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London Pensions Fund Authority **Pension Fund Annual Report** 2019-20



About us

The London Pensions Fund Authority (LPFA) is the largest Local Government Pension Scheme (LGPS) provider in London.

Our pension fund had a balance sheet value of £5.88bn as at 31 March 2020 (of which £5.73bn were investment assets) and we are responsible for the pension provision of 92,340 members. Of these, 20,574 are employees working for not-for-profit, charity, private sector and local government employers, 36,095 are pensioners and dependants, 6,551 are undecided leavers and frozen refunds, and 29,120 are deferred beneficiaries.

We formed a pensions partnership with the Lancashire County Council (LCC) in April 2016. The resulting entity, Local Pensions Partnership Ltd (LPP) now manages the pension fund assets and pension administration on our behalf. This is done through LPP Investments (LPPI) and LPP Administration (LPPA). We retain strategic oversight of the pension fund but the implementation of its strategy is outsourced to LPP.

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Key facts and highlights of 2019-20

As at 31 March 2020



Members – increase since 2017

31.9%



Active employers in the Fund*

135



Breakdown of our members



- 36,095 Pensioners and dependants
- 29,120 Deferred beneficiaries
- 20,574 Employees working for not-for-profit, charity, private sector and local government employers
- 6,551 Undecided leavers and frozen refunds



Balance sheet value*



Strategic asset allocation %

- 45 Public equity
- 2.5 Fixed income
- 7.5 Private equity
- 10.0 Infrastructure
- 9.0 Credit
- 10.0 Real estate
- 15.0 Diversifying strategies
- 1.0 Cash



Being a responsible investor**

In the 12 months from April 2019 to March 2020 LPPI:



Voted at 50 company meetings on 6,981 separate resolutions



Voted against 19% of management proposals on remuneration and supported 57% of shareholder resolutions relating to remuneration



Supported 85% of shareholder resolutions related to improving corporate action on human rights issues



Supported 83% of shareholder resolutions relating to diversity



Voted against management in 25 instances where board nominations failed to address an inadequacy in board diversity



Supported 77% of shareholder resolutions related to climate change

* As at 31 March 2020 ** Actions were undertaken on our behalf by LPPI

1. Overview

1.1 Chair's welcome



Welcome to the LPFA's annual report for the year to 31 March 2020. I hope that you and your loved ones are staying safe and well during these challenging times.

→ While the world has undergone a profound change in the months since I joined, I am very pleased to say that the Fund remains in robust health.

I was delighted to be appointed LPFA Chair on 1 January 2020 and am honoured to be a part of the next chapter in the evolution of such a prestigious organisation with such an important purpose. While the world has undergone a profound change in the months since I joined, I am very pleased to say that the Fund remains in robust health.

Our primary responsibility is to ensure we have the resources (including access to cash) we need to be able to pay the pensions to which our members are entitled both now and in the future. The Board remains confident that we are able to do this, and we are also pleased to note that employer contributions overall remain stable. The formal triennial valuation of our assets and liabilities conducted by our external actuaries took place as at 31 March 2019 and was completed during this year. It confirmed our strong financial position overall and we continue to see improvements in the Fund's administration.

The LPFA's assets, like those of most other pension funds, were impacted by coronavirus (COVID-19) related market movements in the period since the end of the financial year. However, we are a long-term investor and are well positioned to weather the worst of this storm over time. In fact, at the time of writing, (October 2020), we have recovered well given the circumstances but further volatility in asset prices is expected in the short term.

Another key issue for us is to ensure that our administration is well-handled and that our members experience a high-quality and efficient service. I am therefore pleased to note that the service levels on administration were at a high level last year and performance was broadly maintained in the immediate aftermath of the government-imposed national lockdown. Further details are outlined later in this report.

Investment highlights

The Fund's investments are well diversified across regions, asset classes and sectors. Our investment performance is set out below and covered in more detail in the Investment review section of this report.

	1 year	3 years**	5 years**
Total return (including LDI)*	-0.5%	3.2%	5.8%

* Liability-driven investment strategy

**Annualised returns

We continue with our strategy to be a recognised responsible investor and this year published our 'Policy on Climate Change – Review of 2019' as part of our commitment to transparency and continuous improvement. The detail provided later in this report shows that we have further reduced our exposure to extractive fossil fuels during the year and that our Listed Equities Portfolio is aligned with the 1.5°C target set out in the Paris Agreement. There is more to do of course, but we are on the right path.

Infrastructure also remains a strategic focus. The LPFA, Local Pensions Partnership Investments Ltd (LPPI) and London Collective Investment Vehicle Ltd (LCIV) are collaborating to develop a London Fund to invest in residential property, affordable housing, community regeneration projects and infrastructure, including clean energy and digital services. These investments will create a double bottom line by diversifying our fund and providing appropriate returns, whilst also making a positive contribution to social and environmental issues in the city.

Local Pension Partnership's (LPP's) evolution

At the time of writing, LPP has been restructured into an Administration subsidiary, Local Pensions Partnership Administration Ltd (LPPA) an Investments subsidiary (LPPI) to create a more efficient operation and improve client service. As joint owners of LPP Group, both the LPFA and LCC have a shared interest in the success of the company, so I would like to thank my LCC colleagues for their continued support and partnership.

LPFA team changes

At the LPFA, we have recruited a small management team to work with LPPA and LPPI to strengthen their services, improve governance and help the Fund implement our new ambitions and priorities. With this team now largely in place, Robert Branagh's title has been changed to Chief Executive Officer (CEO) of the LPFA to reflect the evolution and expansion of his role.

On behalf of the Board, I would like to thank my predecessor, Sir Merrick Cockell, for his stewardship of the LPFA. Having served on the LPFA Board since 2010, Sir Merrick guided the LPFA skilfully through many of the recent significant changes that occurred within the LGPS sector.

We were also sad to see the departure of Nigel Topping as a Board Member in early 2020 following his appointment as the UK Government's High-Level Climate Champion ahead of COP26. I am delighted that his considerable skills, experience and knowledge will be used helping the UK tackle climate change. We continue our search to appoint his replacement.

I am proud of the progress that we have made so far, and I thank you for your continued support.



John Preston
LPFA Chair

→ We continue with our strategy to be a recognised responsible investor and this year published our 'Policy on Climate Change – Review of 2019' as part of our commitment to transparency and continuous improvement.

1. Overview continued

1.2 Report from our Chief Executive Officer (CEO)



Despite all that has occurred over the past year, our priority remains focused on ensuring that our members have financial security in their retirement. I am pleased to report that despite recent investment market volatility, our overall investment performance in 2019-20 remains well positioned, being generally tilted towards more defensive companies and sectors, and focused on long-term investments with sustainable returns. We continue to provide a high-quality cost-effective pension to our employers and members. At a time when private Defined Benefit (DB) schemes are mostly closed, LGPS – and our fund in particular – remains a valued employee benefit for employees and an effective employee retention tool for employers.

In the 2018-19 annual report and the published Strategic Policy Statement (SPS) 2020-2023, I outlined our team's future focus areas: evolving investment and liability management; working in partnership and collaboration; building stronger operational efficiency; and robust shareholder activity and oversight; all underpinned by a continued commitment to Responsible Investment (RI). I have summarised our progress in these areas below.

→ Our fund in particular remains a valued employee benefit for employees and an effective employee retention tool for employers.

Evolving investment and liability management

– Financial sustainability

COVID-19 related market volatility caused our fund net assets to change from £6.05bn to £5.88bn (balance sheet value) while our funding level, as measured on the LGPS 2019 Triennial Valuation actuarial basis, is showing a surplus at year-end. The funding level on the LGPS 2019 actuarial valuation was 109% on a Fund-level basis.

– Outsourced investment and administration costs

The Fund has steadily decreased the cost of administering the Fund, reducing pensions administration costs down to 40% of the pre-pooling costs of 2015-16. In addition, the Fund has achieved fee savings on managing its investments in the last three years. Benefiting from economies of scale and the bargaining power of LPPI with underlying investment managers, fee savings of £14m have been achieved in 2019-20 alone.

We continue to work with LPP Group to capitalise on cost efficiencies from pooling. LPPI manages our assets on our behalf. These have been gradually transitioned into pooling vehicles over the last two years and this has enabled us to realise the savings anticipated when we launched the partnership. Details of these savings are published later in this report.

While on the theme of pooling, I am also pleased to say that 2019 also saw the creation of the LPPI Real Estate Fund. The Real Estate Fund pools the property assets of the Lancashire County Pension Fund (LCPF), the LPFA and Royal County of Berkshire Pension Fund (RCBPF).

