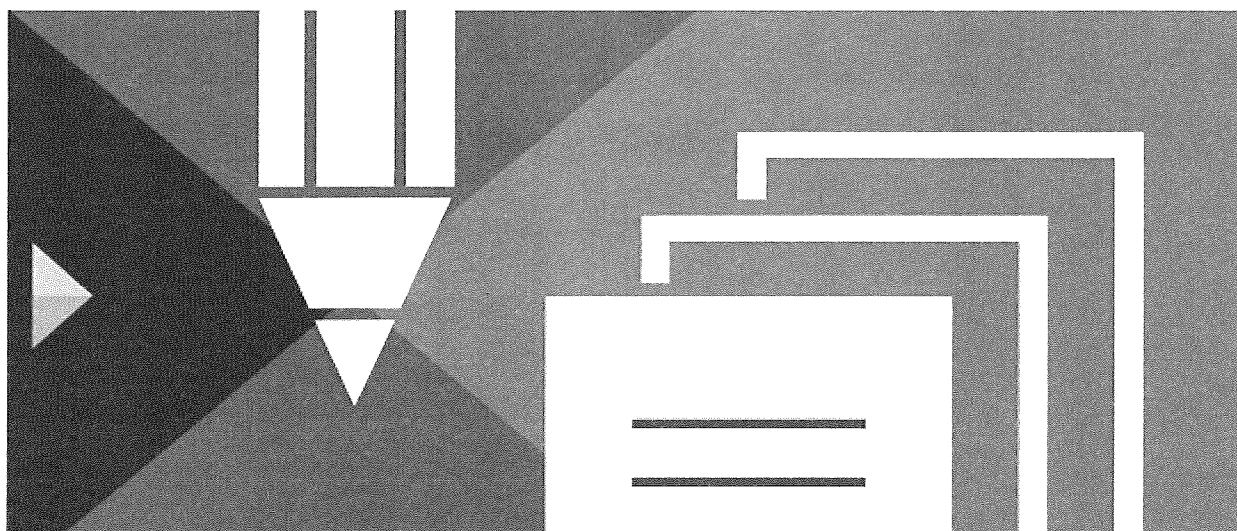


CAPITA



Lazard London Directors' Pension Scheme

Scheme Registration Number: 10137270X

Trustees' Annual Report and Financial Statements
For the Year Ended 31 December 2018

CONFIDENTIAL

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Trustees' and their Advisers

Mr David Anderson (Chairman)

Mrs B. Albåge Gough-Cooper

Mr P. Dixon

*Mr D Cummings**

*Mr A. Johnston**

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

** Member-nominated Trustees*

Secretary to the Trustees

Barnett Waddingham
2 London Wall Place
123 London Wall
London EC2Y 5AU

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 Adviser

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 EC2A 1AQ

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
160 Queen Victoria Street
London
EC4V 4LA

Ruffer LLP
80 Victoria Street
London SW1E 5JL

Baillie Gifford & Co
Calton Square
1 Greenside Row
Edinburgh EH1 3AN

ICG Longbow
42 Wigmore Street
London W1U 2RY

AVC Manager

Cazenove Capital Management
(trading name of Schroder & Company
Limited)
1 London Wall Place
London EC2Y 5AU

Trustees' and their Advisers

Investment Custodians

RBC Investor & Treasury
Riverbank House
2 Swan Lane
London EC4R 3AF

Northern Trust
50 Bank Street
Canary Wharf
London E14 5NT

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 or the Scheme Secretary at LazardPension@Barnett-Waddingham.co.uk.

Trustees' Report

The Trustees of the Lazard London Directors' Pension Scheme ("the Scheme") present their report together with the financial statements for the year ended 31 December 2018.

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, 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 additional 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 are entitled to receive the Basic State Pension and may be eligible for the State Second Pension.

Scheme Management

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 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. A Member Nominated Trustee may be removed before the end of the five year term but only by agreement of all the remaining Trustees.

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 2018 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.

In the year ended 31 December 2018 the Trustees met on seven occasions, including two meetings to focus principally on investment matters.

Pension Increases

All pensions in payment as at 1 January 2018 were increased by 3% (2017: 3%).

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 paid were less than the amount required by the Regulations.

Trustees' Report

Scheme Management

Membership

Details of the membership of the Scheme are given below:

	2018	2017
Pensioners		
Pensioners at the start of the year	79	79
Members with deferred benefits reaching retirement	-	2
Pensioners who died during the year	(1)	(3)
Pensioners suspended during the year	(1)	-
Pensioners re-instated during the year	1	-
New spouse and dependant pensions	-	1
Pensioners at the end of the year	78	79
Deferred Members		
Deferred Members at the start of the year	33	41
Deferred members becoming pensioners during the year	-	(2)
Deferred members transferring during the year	(6)	(6)
Deferred members at the end of the year	27	33
Total membership at the end of the year	105	112

Of the 78 pensioners at the year end, there were 16 individuals (2017: 16) receiving a pension following the death of their spouse and there were 12 pensioner annuitants (2017: 14) 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.

