

Members' Summary Funding Statement

October 2020

London Stock Exchange Group Pension Scheme – LCH Section

This Summary Funding Statement has been prepared by the Trustee of the London Stock Exchange Group Pension Scheme (the 'Trustee' of the 'Scheme') to update members on the financial position of the LCH Section (the 'Section').

Why have you sent me this Summary Funding Statement?

The Trustee is responsible for looking after the Scheme on behalf of its members. We are sending you this statement to let you know about the Section's financial security. The financial security of the Section might affect the benefits you will receive, so we recommend you spend some time to read through this statement. We will send you a similar statement each year to keep you up to date.

How is the Section's financial security measured?

The LCH and LSE Sections both have their own assets and the financial performance of each Section is reviewed separately.

The estimated cost of providing the benefits that you and other members have earned to date is known as the Section's **'liabilities'**. This includes the benefits of members who have left the Company or retired.

The Scheme is closed to future benefit accrual. However, the Company continues to pay contributions when required.

The contributions we collect from the Company are invested in a communal fund for the Section, not in separate funds for each individual. The amount of money we have invested is known as the Section's **'assets'**.

To check the Section's financial security, we look at its financial position and compare the value of its liabilities to the value of its assets. If the value of the Section's assets is lower than the value of its liabilities, it is said to have a **'shortfall'**. If the value of its assets is higher than the value of its liabilities, there is said to be a **'surplus'**.

We carry out an in-depth look at the Section's finances at least every three years. This is called an 'actuarial valuation'. We ask a qualified, independent professional, known as an Actuary, to do this. We also ask the Actuary to carry out a less formal check on the financial security of the Section annually, between the actuarial valuations. When this is done we receive an actuarial report summarising the Actuary's conclusions.

What is the Section's financial position?

The latest formal actuarial valuation was completed as at 31 December 2017. The results of this valuation and the subsequent actuarial reports as at 31 December 2018 and 31 December 2019 are shown in the table below:

Actuarial valuation as at:	31 December 2017	31 December 2018	31 December 2019
The value of the Section's liabilities was:	£285.7m	£274.4m	£302.0m
The value of the Section's assets was:	£263.3m	£244.1m	£286.1m
This means that there was a shortfall of:	£22.4m	£30.3m	£15.9m

How has the Section's financial position changed since you last received a Summary Funding Statement?

When you last received a Summary Funding Statement in June 2019, the Section was estimated to have a shortfall of £30.3 million at 31 December 2018. As shown in the table on page 1, the estimated shortfall decreased to £15.9 million as at 31 December 2019.

The increase in the value of the Section's assets between 31 December 2018 and 31 December 2019 was primarily driven by higher than assumed investment returns on the Section's growth assets and a deficit funding contribution of £3 million paid into the Section by the Company.

The value of the Section's liabilities increased over the period due to a decrease in government bond yields. However the impact of this increase was mitigated by a similar increase in the value of the Section's matching assets which are designed to match (or 'hedge') movements in the Section's liabilities caused by movements in government bond yields.

More information about the Trustee's investment strategy, including the split between 'growth' and 'matching' assets is shown in the accompanying newsletter.

What has happened so far in 2020?

The COVID-19 pandemic has caused a great deal of instability in global financial markets which has in turn had an impact on the financial position of many UK pension schemes. However, the specific impact on the Section's financial position has been fairly limited due to the level of liability hedging put in place by the Trustee.

The Actuary has estimated that the Section's shortfall at 30 June 2020 was approximately £27 million (i.e. around £11 million higher than the shortfall as at 31 December 2019), with the increase in shortfall over the period being driven by lower than assumed investment returns on the Section's growth assets during the first half of 2020.

It should be noted that pension schemes make long term investments and short term volatility is not surprising or a cause for concern. The Trustee regularly reviews the appropriateness of its investment strategy.

Is the estimated shortfall going to be paid off, and if so, how will this be done?

The Company is no longer required to pay contributions to meet the cost of new benefit accrual. However, the Company's commitment to fully fund the accrued benefits continues.

The Trustee and the Company agreed to make up the shortfall of £22.4 million revealed at the 31 December 2017 valuation through a combination of improved investment returns and additional Company contributions. The company agreed to pay a contribution of up to £3 million per annum

(a maximum of £3 million or the shortfall at the year-end if less) in the years 2019 to 2022 inclusive. Our aim is for the shortfall to be paid off by 31 December 2022.

To calculate the amount of the shortfall, assumptions have to be made about what will happen in the future, for example, the rate at which the Section's assets will grow. If the assumptions do not all turn out to be exactly in line with what happens in future, it may be necessary to change the level of contributions to the Section or the period over which the shortfall is paid off.