– Investment highlights

We are conscious of the financial pressures that pension costs have on employers, so we continue to seek appropriate risk adjusted returns in order to meet member liability payments as they fall due. COVID-19 had an impact on asset performance over the year; the total portfolio delivered over the course of the year was a return of -0.5%. This represented an underperformance of 5.8% against the Fund's actuarial benchmark. However, over the longer term, a more objective measurement for a pension fund, the Fund's 10-year annualised performance remains positive on both an absolute and relative basis, with total portfolio returns of 6.2% p.a., outperforming the actuarial benchmark of 5.9% p.a.

– Evolving the investment and liability management

Following the completion of the 2019 Triennial Valuation, we are reviewing the Fund's Strategic Asset Allocation (SAA) to ensure that it remains fit for purpose in meeting the long-term funding needs of our employers and members. To provide further clarity and support to this, we aim to publish more detail on our Risk Framework and Appetite in due course.

Engaging with our members and employers

– Member and employer communications

Our 2019 Fund Member Forum was a great success attended by over 340 members and featured presentations on the Fund and a speech by Dame Esther Rantzen on her efforts to combat loneliness through her charity, Silverline. We also produced a video summary of the event that was hosted on our social media channels and sent to those who were unable to attend. In response to member requests for more information on our efforts to tackle climate change, we also published the first edition of our 'Investing Responsibly for a Sustainable Future Report'. Our social media channels have been refreshed and you will also notice that our website is being updated and amended in preparation for the launch of a new corporate website in 2021.

As part of the wider LPP Group restructure, LPPA has reorganised its member engagement team which will enable us to progress a project to bring more consistency to our brand and our communications with our members. We are also working with LPP Group to improve the measurement and effectiveness of our communications so that we can make informed decisions on how to improve them further in the future.

We have made progress in our Employer Engagement activities. Our 2019 Employer Forum attracted approximately 60 senior level attendees and focused on the results of the 2019 Triennial Valuation.

Working in partnership and wider collaboration

The LPFA has a proud history of collaboration. GLIL, the £1.8bn infrastructure investment platform that we originally established with Greater Manchester Pension Fund back in 2015, continues to go from strength to strength. In 2019, GLIL won the Infrastructure Manager of the Year Award at the 12th Annual European Pensions Awards. We're delighted that this collaboration has been recognised by our peers in the pensions industry. We continue to collaborate in other areas too: with our partners in the London Fund, and the wider LGPS, pensions and Local Government community. We regularly attend and participate in conferences, and are members of the Pensions and Lifetime Savings Association (PLSA) Local Authority Committee and the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Building stronger operational efficiency and robust shareholder activity

Together with LCC, we allocated a combined total £25m of additional capital into LPP Group during 2019-20. The LPFA share is £12.5m. This capital puts LPP Group on a strong and resilient financial footing and will help the organisation move to the next stage of its five-year plan. We also worked alongside LCC and with LPP Group on the appointment of their new CEO, Chris Rule, in February 2020.

1. Overview continued

1.2 Report from our Chief Executive Officer (CEO) continued

Our experienced management team is now in place and providing improved oversight of LPP Group's activities. Morenike Ajayi is the Commercial and Finance Director; Peter Ballard is the Director of Funding and Risk; and Alistair Peck leads on Communications and Project Management. Anastasia Klimenko has returned in a business manager role to help co-ordinate our operations, given the growth of the team, and to provide executive support for John Preston and myself. We have also recently appointed Helen Astle as the Director of Compliance and Governance. Each of the management team, including myself, are committing to continuous improvement and professional development as part of our roles and I am grateful for all their efforts, particularly throughout 2020 as we have been able to continue to function effectively during these challenging times.

Alongside LCC, it is our role to improve governance and ensure that LPP Group delivers efficient and high-quality pension administration services. We were pleased that LPP Group successfully implemented its business continuity plans in response to COVID-19 and the fact that service levels were maintained. The LPFA team has also functioned well over the same period. We continue to ensure

that LPP Group is compliant with key shareholder documentation and Service Level Agreements (SLAs) and that it is robust in its business model. We continue to review and monitor its financial management. We are making good progress on all aspects and are working with our internal auditors to identify and mitigate the key current and future risks to the Fund and take any appropriate remedial action.

A responsible investor

Responsible investment continues to be a high priority, as we look to build on the progress that we made with our 2017 Climate Change Policy. Our proactive approach to addressing Environmental, Social and Governance (ESG) issues in our investment policies has been developed over many years and we are taking steps to improve external reporting on our progress. Our Climate Change Policy remains one of engagement rather than blanket divestment but divestment can – and does – occur as a result of that engagement. We aim to share our progress as widely as possible: on our website, with the media, our social media channels and in person. In March 2020, I presented to representatives of 25 international cities on the progress that we have made tackling climate change and seeking feedback and learnings from them in their endeavours.

We will continue to be transparent and accountable on our progress to promote responsible investment and will continue to work with LPP Group to ensure that the LPFA is an active asset owner and is managing the risks and opportunities posed by climate change. We will actively seek to share with and learn from other organisations making progress across ESG issues.

The new team has accomplished a lot since joining the LPFA, but we know that there is much more to do. Thank you for your continued support and please do contact us if you have any feedback.



Robert Branagh
LPFA CEO

1.3 Financial performance of our Fund

The Fund has a long-term investment horizon, articulated in an investment strategy approach based on balancing capital growth with capital preservation, while maintaining adequate liquidity to cover liabilities as they fall due.

We prepare a Medium-Term Financial Plan (MTFP) on a rolling three-year basis which outlines the pension fund budget. The LPFA Audit and Risk Committee (ARC) reviews our financial performance, including details of cash flow against the planned budget on a quarterly basis. Over 2019-20, the net outflow from the Fund for the year was £170.2m compared to a budgeted inflow of £309.1m. The unfavourable variance of £479.3m was largely due to the change in market value of investments. These losses occurred in the last quarter of the year primarily as a result of the COVID-19 pandemic.

The net loss from dealings with members and employers is a favourable variance of 39.2% mainly due to a 494.8% increase in bulk transfers in above budget. In addition, contribution income increased by 6.6%

above budget, partly because active members increased by 4.9% and the rate of deficit contributions increased by between 2% and 4%. Although other contribution rates remained constant, salaries paid would have increased. This increase in income was partially offset by an increase in benefit payments of 5.4% above budget, partly due to a 1.6% increase in pensioner numbers and the annual percentage increase in pensions paid to pensioners.

Our primary aim is to establish and maintain a funding level close to full funding on a risk adjusted triennial valuation basis whilst providing a quality service for its members at a reasonable cost. Since 2016, and as published in Barnett Waddingham's 2019 Actuarial Valuation report, the funding level has increased from 96% to 109% on the Fund-level basis and from 93% to 106% on the individual employer basis. The main reasons for the improvement in funding level were strong investment returns and payment of deficit contributions.

We invested significant time and effort in communicating with our employers through this valuation process and managed, with their support, to get everyone's contributions agreed in good time. The new valuation contribution rates for employers for the next three years commenced on 1 April 2020. The employer contributions range from 0% to 47.8%. We monitor payments through a monthly contributions report on the position of late employer contributions to the Fund. No interest on overdue contributions has been levied during the year. Improving our employer engagement next year will be one of our primary objectives, having satisfactorily completed this valuation.

Details of the movement in non-investment assets can be found in the published Statement of Accounts.

2. Fund administration

2.1 At a glance

LPFA has outsourced its operations to LPP Group and agreed service level agreements and deliverables are in place. Please refer to the Governing the Fund section for details of how the LPFA monitors client deliverables and undertakes shareholder oversight.

Response to COVID-19 pandemic

The administration service has maintained 'business as usual' throughout the pandemic with all employees working from home since late March 2020. With the emergence of local lockdowns and a possible second wave, LPPA staff are unlikely to return to offices until at least January 2021.

Performance against service level agreements has remained consistent with productivity unaffected by working remotely and pension increases; P60's and annual benefit statements have been applied and issued ahead of statutory deadlines.

In response to the transition to home working, a planned improvement to the help desk system was implemented early, providing enhanced call and e-mail functionality. Despite a temporary increase in call waiting times, customer satisfaction scores increased in April and May 2020 and have normalised in June and July 2020.

Face to face member engagement has been suspended with 'virtual' employer visits being introduced on a limited basis.

Guidance produced by the Local Government Association regarding the pandemic has been distributed to employer organisations and members where appropriate and a link to the Local Government Association employer coronavirus webinars is available on the Your Pensions Service website.

Other changes made in response to the pandemic have included the updating of forms on the administration service website to enable electronic completion, the issuing of reminders to employers and members that scanned and photocopied versions of key documents and certificates are acceptable and the development of a guide on the treatment of furloughed members.

2.2 Workloads, targets and administration

Pensions Administration Services

LPPA, a subsidiary of LPP and a member of LPP Group, provides high-quality pensions administration services to 17 public sector pension fund clients with more than 600,000 members from over 1,800 employers. The service includes end-to-end pensions administration services including payroll, and member and employer engagement. The service consistently exceeds Service Level Agreements and takes a proactive approach to changing administration requirements across the sector.