Trustees' Report

Scheme Management

Financial Development

The development of the Scheme during the year ended 31 December 2018 is summarised as follows:

	£'000
Total contributions received from the employer together with other income	4,958
Less benefits paid & expenses	<u>(21,451)</u>
Net withdrawals from dealings with members	(16,493)
Return on investments	<u>(4,226)</u>
Net decrease in the Fund during the year	(20,719)
Net assets of the Scheme at the start of year	<u>188,098</u>
Net assets of the Scheme at the end of year	<u><u>167,379</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 2018

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

	Employer £'000
Required by the Schedules of Contributions	
Deficit Contribution	4,725
Other – Expenses Contribution	233
	<u><u>4,958</u></u>

Trustees' Report

Investment Matters

Overview

The Trustees, with the assistance of their appointed investment adviser, determines the overall investment strategy for the Scheme and sets 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 continually review each of the investment managers' policies.

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 2018.

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.

Northern Trust is custodian for the pooled funds invested with Insight Investment Management Limited. Deutsche Bank Luxembourg S.A. is the depositary for pooled funds invested with ICG-Longbow IV GP SARL.

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 2018, 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 13.8% of the net assets.

Investment Managers

As at 31 December 2018, 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 2018 (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 2018 (%)
Ruffer	Absolute return portfolio	11.4
LAM	Defensive equities	14.6
Baillie Gifford	Global equities	11.2
Longbow	Private credit	5.4
	Total "growth" assets	42.6
Insight	Liability matching portfolio	56.1
	Insured Pensions	1.3
	Total "defensive" assets	57.4
	Total Scheme¹	100.0

The asset allocation has been set by the Trustees such that the Scheme's investments (excluding cash held to meet net outflows) should comprise 42.6% 'return seeking' assets and 57.4% '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.

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	1 Years Annualised	3 Years Annualised	5 Years Annualised
Scheme (% pa)	-2.6%	8.0%	8.0%
Benchmark (% pa)	-0.5%	8.2%	7.9%
Relative Performance (% pa)	-2.1%	-0.2%	+0.1%

Over 2018, the Scheme's assets returned -2.6%.

Over three years to 31 December 2018, the Scheme underperformed its benchmark return by 0.2% per annum. Underperformance was driven primarily by the absolute return elements of the portfolio managed by Ruffer and Insight.

Over five years to 31 December 2018, the Scheme slightly outperformed its benchmark return by 0.1% per annum.

Investment risk disclosures

Investment risks are disclosed in note 12 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 Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The Trustees of the Lazard London Directors' 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	£182.4m
Amount needed to provide benefits	£206.4m
Deficit	£24.0m
Funding level	88%

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

- £7m by 31 March 2018, £2.3m of which was received on 22 December 2017 and the remainder was received on 3 January 2018; and
- £1.3m 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 2018, the funding level of the Scheme had improved to an estimated deficit of £19.9m. The improvement since 31 December 2016 is primarily driven by positive asset performance and the deficit reduction contributions of £7m received from the Company, partially offset by a 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 75% 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 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), are the responsibility of the Trustees. Pension scheme regulations require, and the trustees are responsible for ensuring, that those financial statements:

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

In discharging the above responsibilities, the Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

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

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.


The Trustees are responsible under pensions legislation for preparing, maintaining and from time to time revising a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active 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 adopting risk-based processes to monitor 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.

Trustees' Report

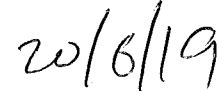
Statement of Trustees' Responsibilities

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

Signed on behalf of the Lazard London Directors' Pension Scheme by:

.....


Trustee

Date:


.....


Trustee

Date:


Actuary's Certification of the Schedule of Contributions



3361945

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 Directors' 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 Wigmores Street
London
W1U 1DC

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

Lane Clark & Peacock LLP is 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 002905583). All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 95 Wigmores Street, London, W1U 1DC, 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, Manchester, Ireland and - operating under licence - the Netherlands.

Actuary's Certification of the Schedule of Contributions



3361945 Notes not forming part of the certification

Page 2 of 2 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 Directors' Pension Scheme

We have examined the summary of contributions to the Lazard London Directors' Pension Scheme (the 'Scheme') for the Scheme year ended 31 December 2018 which is set out in the trustees' report on page 6.

