objective set by the Trustees is to achieve the best overall investment return in moving towards the 2030 target set out in the Funding Deed, with a level of risk that is commensurate with this objective, having regard to the agreed level of employer contributions and the covenant of the employers.

The Trustees set the investment strategy for the Scheme after taking advice from the Scheme's Investment Adviser and consulting with the Employer. The investment strategy is set out in its Statement of Investment Principles (SIP). Day to day investment management has been delegated to the five investment managers with whom the Trustees have put in place investment mandates to implement the strategy.

The current strategy is to hold assets per below. The Trustees will review the Scheme's asset allocation from time to time, to ensure that the split between growth and defensive assets remains within 5% of the target allocations.

## Notes to the Financial Statements

### 17. Investment risk disclosures

#### Investment Strategy (continued)

- a. 57.5% in “defensive” investments. These are investments that either move in line with the long term liabilities of the Scheme or which the Trustees consider less risky investments. The underlying investments include corporate and government bonds, interest rate and inflation swaps and other derivatives.
- b. 42.5% in return seeking investments comprising global equities, a multi-asset mandate whereby the investment manager has discretion to invest in a wide range of asset classes and a private credit mandate.

#### Credit risk

Where the Scheme invests in pooled funds it is directly exposed to credit risk in relation to the solvency of the investment manager and custodian of those funds. In addition, where the Scheme holds assets via a segregated portfolio with Ruffer, the Scheme is directly exposed to credit risk in relation to the custodian.

These direct credit risks are mitigated by the underlying assets of the pooled funds and segregated portfolios being ring-fenced from the investment managers and the custodians, the regulatory environments in which the pooled fund managers and custodians operate and diversification of the Scheme’s investments across a number of pooled funds and segregated portfolios. The Trustees carry out due diligence checks prior to the appointment of any new investment manager or fund, and monitor for changes to the operating environment of the existing pooled funds and custodian of the segregated assets.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, where they invest in bonds, derivatives or cash. This is relevant for the Scheme’s private credit and liability matching portfolios (including absolute return bonds) held with Longbow and Insight respectively. The Scheme is directly exposed to credit risks arising from the underlying investments held by the segregated portfolio with Ruffer. The amount invested in each of these mandates is shown in the Statement of Net Assets.

The managers of these funds manage credit risk by having a diversified exposure to bond and loan issuers, conducting thorough research on the probability of default of those issuers. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets and specific issuers. The Scheme disinvested from a loan fund with Henderson on 29 November 2017 and transferred the proceeds to Insight’s Libor Plus Fund. As a result there is less diversification of credit risk by investment manager, but the Trustees are comfortable that there remains sufficient diversification of approach within the Insight assets, which are spread across three different funds. The private credit fund invests predominantly in UK commercial real estate debt originated by ICG-Longbow. The manager manages credit risk by conducting thorough due diligence on the borrower and underlying property security seeking to ensure high levels of diversification of at tenant and property level across the investment portfolio. The manager actively monitors risk migration at loan and portfolio levels through the term of each investment.



## Notes to the Financial Statements

### 17. Investment risk disclosures

#### **Credit risk (continued)**

Within the LDI portfolio, there is exposure to credit risk as the LDI portfolio manager uses derivative instruments to match the Scheme's liabilities. The terms under which the LDI portfolio is managed include provisions to manage the exposure to credit risk, such as limits on the exposure to any single counterparty and minimum credit ratings that all counterparties must meet. In addition, the derivative positions are collateralised daily to aim to limit credit risk to one day's market movements. Cash is held within financial institutions which are at least investment grade credit rated.

#### **Currency risk**

As the Scheme's liabilities are denominated in Sterling, any non-Sterling currency exposure within the assets presents additional currency risk.

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. In some cases, the Trustees have delegated the decision on whether or not to hedge any currency risk to their investment managers, some of which maintain a fully hedged position. Even where currency hedging arrangements are in place, there will still be residual currency risks, as these hedging arrangements may not be perfectly aligned to the assets.

The Scheme's assets that are exposed to indirect currency risk are the various international equity, multi-asset and bond funds. The amount invested in each of these mandates is shown in the Statement of Net Assets.

#### **Interest rate risk**

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds, interest rate swaps and cash, both directly as segregated investments and indirectly through the pooled investments with Insight. The amount invested in each of these mandates is shown in the Statement of Net Assets.

However, the interest rate exposure of these assets is structured to ultimately hedge around 80% of the corresponding risks associated with the Fund's liabilities, measured on a gilts only basis (the Trustees have in place a process to move to this target hedge level over time). The net effect is to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to take exposures to these risks in this manner.

#### **Other price risk**

The Scheme's assets are exposed to risks of market prices other than currencies and interest rates, such as the equity pooled fund holdings being subject to movements in equity prices. The Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class to manage this risk.

## Notes to the Financial Statements

## 18. Current assets

	2017 £'000	2016 £'000
Pensions paid in advance	401	390
Cash balances	1,432	586
Employer contribution *	-	29
AVC income	-	14
	<u>1,833</u>	<u>1,019</u>

\* The employer contribution in 2016 of £29,342 related to the 2016 PPF levy, which was paid post year end in accordance with the Schedule of Contributions.

## 19. Current liabilities

	2017 £'000	2016 £'000
Benefits payable	-	284
Administrative and investment management expenses	219	235
Other	-	4
	<u>219</u>	<u>523</u>

## 20. Related party transactions

There was no direct investment in any Lazard company, including in the employers participating in the Scheme, at any time during the year or at the year end.

Investments under management by Lazard Asset Management Limited represented 13.9% of the net assets of the Scheme as at 31 December 2017 (2016: 15.0%).

During the year fee rebates have been received from the associates of Lazard & Co, Services Limited as disclosed in note 10 amounting to £105,000 (2016: £126,000).

One (2016: two) Trustee is receiving benefits from the Scheme and one Trustee who resigned is also in receipt of a pension.

Fees of £32,000 (2016: £20,000) in respect of Trustee Services were paid in the year by Lazard & Co, Services Limited. The company was reimbursed for these payments made on behalf of the Scheme as disclosed in note 7. In addition, further fees of £16,000 (2016: £20,000) were paid by the Scheme.

## 21. Contractual commitments

The Scheme is committed to invest £19,500,000 into ICG-Longbow UK Real Estate. Of this, a total of £11,603,461.82 was invested up to 31 December 2017.