Charges and value for money

The administration business charges the Fund on a per member basis as set out in Schedule 2 'Principles for Financial Decision Making' of the Local Pensions Partnership Shareholder Agreement.

The LPFA's CEO is advised of the proposed charges for the upcoming financial year in writing and these charges are regularly reviewed for value for money and consistency with market rates by the LPFA Board and LPFA's CEO.

The shareholder agreement principles include a requirement for any decision made by LPP Group to ensure long-term value for money, evidenced by savings, efficiencies or service improvements when compared to the arrangements and costs of the combined predecessor organisations. Where a new service is carried out by the partnership then comparison will be to a wider market benchmark.

The LPPA approach

The LPPA approach is based on all participants sharing constructive dialogue and timely feedback to drive continuous improvement in the services offered. Key components of the approach include:

- A clear understanding of client requirements and expectations translated into a well-defined Service Level Agreement (SLA) and Key Performance Indicators (KPIs).
- Timely, transparent and comprehensive client reporting.
- Strong governance processes to ensure funds are compliant with Code of Practice 14 and public sector pensions legislation.

The following LPFA key performance indicators show improvement throughout the year.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
Top 10% against SLA*	97%	98%	98%	99%	98%
Overall against SLA**	97%	98%	99%	99%	98%
Complaints received	60	28	43	31	162
Compliments	2	6	5	6	19

* This item reports against the performance of Top 10 cases. The LPFA defines the following group of cases as the top 10: admissions, transfers in, transfers out, member estimates, deferred benefits, deaths, retirements, refunds, employer estimates and general correspondence.

** This item includes both the top 10 case and all other cases that the LPP processes on behalf of the LPFA. These can include additional contributions, changes of hours, AVC's, service breaks, divorces, GMP's, child pension reviews etc.

Summary of activities

LPPA provides a full range of activities for pension administration, which include processing and payment of pensions, transfers in and out of the Fund, general record maintenance and dealing with member deaths; the service has also provided a one-off project in relation to Guaranteed Minimum Pension (GMP) reconciliation.

LPPA has also continued to improve both our member and employer experiences by rolling out updates to their Member Self Service Portal and working to improve member communications. This includes continuing practitioner conferences for employers, scheme member presentations and one-to-one sessions. The LPPA contact centre continues to be on hand to assist members with their queries.

2. Fund administration continued

2.2 Workload, targets and administration continued

LPFA Top 10-member enquiries

These “Target” indicators demonstrate the approximate or elapsed time it takes to resolve each member query by category. Delays may occur while LPPA are waiting on information from employers or the members themselves. These numbers are in addition to the formal measurement and performance against the contractual SLA's the Fund has with LPP and set out above.

	Average number of days				
	2019-20 Targets*	2019-20 Actual	2018-19 Actual	2017-18 Actual	2016-17 Actual
Admissions	5	5	9	14	12
Transfers in	64	98	161	73	72
Transfers out	23	21	38	27	40
Estimates – individual	10	7	17	11	9
Deferred benefits	23	60	54	34	30
Deaths	44	51	66	80	51
Retirements (immediate)	53	51	62	48	45
Retirements (deferred)	67	95	85	66	69
Refunds	28	18	29	17	13
Estimates – employer	9	7	11	13	10

* The targets are aspirational and are outside the remit of the SLA's.

Numbers of each case type processed each year and outstanding at the end of the year.

	Completed in 2019-20	Outstanding at 31 March 2020
Admissions	1,617	213
Transfer In	259	387
Transfer Out	543	176
Estimates (Member)	473	18
Deferred Benefits	383	338
Deaths	692	564
Retirements – (Immediate)	131	111
Retirements – (Deferred)	344	395
Refunds	509	111
Estimates (Employer)	182	18
Correspondence	690	60
Other	2,023	1,932
Total	7,846	4,323

LPFA customer satisfaction

Customer service remains at the forefront of LPPA's pensions administration services and LPP Group is accredited by the Customer Service Excellence standard.

During the year, LPPA has invested time and resource on customer care, recruiting a dedicated Complaints and Appeals Administration Lead. Their focus has been on complaints received, trend analysis and sharing feedback with pensions administration teams to identify service improvements. LPPA has also established several satisfaction surveys, providing members with the opportunity to provide feedback on the service they have received. As a whole, LPPA has received the following satisfaction ratings by their members:

- Contact centre call query resolution (in place Q3 & Q4 2019-20) – Overall satisfaction = 85%
- Responding to and resolving e-mail queries – Overall satisfaction = 80%
- Retirement experience survey – Overall satisfaction = 87%

LPFA will continue to work with LPPA on customer care and improving the member and employer experience utilising the previous year's feedback. The number of complaints as a percentage of workload is 0.46%. The LPFA Local Pension Board has also provided valuable insight and suggestions to help enhance member communications during the year.

The table below highlights key indicators of member satisfaction in the last five years.

	2019-20	2018-19	2017-18	2016-17	2015-16	Target / Benchmark
Number of complaints received	162	194 [^]	61 [*]	35	19	<25
No. of complaints categorised as Pension Ombudsman cases	0	0	0	0	0	0
No. of Internal Dispute Resolution Procedure cases (IDRP ^{**})	25	12	5	11	6	<6
Staff fund member ratio – staff engaged on LPFA administration only	1:3,184	1:172	1:3,778	1:2,820	1:2,820	–
Average cases per member of staff	1,204	1,409 [#]	1,057	1,811	1,897	–

* This figure includes complaints related to moving communications online.

[^] This figure increased significantly due to the new Administration Target Operating Model; however the quarterly figures are improving.

[#] From 1 April 2018 LPFA cases were undertaken by the whole of the business as a subset of all schemes in the Authority.

^{**} During the year LPPA has furthered its guidance available regarding the Internal Disputes Resolution Procedure to provide members a better understanding of its process, our promises and further sources of information which might be helpful during or after the complaints process.

The guidance is clearly visible and easily available on the LPFA scheme website for ease of access for all users and contains information on all aspects of a dispute, including external sources to assist the member with the complaints if they need further assistance like the Pensions Ombudsman, The Pensions Advisory Service and The Pensions Regulator. There is also a step by step flowchart outlining the process to assist users in fully understanding the process and its relevant time scales.

2.3 Membership

LPFA scheme membership over five years

	2019-20	2018-19	2017-18	2016-17	2015-16
Active contributors	20,574	19,489	18,537	17,776	17,264
Deferred beneficiaries	29,120	28,222	26,911	26,370	25,257
Pensioners and dependants	36,095	35,541	34,625	34,321	33,838
Undecided leavers and frozen refunds	6,551	5,536	4,393	3,596	2,620
Total membership	92,340	88,788	84,466	82,063	78,979

2. Fund administration continued

2.3 Membership continued

Member and employer online interactions

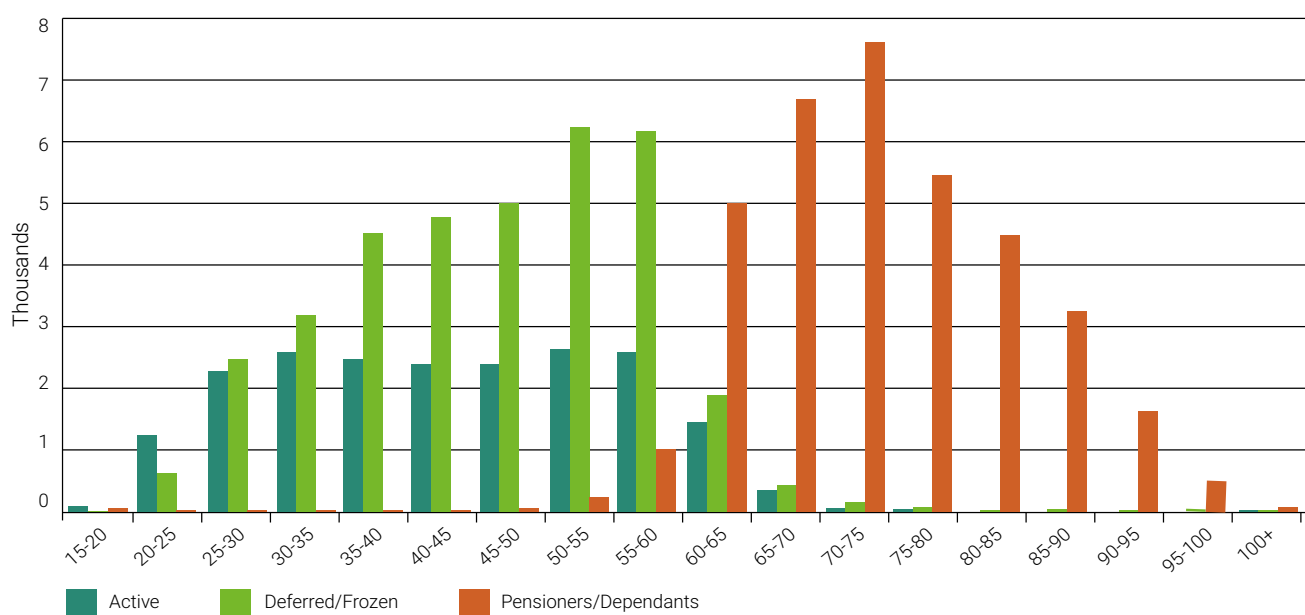
7,956 active members have signed up to member self-service – this represents **39%** of active membership.