In our opinion, contributions for the Scheme year ended 31 December 2018 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the Scheme actuary on 21 December 2017.

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 schedule 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 schedule 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 schedule of contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. 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.



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
LONDON

Date

20th June 2019

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

Opinion

We have audited the financial statements of Lazard London Directors' Pension Scheme (the 'Scheme') for the year ended 31 December 2018, 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 2018, 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.

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.

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.

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

Other information (continued)

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. This description forms part of our auditor's report.

Use of our report

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 trustees as a body, for our audit work, for this report, or for the opinions we have formed.



Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

LONDON

Date

20th June 2019

Fund Account

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Employer contributions		4,958	2,494
Total contributions	3	4,958	2,494
Benefits paid or payable	4	(7,007)	(6,435)
Payment to and on account of leavers	5	(14,164)	(8,137)
Administrative expenses	6	(280)	(277)
		(21,451)	(14,849)
Net withdrawals from dealings with Members		(16,493)	(12,355)
Returns on investments			
Investment income	7	1,587	1,420
Change in market value of investments	8	(5,502)	9,562
Investment management fee rebate	9	146	127
Investment management expenses	9	(457)	(346)
Net return on investments		(4,226)	10,763
Net decrease in the fund during the year		(20,719)	(1,592)
Net assets of the Scheme at start of year		188,098	189,690
Net assets of the Scheme at end of year		167,379	188,098

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 2018

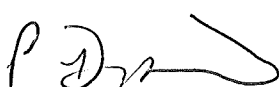
	Note	2018 £'000	2017 £'000
Investment assets:	8		
Equities		5,286	7,235
Bonds		8,296	6,700
Pooled investment vehicles		141,892	156,068
Derivatives		-	42
Insurance policies		5,673	6,359
AVC investments		4,888	6,522
Cash		371	1,504
Other investment balances*		248	875
		166,654	185,305
Investment liabilities:			
Derivatives		(18)	(6)
		(18)	(6)
Total net investments		166,636	185,299
Current assets	13	938	2,981
Current liabilities	14	(195)	(182)
Net assets of the Scheme at end of year		167,379	188,098

* 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 20 June 2019 and signed on their behalf by:



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).

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

	2018 £'000	2017 £'000
Employer contributions		
Deficit funding	4,725	2,275
Other	233	219
	<u>4,958</u>	<u>2,494</u>

A new Schedule of Contributions was signed on 21 December 2017 and deficit funding contributions of £7,000,000 are payable by 31 March 2018. However, with agreement of the employer and Trustees, £2,275,000 was paid and recognised in December 2017. The remaining £4,725,000 was received by the Scheme on 3 January 2018. In addition and in accordance with the recovery plan dated 21 December 2017, annual deficit contributions of £1,300,000 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. Benefits paid or payable

	2018 £'000	2017 £'000
Pensions	5,618	5,525
Commutations of pensions and lump sum retirement benefits	1,389	828
Taxation where lifetime allowance exceeded	-	82
	<u>7,007</u>	<u>6,435</u>

5. Payments to and on account of leavers

	2018 £'000	2017 £'000
Individual transfers out to other Schemes	<u>14,164</u>	<u>8,137</u>

6. Administrative expenses

	2018 £'000	2017 £'000
Actuarial*	112	89
Administration and processing*	20	20
Audit Fee*	21	23
Professional fees*	52	82
PPF Levy*	3	3
Fees in respect of Trustees Services	72	55
Bank charges	-	5
	<u>280</u>	<u>277</u>

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

Notes to the Financial Statements

7. Investment income

	2018 £'000	2017 £'000
Dividends from AVC investments	68	60
Dividends from equities	146	147
Income from bonds	47	26
Income from pooled investment vehicles	20	74
Annuity income	626	675
Interest on cash deposits and other	2	2
Income from private credit	678	436
	1,587	1,420

8. Reconciliation of investments held

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

	Value at 1 January 2018 £'000	Purchases at cost & derivative payments £'000	Sales proceeds & derivative receipts £'000	Change in market value £'000	Value at 31 December 2018 £'000
Equities	7,235	3,890	(5,273)	(566)	5,286
Bonds	6,700	4,323	(3,138)	411	8,296
Pooled investment vehicles	156,068	53,324	(63,460)	(4,040)	141,892
Derivatives	36	344	(156)	(242)	(18)
Insurance policies	6,359	-	-	(686)	5,673
AVC investments	6,522	69	(1,324)	(379)	4,888
	182,920	61,950	(73,351)	(5,502)	166,017
Cash deposits	1,504				371
Other investment balances	875				248
	185,299				166,636

The investments are held in the name of the custodians' nominee companies, as detailed on page 7 of the Trustees' Report.

