Statement of Investment Principles

This is the Statement of Investment Principles made by the Trustees of the Legal Services Commission Staff Pension and Assurance Scheme No.4 ("the Scheme") in accordance with the Pensions Act 1995. It is subject to periodic review by the Trustees at least every three years and more frequently as appropriate.

In preparing this Statement, the Trustees consulted with the Ministry of Justice ("MoJ") as Scheme Sponsor and have taken written advice from the Investment Practice of Hymans Robertson LLP.

The Scheme has a Crown Guarantee from the Secretary of State for Justice. However, the Scheme continues to treat the Statement of Investment Principles requirements, from Section 35 of the Pensions Act 1995, as applying to the Scheme, other than Section 35(5). If upon being consulted by the Trustees about the Statement of Investment Principles the Principal Employer objects to the inclusion in it of any category of investment, the Trustees shall omit such category of investment.

Scheme Objective

The Scheme closed to future accrual of all benefits on 31 March 2013. The Trustees' main objective is to have sufficient assets to pay the future benefits from the Scheme.

The funding position is monitored regularly by the Trustees and formally reviewed at each actuarial valuation, at no more than three-year intervals.

Investment Strategy

The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme. All day to day investment decisions have been delegated to the Scheme's manager, Legal & General Investment Management ("L&G"). L&G are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Scheme's strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests. The Scheme benchmark is consistent with the Trustees' views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy is reviewed from time to time and takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), together with the level of disclosed surplus or deficit (relative to the funding bases used). The Trustees monitor funding level against a de-risking trigger plan. As funding level increases, further de-risking is expected. The Trustees also monitor investment performance relative to their agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following formal actuarial valuations of the Scheme, and will normally be reviewed annually. In reviewing strategy, the Trustees will seek written advice as required. The current target asset allocation for the Scheme is set out in the Appendix. The Trustees' investment consultant will monitor their allocation relative to the benchmark and the benchmark range quarterly.

To achieve their objectives the Trustees have agreed the following:-

Choosing investments

The Trustees have decided to invest in a range of pooled funds managed by L&G. The L&G funds are managed on a passive (index-tracking) basis, whereby the investment manager seeks to match, rather than exceed the performance of the benchmark index.

The two L&G World Equity Funds invest in individual stocks in such a way as to replicate, as closely as possible, the composition of the benchmark indices. The Trustees have chosen to invest some of the equity allocation in an index-tracking fund that overall has a bias towards companies which have a more positive impact on climate change than the market cap-weighted index.

The Scheme has invested in two Maturing Buy and Maintain ("B&M)" credit funds as part of a Cash Flow Driven ("CDI") strategy to match the Scheme's liability cashflow requirements for the next 5 years. The funds provide exposure to a portfolio of investment grade bonds which all have expected principal payments due to be paid before the end of 2029.

The other L&G funds are a mix of single stock levered and unlevered, gilt and index-linked gilt funds, which means each fund targets one single gilt issue and the split between the funds broadly matches the Scheme's underlying liabilities.

In adopting this approach, the Trustees are satisfied that the overall portfolio is suitably diversified as regards asset class, geographic spread and the number of stocks held.

Manager appointments

The Trustees have appointed the investment manager to deliver a specific benchmark, which overall will align to deliver the broader Scheme investment strategy. The Trustees ensure that their manager engagement has clearly defined benchmarks, objectives and management parameters.

The Trustees invest in pooled funds where the objectives of the funds and the policies of the investment manager are evaluated by the Trustees to ensure that they are appropriate for the needs of the Scheme.

Remuneration to the manager is determined at inception based on commercial considerations and set on an ad valorem basis. The Trustees periodically review the fees paid to its manager against industry standards.

The duration of a mandate is determined by the Trustees at the inception of each mandate. The Scheme invests in open-ended funds with no pre-determined term of appointment. The Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For the B&M funds, these are expected to be held until maturity. The Trustees recognise the long-term nature of the liability profile and appoint their manager to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The Trustees monitor their manager's performance against their respective benchmarks on a quarterly basis over a long-term time horizon of at least 3 years. The Trustees also measure their funds' tracking errors against benchmarks. The manager is expected to provide explanation for any significant deviations away from the benchmark.

Advice

The Trustees seek and consider written advice from a suitably qualified person when determining the appropriateness of a manager and fund for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If an investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability.

Kinds of investments that may be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest, and index linked bonds, cash. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable to the circumstances of the Scheme.

Balance between different kinds of investments

The Scheme's investment manager will hold a mix of investments which reflect the benchmark and targets which have been set by the Trustees. Within each of the two World Equity Funds, the manager will maintain a diversified portfolio of stocks through investment in pooled vehicles.

Risk

The Trustees monitor risk in two ways. As indicated above, they have set a strategic asset allocation benchmark for the Scheme. They assess risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. They also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Trustees provide a practical constraint on Scheme investments deviating greatly from the Trustees' intended approach by adopting a specific asset allocation benchmark and by agreeing benchmark asset allocations and tracking error requirements with L&G which are regularly monitored and rebalanced when necessary.

All of the Scheme's assets are invested with a single manager, L&G, exposing the Scheme to a degree of manager risk. The Trustees are comfortable with this risk on the basis that the funds are managed on a passive basis, which has a lower reliance on manager skill than an active manager. The Trustees monitor L&G on a regular basis in conjunction with their investment consultants.