As at 31 March 2020, LPFA held **12,864** member e-mail addresses. That's **63%** of our active members.

86 of **135** active employers are signed up to our pension administration strategy.

99% of employer forms were submitted online via the Yourfund website.

Member age distribution as at 31 March 2020



Active

Average 44 years

Deferred/frozen

47 years

Pensioners/dependants

74 years

Costs per member

The costs per member are provided for Administration as well as Oversight and Governance to ensure consistency with last year's report.

Cost per Fund member	As at 31 March 2020 (£)	As at 31 March 2019 (£)	As at 31 March 2018 (£)
Administration	20	21	21
Oversight and Governance	32	23	16
Total	52	44	37

LPFA recognises that it needs to invest in its Oversight and Governance function in order to effectively and efficiently support the running of the Pension Fund and its Board. As a result the team has now been increased from 2 to 6, covering the following areas: Finance, Risk and Funding, Communications, Governance & Compliance. In addition, during 2019-20, the cost of the triennial valuation also led to an increase in annual oversight and governance costs.

Accuracy of member data

This table shows the quality of member data held by LPPA on behalf of LPFA. The Pension Regulator sets the accuracy target of 100% for new common data received after June 2010. The target for 'legacy data' which has not had any amendments since June 2010 is 95%.

Surname	100.0%	Membership status	100.0%
Initials	100.0%	Last event status	100.0%
Gender	100.0%	NI Number	99.7%
Date of birth	100.0%	Address	97.2%
Date joined fund	100.0%	Post code	96.2%

LPPA is putting actions in place for 2020-21 to further improve data quality scores, including automating the process, and will monitor data quality each month to ensure targets are met.

2.4 Employer risk

The Fund has 135 active employers and 34 former employers that have left the Fund but still have financial commitments to it (as at 31 March 2020). The employers in the Fund are a broad range from large taxpayer-backed institutions, Higher Education, Further Education and Social Housing employers, to smaller employers and charities. For the list of Employers active and ceased in the Fund by scheduled and active bodies (as at 31 March 2020) see Annex ii.

LPPA provides specialist Employer Risk management services to the LPFA. This helps minimise employer risk through the assessment and ongoing monitoring of the employers' ability to meet their commitments to the Fund. The services include: covenant appraisals; implementing security and guarantees; admissions and exits; advice on risk mitigation; and mergers.

Throughout the year LPPA's Employer Risk team has played an integral part in helping the Fund engage in detailed discussions with employers as part of the 2019 Valuation.

LPFA Pension Administration Strategy (PAS)

The aim of the PAS is to ensure that both LPFA and its employers are fully aware of their responsibilities under the Fund and to identify acceptable levels of performance. The aim of this strategy is to educate and help employers to provide accurate and timely data to LPPA. This improves the service provided to Fund members.

Employer contributions

- The Fund collected normal pension contributions from 136* employers in the year, totalling £120.5m.
- Of total normal contributions due, £119.6m (99.25% by value) was collected on time.
- 26 employers were late in paying contributions at least once in the year.

Contributions are actively monitored by LPPA's employer risk team. Employers are required to pay the previous month's contributions by the 22nd of the following month and a 'late payers report' is produced on the following day. The table below provides a further analysis of late payments:

Cost per fund member	No. of employers	Average days delayed	Maximum days delayed
1	11	10	16
2	12	12	31
3	1	2	4
4	1	3	5
5	1	16	50

* Note the number of employers in the Fund changes over time, due to admissions, exits and mergers.

2. Fund administration continued

2.4 Employer risk continued

Year-end error rates

As part of an annual year-end exercise, LPPA undertakes analysis on year-end error rates including missing joiners, missing leavers, missing change of hours and high or low pay queries. This is based on the information held on LPPA's pensions administration system. Employers who had a high year-end error rate (> 10%) were subject to additional charges for the extra work incurred by LPPA.

Amounts due from employer at the year end

Employer contributions : £5,797,581

Employee contributions: £3,063,333

Cessation values: £0

2.5 Pension payments

Pensioners in receipt of enhanced retirement benefits

Analysis provided of new pensioners detailed by ill health, early and normal retirements.

	Ill health instances	Early retirement	Redundancy/ voluntary early retirement
2015-16	28	61	199
2016-17	15	44	147
2017-18	15	50	158
2018-19	13	37	204
2019-20	10	29	93
Total value for 2019-20	£821,391.88	£2,322,564.83	£7,954,729.32

Analysis of pension overpayments

	2019-20	2018-19	2017-18	2016-17	2015-16
Overpayments	250,103	216,783	142,821	146,756	144,901
Collected	(79,569)	(7,241)	(11,559)	(13,498)	(16,761)
Written off	–	–	–	–	–
Outstanding	170,534	209,542	131,262	133,258	128,140

Where an overpayment occurs, the member or dependant is contacted, and the pension corrected on the next payment date. However, for a death case where an overpayment occurs repayment is requested and on occasions a repayment plan may be set up, dependant on the amount and timing of death.

3. Investment review

3.1 At a glance

The LPFA has delegated the day to day decision-making on the selection of investments, the appointment of asset managers and the exercise of ownership responsibilities to LPPI. The figures reported in this section refer to the Fund's investment assets, as reported by LPPI. The details of the governance arrangements in place to ensure compliance against the LPFA Investment Strategy Statement (ISS) and the monitoring of investment performance is detailed in the 'Governing the Fund' section of this report.

3.2 Investment performance

The fiscal year saw a period of slowing global economic activity, although there is a stark contrast between growth levels exhibited in the first three quarters and the last quarter (through March 2020) amid the COVID-19 outbreak. Gross Domestic Product (GDP), inflation and real rates are key macroeconomic variables for our "top-down" asset class analysis.

Macro outlook

Between April and December 2019, the global deceleration in GDP growth was not as uniform as was seen in 2018. The United States and China fared better among major economies, whilst countries including the United Kingdom (UK), Germany, France, Italy, Japan and India were key contributors to the drag on global activity. Amid this macroeconomic backdrop, price pressures (i.e. inflation) held mostly stable from a global standpoint, as decreasing growth was balanced by tighter labour markets (i.e. increasing employment), higher wage growth and ongoing accommodative policies.

Regarding policy, the Federal Reserve decreased its target rate by 0.75% in the first three quarters to a range of 1.50% to 1.75%, reversing all monetary tightening implemented in the previous fiscal year. Despite this, the dollar strengthened moderately against major currencies during this period, as uncertainties abroad (related to an escalation of trade tensions with China, as well as the UK's exit from the European Union (EU)) unfolded.

During the last three quarters of 2019 broader investment performance has been strong across most asset classes and strategies due to a particularly strong finish at the year end. Global equities returned approximately 13% during this period with various credit assets, as well as government bonds, also performing well. As 2019 drew to a close optimism for the year ahead swelled due to strengthening asset performance, improved investor sentiment, looser monetary and in some cases fiscal policies, the UK's withdrawal from the EU in an orderly way, as well as the trade agreement between the US and China.

However, the COVID-19 outbreak swiftly changed all of this during the first quarter of 2020. In mid-February 2020, as the virus continued to spread within China and make its first appearances internationally, no one could foresee the full toll it would have on the global economy. At that time, the IMF was still forecasting growth to rebound to 3.3% globally in 2020 from 2.9% the prior year.

However, as COVID-19 transformed into a pandemic and governments started to impose lockdowns and unprecedented restrictions on social life, work and travel, the extent of the impact became clearer by the day.

The first quarter of 2020 saw some of the worst economic results in decades. When compared to consensus estimates, the majority of realised results were unsurprisingly mostly on the downside. This occurred even whilst most lockdown measures were only in place for a limited period in the first quarter, such was the speed of the reaction to the crisis. It is widely expected that the second quarter of 2020 GDP and other economic results will be worse still. It is anticipated that a reversal of social restriction measures will start lifting activity from the third quarter of 2020 on a quarter-by-quarter basis, although on a year-by-year basis the result will be lower. For many regions, GDP is not expected to reach 2019 levels until the end of 2021 or even 2022.