Notes to the Financial Statements

8. Reconciliation of investments held (continued)

Concentration of Investments

Each of the following investments account for more than 5% of the Scheme's net assets, as at 31 December 2018.

	2018 %	2017 %
Insight Global Funds LIBOR	17.92	15.87
Lazard Global Manager Fund	13.79	12.90
Insight Bonds Plus	12.79	12.82
Baillie Gifford	10.45	13.56
Insight LDI Enhanced (Real)	7.49	10.46
Insight Bonds Plus 400s	6.12	5.27
Insight LDI Enhanced (Normal)	5.66	-
Longbow Real Estate Debt	5.01	-

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 2018 £'000
Equities	7	7	14

	Commission £'000	Stamp Duty £'000	Total 2017 £'000
Equities	5	2	7

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

8. Reconciliation of investments held (continued)

Pooled investment vehicles

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

	2018 £'000	2017 £'000
Equity	41,738	50,918
Bonds	54,270	59,349
Hedge funds	32,128	34,260
Cash	4,163	3,390
Precious Metals	1,207	965
Private credit	8,386	7,186
	141,892	156,068

Derivatives

Objectives and policies

The Trustees have authorised the use of derivatives by their 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.

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	EUR	397	GBP	444	-	(5)
Forward OTCs	2-3 months	JPY	25,293	GBP	36,674	-	(10)
Forward OTCs	2-3 months	USD	6,248	GBP	8,000	-	(3)
Total 2018						-	(18)
Total 2017						42	(6)

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

Notes to the Financial Statements

Insurance policies

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

	2018 £'000	2017 £'000
Annuities with Prudential	3,021	3,143
Annuities with ReAssure	1,197	1,674
Annuities with Pearl	39	41
Annuities with Canada Life	1,135	1,208
Annuities with Standard Life	281	293
Total annuities	<u>5,673</u>	<u>6,359</u>

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:

	2018 £'000	2017 £'000
Cazenove Capital Management	<u>4,888</u>	<u>6,522</u>

9. Investment management expenses

	2018 £'000	2017 £'000
Administration, management and custody	457	346
Investment manager fee rebates	(146)	(127)
	<u>311</u>	<u>219</u>

10. 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.

Notes to the Financial Statements

11. 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 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	5,286	-	-	5,286
Bonds	8,296	-	-	8,296
Pooled investment vehicles	-	133,506	8,386	141,892
Derivatives	-	(18)	-	(18)
Insurance policies	-	-	5,673	5,673
AVC investments	-	4,888	-	4,888
Cash	371	-	-	371
Other investment balances	248	-	-	248
	14,201	138,376	14,059	166,636

As at 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	7,235	-	-	7,235
Bonds	6,700	-	-	6,700
Pooled investment vehicles	-	148,882	7,186	156,068
Derivatives	-	36	-	36
Insurance policies	-	-	6,359	6,359
AVC investments	-	6,522	-	6,522
Cash	1,504	-	-	1,504
Other investment balances	875	-	-	875
	16,314	155,440	13,545	185,299

Notes to the Financial Statements

12. 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 noted below.

Notes to the Financial Statements

12. 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. Although all matching assets are held with Insight, the Trustees are comfortable that there is sufficient diversification of approach within these 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

12. 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, so as 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

13. Current assets

	2018 £'000	2017 £'000
Pensions paid in advance	310	299
Cash balances	449	2,682
Monies owed to the Scheme	179	-
	<u>938</u>	<u>2,981</u>

Monies owed to the Scheme relates to an overpaid IDD Lump Sum which was received back into the Trustees bank account on 2 January 2019.

14. Current liabilities

	2018 £'000	2017 £'000
Administrative and investment management expenses	193	153
Tax payable	2	2
Lifetime allowance tax payable	-	27
	<u>195</u>	<u>182</u>

15. 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 13.7% of the net assets of the Scheme as at 31 December 2018 (2017: 12.9%).

During the year, fee rebates have been received from associates of Lazard & Co, Services Limited, as disclosed in note 9 amounting to £60,000 (2017: £61,000).

Three (2017: three) of the Trustees of the Scheme are pensioner members receiving benefits from the Scheme.

No fees (2017: £31,000) in respect of Trustees 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 6. In addition, further fees of £72,000 (2017: £24,000) were paid by the Scheme. Of these fees, £43,000 (2017: £11,000) are also included in the current liabilities.

16. Contractual commitments

The Scheme committed to invest £12,000,000 into ICG-Longbow UK Real Estate. As at 31 December 2018, ICG-Longbow UK Real Estate has been fully invested.