There is a legal requirement for us to tell you if any payments have been made to the Company out of Scheme funds. We can confirm there have been no such payments to the Company out of Scheme funds since the last statement was issued.

How do you know what contributions should be paid into the Section?

Following each actuarial valuation, the Actuary advises us what contributions should be paid into the Section in order to remove any shortfall. We then agree a level of contributions for the Section with the Company and record this in a document called the Schedule of Contributions.

We review and update the Schedule of Contributions at least each time the Section has an actuarial valuation (i.e. at least every three years). The valuation and Schedule of Contributions follow standards we have set out in a Statement of Funding Principles. This document describes how we will manage the funding of the Section with the aim of being able to pay all members' benefits.

We are required to tell you whether the Pensions Regulator has used its legal powers to make directions as to any of the method and assumptions used to calculate the liabilities, the length and structure of the recovery plan or the contributions that should be paid under the recovery plan. The Regulator has not used its powers in relation to the Section and therefore the Section is not subject to any directions.

Is my pension guaranteed?

The Trustee and the Company work together with a common goal of there being enough money in the Section to pay pensions now and in the future. This requires that the Company carries on in business and continues to pay money into the Section at the required time. In the unlikely event that the Company goes out of business whilst solvent or decides to stop paying for the Section, it has the responsibility to pay the Section enough money to secure all the benefits built up by members from an insurance company. This is known as the Section being 'wound-up'.

Although such a situation is thought to be highly unlikely; legislation requires the Trustee to let you know of the position if the Section were to be 'wound-up'. The comparison of the Section's assets to the cost of buying the benefits from an insurance company is known as the 'solvency position'.

Is there enough money in the Section to provide my full benefits if the Section was wound-up?

The actuarial valuation at 31 December 2017 showed that the Section's assets could not have paid for the full benefits of all members to be provided by an insurance company if the Section had wound-up at that date.

The liabilities if the Section were to be wound-up were:	£372.6m
The Section's assets were valued at:	£263.3m
This means that there was a shortfall of:	£109.3m

Securing benefits with an insurance company is an expensive process and in line with most defined benefit schemes in the UK, the Section does not currently have sufficient assets to buy insurance policies in this unlikely situation. As mentioned above, the cost of winding up assumes that benefits will be paid for by buying insurance policies. Insurers are obliged to take a very cautious view of the future (including the administration costs of paying the benefits) and need to make a profit. By contrast, when agreeing the contribution rates the Company will pay, we assume that the Company will continue in business and support the Section.

What happens if the Section is wound-up and there is not enough money to pay for all my benefits?

If the Section is wound up, the Company will have to make good the expected shortfall. As a further protection, the Government has set up a 'safety net' in the form of the Pension Protection Fund ('PPF') to pay benefits to members if the Section is wound-up and the Section and the Company do not have enough money to cover the cost of buying all members' benefits with an insurer.

If the Section were to be wound up and go into the PPF, the pension you would receive from the PPF may be less than the full benefit you have earned in the Section, depending on your age and when your benefits were earned.

Further information and guidance is available on the PPF website at www.ppf.co.uk.

Or you can write to the Pension Protection Fund at Renaissance
12 Dingwall Road
Croydon
Surrey
CR0 2NA

Can I transfer my benefits out of the Section before I am due to retire?

Yes, this is possible. If you are thinking of transferring your benefits from the Section for any reason, you should consult a professional advisor, such as an independent financial advisor, before considering any further action. The law prevents us from providing you with financial advice.

Where can I get more information?

If you have any other questions, or would like any more information, please contact the Section Administrator at:

Premier Pensions Management
PO Box 108
Blyth
NE24 9DY

Telephone: **0800 488 0796** or
+44 208 663 5850 if calling from overseas

Email: LSEGPS@Premiercompanies.co.uk

A list of documents that provide further information is also shown below. Members can be provided with copies of these documents on request.

Statement of Funding Principles

This explains how we (the Trustee) plan to make sure enough money is paid into the Section to provide the benefits that members have built up.

Schedule of Contributions

This shows how much money is being paid into the Section by the Company and includes a certificate from the actuary showing that it is sufficient.

Annual Report and Accounts of the London Stock Exchange Group Pension Scheme

This shows the Scheme's income and expenditure to 31 December 2019.

Actuarial Valuation as at 31 December 2017 and Actuarial Reports as at 31 December 2018 and 31 December 2019

These contain the details of the actuary's formal assessment of the Section's funding position as at 31 December 2017, as well as the actuary's approximate check of the Section's funding position at 31 December 2018 and 31 December 2019.

The Trustee of the London Stock Exchange Group Pension Scheme

October 2020



London
Stock Exchange Group