3. Investment review continued

3.2 Investment performance continued

For the UK, this fiscal year has been a tough one with the economy failing to grow in three of the past four quarters. Brexit, political uncertainty and headwinds from a weakening global economy meant the UK entered the COVID-19 crisis on a weak footing. Despite not being evident in official results, unemployment started to rise in March 2020 as businesses closed down, temporarily or permanently laying off employees.

In an economy where consumption is a key driver of growth, maintaining a strong labour market and consumer purchasing strength is key to recovery. The UK was among the first countries to push for a coordinated response to the pandemic (between its central bank and government) and both have implemented a variety of measures since March 2020. These included a 65 bps reduction to the Bank of England's base rate to 0.1%, additional central bank asset purchases of government and corporate bonds, low cost business loans, various tax cuts, deferrals and grants, as well as a government commitment to support furloughed and self-employed workers. Although these will not deter the expected economic strain in the second quarter of 2020, they are significant levers for future economic recovery.

In the first quarter of 2020 asset volatility spiked with strong performance in January giving way to a significant drawdown in February and March. In these latter months, daily price swings in equity markets reached extreme levels and government bond yields plunged as investors reversed their positions into "safe heaven" assets; gold prices rose strongly too. A second hit came from the steepest decline in decades for oil prices at the beginning of March 2020, which affected oil producers heavily, whilst benefiting consumers little amid lockdown restrictions.

The Fund entered this crisis positioned conservatively without significant overweight positions (versus target strategic weighting) in risk assets, including public equities, which saw the most pronounced drawdowns. Overweight positioning in cash and fixed income proved helpful, as their performance was better in relative terms than equities during this period. As bearish sentiment transformed into significant declines for public equities, LPPI transitioned a moderate allocation from the Fund's excess cash balance back into equities, which have since risen strongly.

Although there is still uncertainty around the pace of economic recovery, COVID-19 itself and other medium-term risks, the Fund's portfolio continues to be well diversified across different asset classes, regions and sectors. LPPI will continue to invest in line with the Fund's long-term investment horizon and objectives of balancing capital growth with capital preservation, whilst maintaining adequate liquidity to cover liabilities as they fall due.

Performance

LPFA invests its assets to meet its liabilities over the long term, and therefore performance should be assessed against these objectives and over a corresponding period.

All the performance figures presented below are as at 31 March 2020.

Over the fiscal year, the Fund delivered a -0.7% investment return (-0.5% including Liability Driven Investments (LDI)), which exceeded the policy portfolio allocation (strategic weights multiplied by benchmark asset class index returns) but underperforming its strategic target return (UK RPI + 3%). The value of the Fund's investment assets reported by LPPI to LPFA on 31 March 2020 was £5.73bn, down from £5.991bn at 31 March 2019¹).

Return metric	1 Year	3 Year**	5 Year**
Return Seeking Assets (Excluding LDI)*	-0.7%	3.3%	6.0%
Total return (including LDI)	-0.5%	3.2%	5.8%
Policy Portfolio	-1.0%	3.5%	5.5%

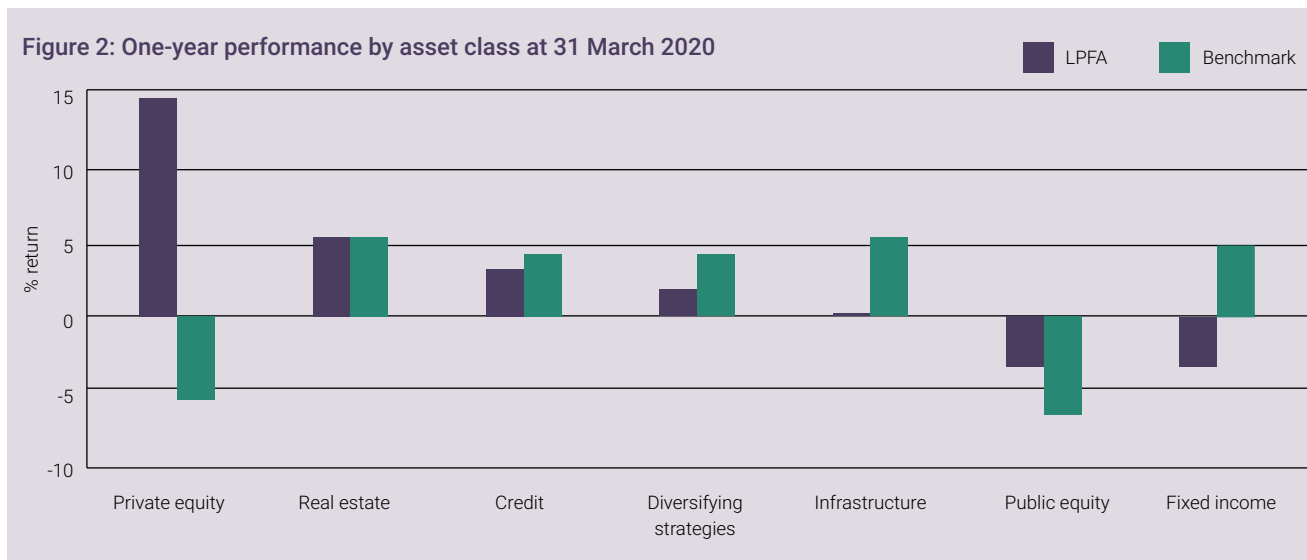
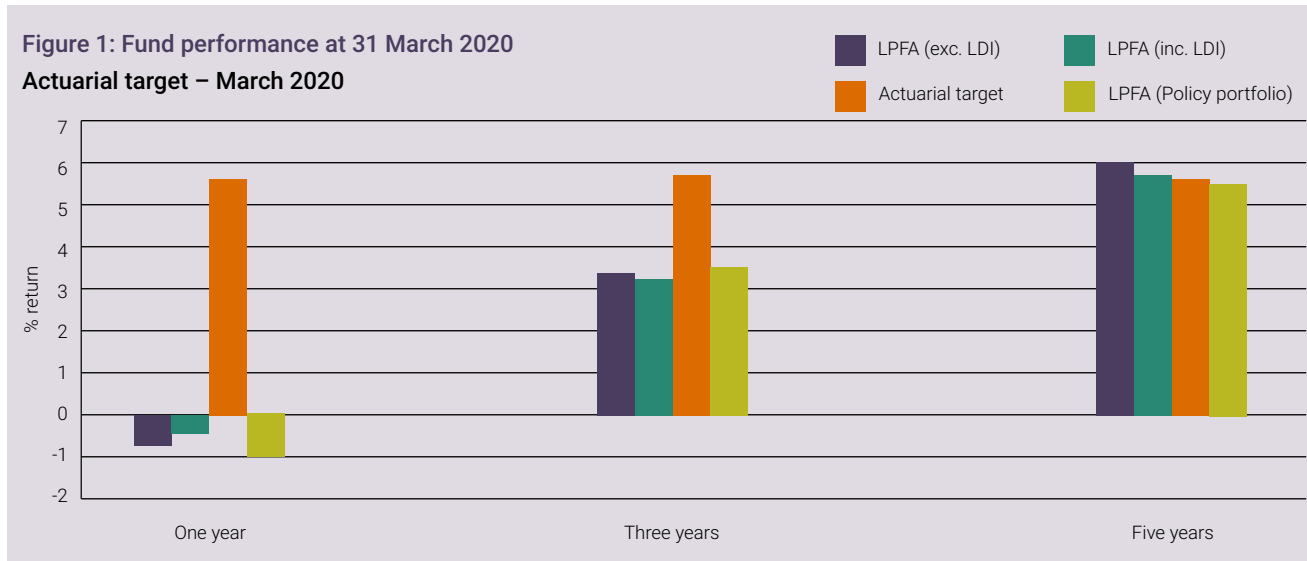
* The period return excluding LDI for the three-year and five-year period also excludes cash effects and currency hedging.

** Annualised returns.

¹ The figures reported in the 2018-19 annual report indicated that the Fund's assets were £6.05bn at 31 March 2019. This figure comprised the current assets (including The Fund's investment assets) net of certain accounting liabilities. For this report and moving forwards, the Fund's investment assets (as managed by LPPI) will be the figures used within this section.