The Trustees do not expect their manager to take excess short-term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the discount rate assumed by the Trustees in funding the Scheme.

Realisation of investments

The Scheme's investments may be realised quickly if required. The L&G funds trade weekly.

Portfolio turnover

The Trustees have expectations of the level of turnover within each fund which is determined at the inception of the fund based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expects the manager to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustees will challenge their manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustees will request turnover costs incurred by the manager over the Scheme reporting year. Where possible the Trustees will compare costs to the theoretical portfolio turnover and cost for an appropriate index.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including Environmental, Social and Governance (ESG) factors, is relevant at different stages of the investment process. The Trustees have explicitly acknowledged the relevance of climate change and ESG factors in framing their investment beliefs and these are set out below:

Strategic considerations

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Given the inherent uncertainty, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark. The Trustees have however discussed the risks and impact that climate change can have on future outcomes for the Scheme's investment strategy and have invested half of the Scheme's allocation to equities in a fund that has a bias towards investing in companies that rely less on carbon reserves, incur lower carbon emissions or generate greener revenues compared with the market cap-weighted index. The manager also has discretion to remove companies from the fund that do not agree to meet future Climate Impact Pledge objectives. The Trustees have also discussed the potential impact of climate change with their Scheme Actuary and have reflected the inherent uncertainties in their choice of funding assumptions. The Trustees periodically discuss climate change with Hymans Robertson and their investment manager to consider the potential implications and opportunities for the Scheme's investments.

Selecting investment managers

As the Scheme's assets are managed on a passive basis, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which their current strategy has been set. The Trustees review the index benchmarks employed for the Scheme on at least a triennial basis.

Consideration of non-financially material factors in investment arrangements

The Trustees have considered non-financially material factors when developing their investment strategy. However, the Trustees have agreed not to impose any restrictions or exclusions to the investment arrangements based purely on non-financially material factors.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with the investment manager and the monitoring of compliance with agreed policies and has set responsible investment priorities.

Responsibility for investment decisions has been delegated to the investment manager which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where the manager is responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and ensures that their manager has an appropriate conflicts of interest policy in place. The manager is required to disclose any potential or actual conflict of interest to the Trustees.

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The investment manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustees have reviewed the voting policies of their investment manager and determined that these policies are appropriate. On at least an annual basis, the Trustees request their investment manager to provide details of any change in their house policy. Where appropriate, the Trustees engage with and may seek further information from their investment manager on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but believe it is appropriate for the Scheme's investment manager to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustees review engagement activity undertaken by their investment manager as part of their broader monitoring activity.

Monitoring

The investment manager reports on voting activity to the Trustees on a periodic basis. The Trustees monitor the investment manager's voting activity and may periodically review their voting patterns. Where the Trustees deem it appropriate, any issues of concern will be raised with the investment manager for further explanation.

The Trustees meet with their investment manager on at least an annual basis. The Trustees provide their investment manager with an agenda for discussion, sometimes including issues relating to individual holdings and, where appropriate, ESG issues. The manager is challenged by the Trustees and advisors on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Additional voluntary contributions (AVCs)

In the period until 31 March 2013, members were able to purchase additional years' service in the Scheme by way of paying additional voluntary contributions.

Signed for and on behalf of the Trustees of the Legal Services Commission Staff Pension and Assurance Scheme No.4

Trustee **Name**

Trustee **Name**

Date

Appendix

The Scheme's overall target is to be invested 88% in matching assets and 12% in growth assets:

L&G funds and benchmark ranges

Fund	Benchmark	Central benchmark %	Benchmark range %
World Equity		**12.0**	**+/- 3.0**
Future World Fund	FTSE AW excluding Controversial Weapons, Climate Balanced (UKPN)	6.0	-
World Equity Index Fund (GBP Hedged)	FTSE World Index - GBP Hedged (excluding the advanced emerging markets)	6.0	-
Matching Assets		**88.0**	**+/- 3.0**
Maturing Buy and Maintain Funds		**-**	**-**
LDI Funds		**-**	**-**
Sterling Liquidity Fund ("SLF")		**-**	**-**
Total		**100.0**	

The Future World Fund is a pooled fund that aims to track a FTSE global equity index that invests more in companies that exhibit certain investment characteristics (good value, low volatility, smaller companies and high quality) whilst also combining with a bias towards companies that rely less on carbon reserves, incur lower carbon emissions or generate greener revenues compared with the market cap-weighted index. The manager also has discretion to remove companies that do not agree to meet future Climate Impact Pledge objectives.

The World Equity Index Fund (GBP Hedged) is a pooled fund that aims to track a FTSE global equity index that invests on a market cap-weighted basis, which means that it invests in companies in proportion to their value relative to the whole of the global equity market. Foreign currencies are hedged back to Sterling in the fund with the objective of removing foreign currency risk.

The Maturing Buy and Maintain Funds are pooled funds that provide exposure to a portfolio of investment grade bonds which all have expected principal payments due to be paid before the end of 2029. Foreign currencies are hedged back to Sterling in the fund with the objective of removing foreign currency risk. Income and principal is distributed monthly by the cancellation of units.

Cashflow policy

In order to help pay the Scheme's benefits, Notional Income Payments are paid to the Trustees' bank account when income from the relevant L&G funds is distributed.