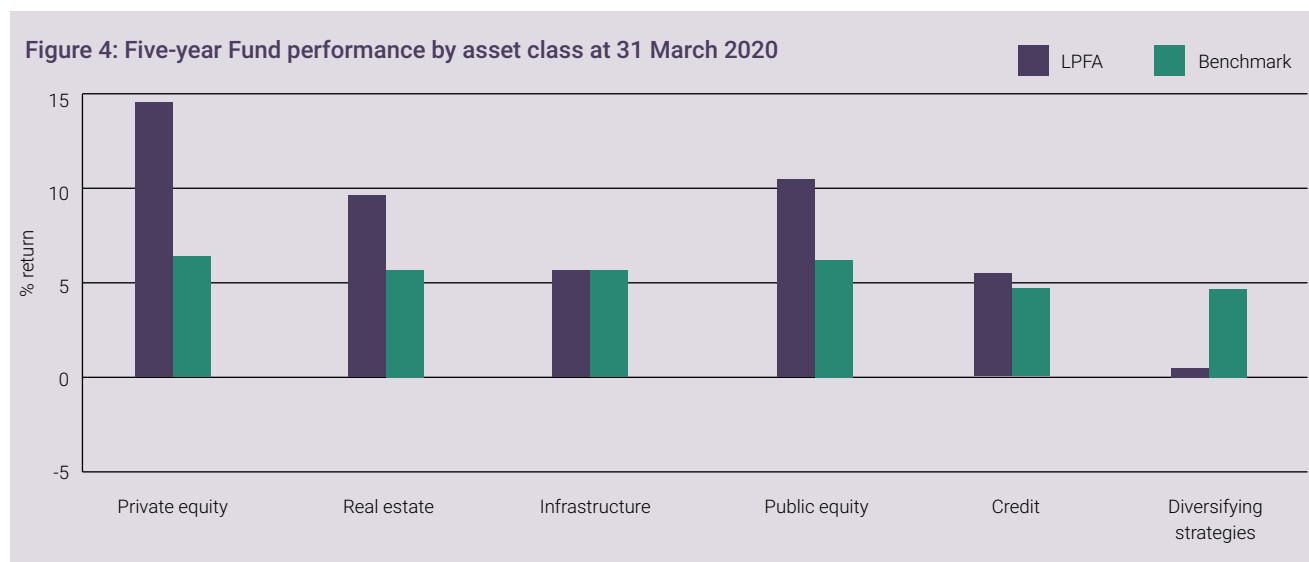
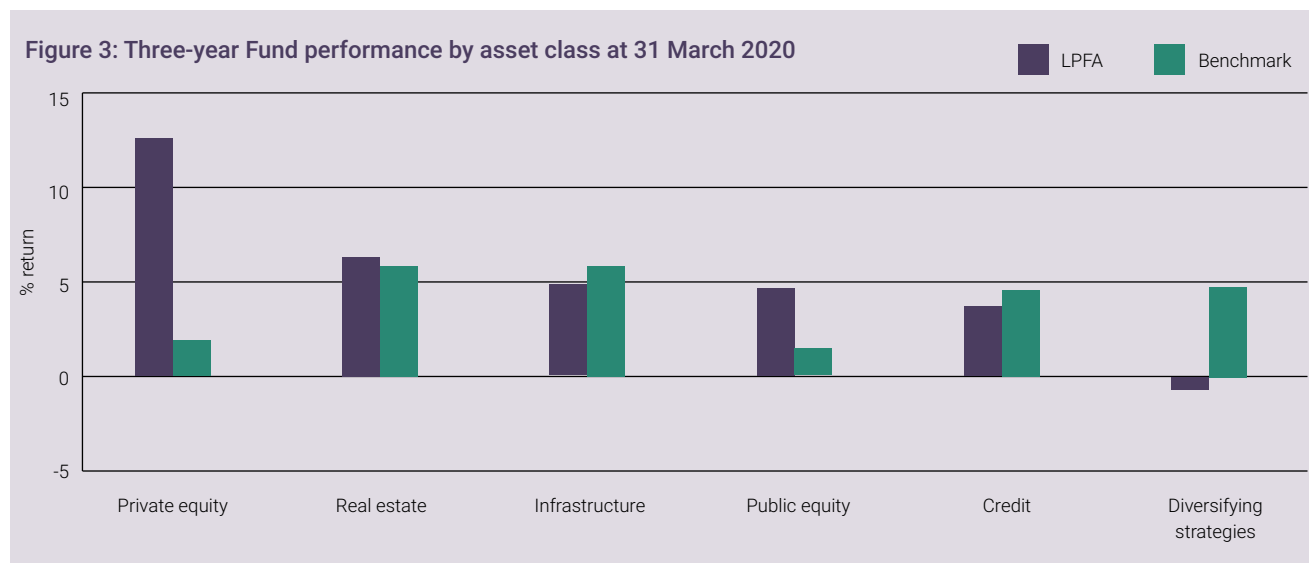
From an asset class perspective, public equities were the main detractors in absolute terms due to the negative performance and allocation size within the portfolio. However, on a relative basis the Fund's public equities outperformed, exceeding their benchmark by 3.7%. Moreover, in recent years the Fund has gradually reduced its public equity allocation to further diversify the asset allocation (which proved beneficial over the past year). Over the year, modest gains were delivered by diversifying strategies, infrastructure and credit while fixed income had a more challenging year, lagging its benchmark.

The recent economic challenges have led the Fund's portfolio to trail its strategic target return over a three-year period but over the longer five-year horizon the portfolio has exceeded both its strategic target and policy portfolio benchmark.



3. Investment review continued

3.2 Investment performance continued



Current and strategic asset allocation

The Fund's SAA was last updated in the first quarter of 2018 and involved a 2.5% reduction in the target weightings for public equity and private equity. This came as the Fund focused on reducing its equity risk and diversifying exposures, while increasing its allocation to income-yielding asset classes. Since this review, there has been no change to the Fund's SAA. The Fund has engaged its advisers in updating its SAA following the approval of the Funding Strategy Statement (related to the 2019 Triennial Valuation) and any changes will be reflected in future reports.

The performance of LPFA's assets is assessed on a 'total return' basis (i.e. income and capital return combined). Having adequate cash inflows to pay liabilities as they fall due reduces both investment trading (and its impact on fees) and the risk of having to liquidate assets during adverse market periods (which can have a negative effect on assets that are marked-to-market). Ultimately, the aim is to improve risk-adjusted returns over the long term, whilst ensuring LPFA's objectives are met.

The following table presents the Fund's current asset allocation versus strategic asset allocation at the end of March 2020. In this year's report, additional detail is provided to show the underlying risk exposure by asset class. The differentiation demarcates the equity derivatives managed with Insight, which although provides exposure to global equity markets the underlying collateral is cash.

Asset class	March 2020			March 2019			Strategic AA(%)	Range
	Cash Exposure (GBP Mil))	Risk Exposure (GBP Mil)	Risk Exposure (%)	Cash Exposure (GBP Mil)	Risk Exposure (GBP Mil)	Risk Exposure (%)		
Public Equity	2,414	2,586	45.2%	2,483	2,717	45.4%	45.00%	35%-55%
Fixed Income	297	297	5.2%	272	272	4.5%	2.50%	0%-15%
Private Equity	564	564	9.8%	587	587	9.8%	7.50%	5%-15%
Infrastructure	440	440	7.7%	367	367	6.1%	10.00%	5%-15%
Credit	444	444	7.7%	449	449	7.5%	9.00%	0%-12.5%
Real Estate	587	587	10.2%	591	591	9.9%	10.00%	5%-15%
Diversifying Strategies	728	728	12.7%	705	705	11.8%	15.00%	0%-20%
Cash	259	87	1.5%	537	303	5.0%	1.00%	0%-5%
Total	5,733	5,733	100%	5,991	5,991	100%	100%	

Note: The opening value figures for 2019 have a slight variance to the total published in the 2018-19 annual report as they do not include any changes made to AUM after the custodian accounting books were closed. Performance is calculated on the custodian reported opening and closing values.

The allocation of the Fund's assets for the previous financial year has been included for comparison purposes. LPPI advises the Fund on its long-term SAA, but LPFA retains autonomy in deciding how this is finally set. Advice around evolving the Fund's SAA is expected to be undertaken this year.

3. Investment review continued

3.2 Investment performance continued

Asset allocations and performance

Comparison of gross and net returns for the year to 31 March 2020

For Public Equity and Fixed Income, the passive index refers to the respective index return. For all other asset classes shown target returns have been used.

Asset category	Opening value		Closing value		Performance		Passive index/ Target return
	£'000	%	£'000	%	Gross %	Net %	%
Public Equity	2,483	41%	2,414	42%	-2.95	-3.32	-6.74
Fixed Income	272	5%	297	5%	-3.49	-3.72	5.06
Diversifying Strategies	587	10%	564	10%	14.2*	14.2	-5.83
Credit	367	6%	440	8%	0.45*	0.45	5.51
Infrastructure	449	8%	444	8%	2.67*	2.67	4.71
Private Equity	591	9%	587	10%	5.7	5.5	5.51
Real Estate	705	13%	728	13%	1.95	1.61	4.71
Cash	537	8%	259	4%	-43.76	-43.89	0.71
Total	5,991 **	100%	5,733	100%	-0.18	-0.47	5.63

* The custodian only provides the performance figures for Credit, Infrastructure and Private Equity as net performance.

** The opening value figures for 2019 have a slight variance to the total published in the 2018/19 annual report as they do not include any changes made to AUM after the custodian accounting books were closed. Performance is calculated on the custodian reported opening and closing values.

Public equity

Public equities are commonly viewed as one of the highest-returning liquid asset classes and represent the largest asset class exposure for the Fund. Within public equity allocation, the majority resides with LPPi's Global Equity Fund (GEF) which combines an internally managed portfolio (41% of GEF) with a variety of external equity managers (59% of GEF) and operates with complementary styles of investment selection. The GEF maintains an overall quality (factor investing style) bias; however other styles are included to provide diversification. In addition to the GEF exposure, the Fund had c. £323m of equity exposure through MSCI World and MSCI Emerging Markets futures at the end of March 2020.

Supported by reducing trade concerns and central bank easing, global equity markets rebounded strongly over 2019 following a turbulent end to 2018. Markets however dropped in unison over the first quarter of 2020 as COVID-19 spread globally, leading to one of the fastest declines in stock market history. Against a challenging backdrop, the Fund's global equity portfolio generated a return of -3.3%. The GEF's tilt towards companies with more stable and durable business models is a cause of its outperformance relative to the wider equity market by 4.0%, as stocks in GEF showed greater resilience in the downturn. The GEF's relative performance over the year mirrors its outperformance since its inception in October 2016.

The GEF exhibited a low turnover of holdings and a stable roster of external managers, reflecting a long-term investment philosophy. This translates to broadly unchanged sector and regional exposures compared to the benchmark, the MSCI All Country World Index (MSCI ACWI), over the year. From a sector exposure perspective, the GEF maintained an overweight to Consumer Staples versus its benchmark, which follows naturally from the bias towards holding the stock of high-quality companies. From a regional exposure perspective, Western Europe (which includes the UK) remains the largest overweight position, whilst the Asia-Pacific region is the Fund's largest underweight. Overall, the GEF maintains an underweight position to Emerging Markets compared to benchmark.

A significant development within LPPI's internally managed portfolio was the formalisation of the mandate focusing on opportunities within small and mid-cap companies. Intentions are to increase this segment to the target weight of 5% of the Fund over the course of 2020.

Looking ahead, LPPI remains confident that the bias towards equity managers who exhibit a significant tilt towards quality stocks will continue to provide superior risk adjusted returns versus the wider global equity markets over the longer term.

Figure 5: LPPI Global Equity Fund:
internal vs external fund management – as at 31 March 2020

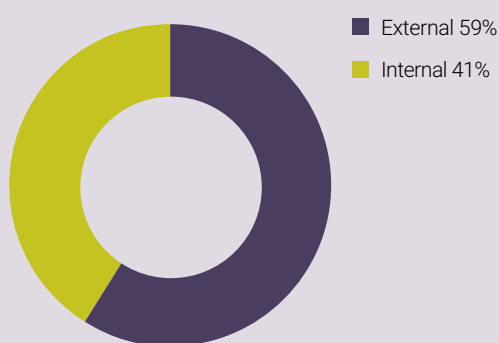


Figure 6: LPPI Global Equity Fund:
sector weights versus MSCI ACWI – as at 31 March 2020

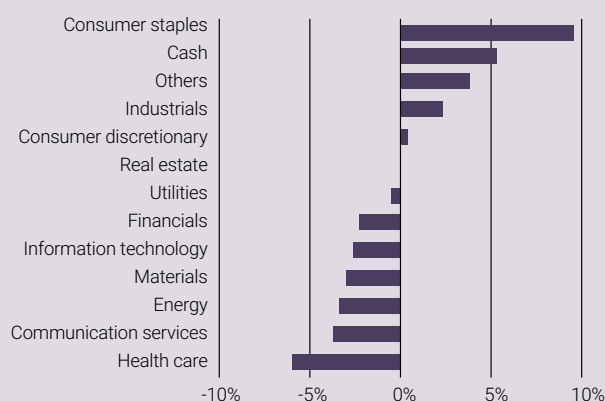
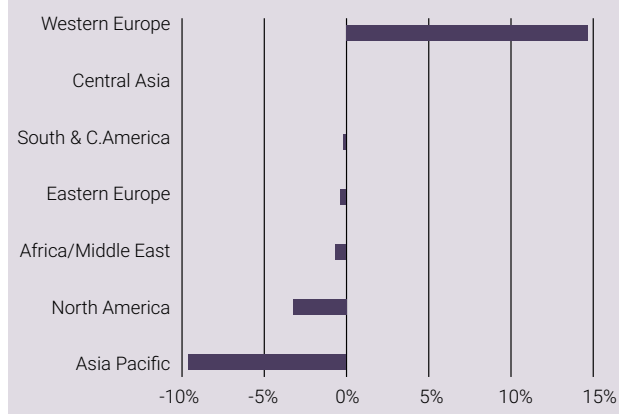


Figure 7: LPPI Global Equity Fund:
regional weights versus MSCI ACWI – as at 31 March 2020



3. Investment review continued

3.2 Investment performance continued

Fixed Income

LPPI's Fixed Income Fund (FIF) was launched in February 2018 and the Fund invested in it on launch day. It currently consists of two complementary managers: one with a 'top-down' investment philosophy and the other with a 'bottom-up' focus.

Prevailing themes of trade tensions between the US and China, decelerating world economies and the change in tack by central banks through the revival of monetary stimulus efforts largely underpinned fixed income market dynamics in 2019. Against this backdrop both risk (credit) and safe-haven (government issuance) assets performed well. However, this uniform ascension in value was short lived. The negative impact of COVID-19 on businesses and the wider economy over the first quarter of 2020 triggered sharp declines in risk assets, including investment-grade corporate bonds as well high yield debt. Meanwhile government bonds benefited from a flight to quality sentiment.

The trend of falling interest rates in recent years forms doubt regarding the ability to profit from them falling further. This view is reflected in the FIF's low duration/interest rate risk exposure. The FIF's stance on rate risk led to performance lagging the benchmark (Bloomberg Barclays Global Aggregate Bond Index GBP-Hedged) to the end of the reporting period. However, heading into 2020 the FIF exceeded its target return of LIBOR + 2% with positioning benefiting from the macro environment. The unanticipated arrival of the COVID-19 pandemic and extreme caution shown in response by investors impacted the credit focus of the FIF. Spreads on a range of credits and securitised products widened significantly as a result, hurting returns and undoing much of the positive gains made within 2019. Over the reporting period, the FIF returned -3.9% against the benchmark return of +5.1%.

Below are three charts, exhibiting the FIF's aggregate positioning as at 31 March 2020 (note that individual exposures may not total 100% due to derivative contract positions).

Based on LPPI's investment outlook, the FIF will continue to be credit focused with prevailing market conditions providing opportunities to generate target returns.

Figure 8: LPPI Fixed Income Fund:
holdings maturity breakdown – as at 31 March 2020

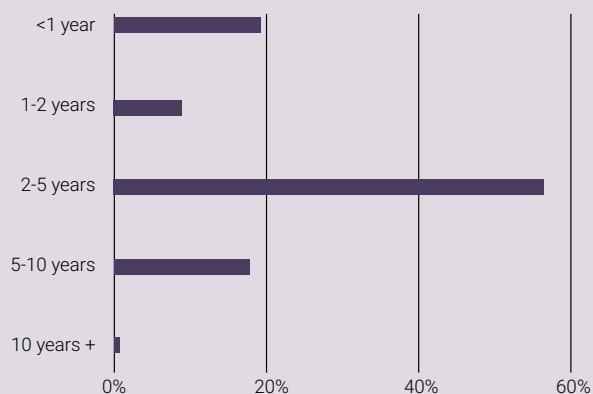


Figure 9: LPPI Fixed Income Fund:
holdings sector exposure breakdown – as at 31 March 2020

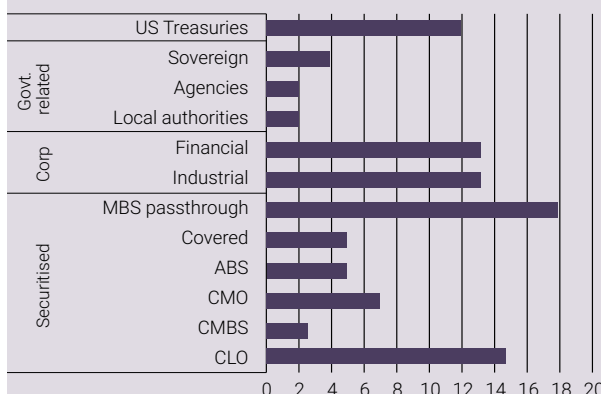
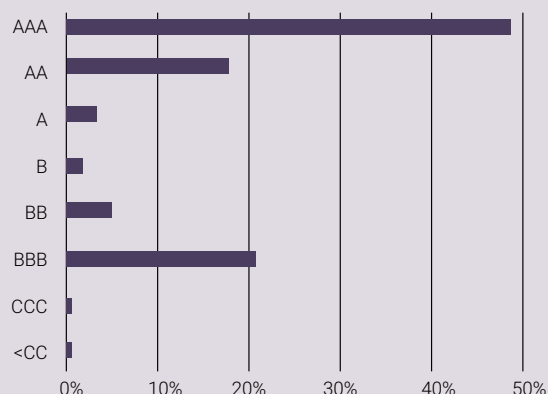


Figure 10: LPPI Fixed Income Fund:
holdings by credit rating – as at 31 March 2020



Private Equity

Compared to public equity, private equity offers a higher return and risk profile. This comes from generally investing in smaller companies with higher leverage and hence higher growth expectations. Private equity also has lower liquidity – a 10-year fund life is common – which is also compensated through typically higher returns. Private equity investments are held through a variety of closed-ended limited partnerships, spanning a wide range of vintages and managed by a diverse collection of managers who, in turn, cover a variety of strategies and geographic areas.

Improving economic fundamentals, low interest rates and higher valuation multiples have bolstered private equity in the last ten years. The Fund's private equity portfolio has benefited from these favourable conditions having generated strong returns and consistently outperforming its return benchmark. This is due to a well-diversified allocation to many top quartile managers.

Over the shorter 1-year horizon, the Fund's private equity portfolio significantly outperformed its target with a return of +14.2%. Due to the reporting lag that is common with private market investments, the effect of COVID-19 on private equity valuations has yet to be realised but we anticipate this to be reflected later in 2020. While there was no discernible impact on valuations, the same cannot be said for transactional activity, as deal flow shrank in the first quarter of 2020 and is expected to decline further over the rest of 2020.

The Fund has reduced the rate of commitment to new private equity funds in line with its aim of reducing its asset class exposure over the next few years – in accordance with its strategic asset allocation. This has been gradually achieved in a carefully managed approach that ensures vintage diversification and manager relationships are maintained. Within the portfolio, there has been a reduction in exposure to large buyout funds, where valuations and leverage are currently at high levels. This is being achieved through new commitments to other private equity investment types and is likely to be reflected in portfolio exposures over the next few years as capital is drawn down. In a competitive market environment that has led to elevated pricing and scarcer opportunities, LPFA's capital continues to be deployed carefully.

Figure 11: LPFA Private Equity Portfolio:
investment strategy breakdown – as at 31 March 2020

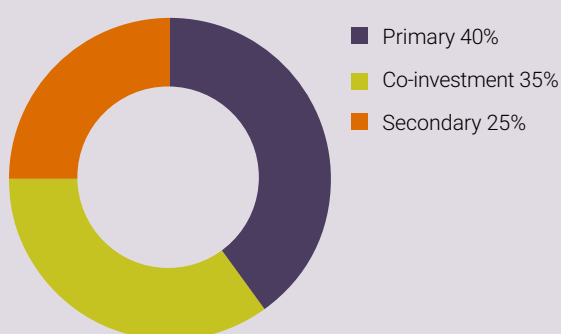
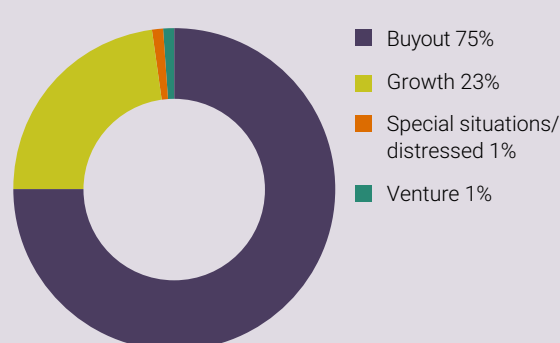


Figure 12: LPFA Private Equity Portfolio:
investment type portfolio breakdown – as at 31 March 2020



3. Investment review continued

3.2 Investment performance continued

Real estate

Real estate plays a strategically important role within LPFA's overall investment portfolio. It brings diversification benefits and rental income that can be used to fund member benefits without the need to liquidate other investments.

A key milestone was achieved over the year with all direct and indirect LPFA assets pooled into the LPPI Real Estate Fund. This process started in October 2019 and was completed in the first quarter of 2020, involving an in-specie transfer of both the Knight Frank-managed direct portfolio and the Fund's indirect portfolio, comprising an overseas fund of funds portfolio managed by CBRE and an agricultural fund managed by Brookfield Asset Management. As a result, the Fund's entire real estate exposure is now held within the Fund and managed by LPPI. Through the pooling process, the Fund has increased regional, sector, as well as underlying property and fund manager, diversification.

The real estate portfolio reflects the LPPI investment philosophy of focusing on the selection of high-quality investments with strong fundamentals to preserve value, maintain liquidity and ensuring continuity of tenant income. These criteria are believed to be of benefit of the portfolio in the current climate where the COVID-19 crisis is causing rental payments to slow down, with tenants seeking deferments and concessions.

Given the long-term nature of real estate investments, performance should be assessed over longer time horizons. Over the three-year and five-year horizons, the Fund's real estate portfolio has produced strong absolute and relative performance. Over the last 12 months, the portfolio (covering both the pre- and post-pooling periods) generated a return of +5.5%, matching the benchmark performance. The Fund is invested with a focus on rental income, with assets selected to produce levels similar to that of the benchmark index. At a sector level, there is a positive bias to office and industrial and relative underweight positioning to retail properties which has helped to protect the portfolio against capital loss. The retail sector suffers from secular headwinds, as online shopping grows, which has been exacerbated by the effects of the COVID-19 lockdown.

Moving forward the COVID-19 crisis is anticipated to accelerate existing trends within property valuations and we could see a redefining of property requirements. Furthermore, LPPI is conscious of any impact on rental income and is closely monitoring the properties within the Fund. Despite these concerns, confidence remains that property fundamentals are largely unchanged, quarterly income distributions should be maintained and well-located quality properties should continue to outperform.

Figure 13: LPFA Real Estate Portfolio:
geographical investment breakdown – as at 31 March 2020

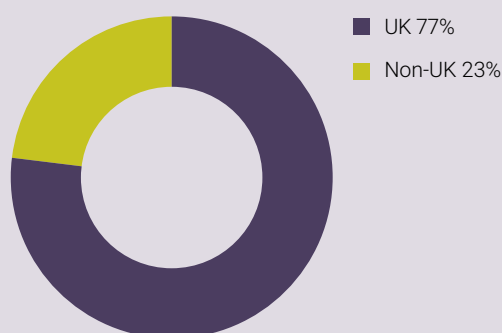
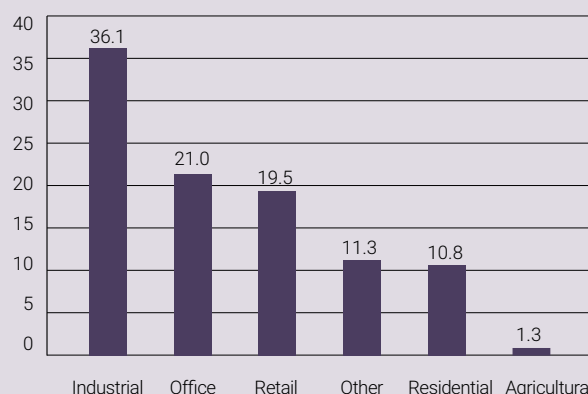


Figure 14: LPFA Real Estate Portfolio:
sector breakdown % – as at 31 March 2020



Infrastructure

Infrastructure as an asset class typically offers long-term returns that are aligned to the Fund's investment objectives whilst also providing diversification and broadly resilient cash flows with a degree of inflation linkage. Looking back over the past year, infrastructure stood apart from other asset classes as deal activity did not suffer due to the impact from the COVID-19 pandemic. There was, however, a shift in capital deployment towards more defensive, less cyclical assets such as telecoms and social infrastructure.

The vast majority of LPFA's infrastructure exposure is through LPPI's Global Infrastructure Fund (GIF) which comprises allocations to a variety of global infrastructure funds and direct investment projects. The residual allocation to infrastructure remains on the LPFA balance sheet and is expected to continue to roll off in the next couple of years. Their impact on overall performance is minimal given the small exposure to these funds.

A key component of the GIF is GLIL (LPPI is the appointed Alternative Investment Fund Manager of GLIL), a distinctive platform designed to fully align the interests of like-minded investors who wish to exploit the very long-term investment opportunities in infrastructure investing. Furthermore, the GIF has made an increasing number of direct investments globally with significant allocations in the renewable energy sector. The scale that the GIF brings enables investments to be made on favourable terms, which reduces fee costs over the investment horizon and provides stronger governance rights to protect LPFA's long-term interests. Over the reporting period, the Fund has experienced significant activity, with two new investments as well as an additional pooling of assets.

The LPFA infrastructure portfolio delivered a modest positive return over the 12-month period despite facing material regulatory headwinds. Like other private market assets, infrastructure performance should be assessed over longer horizons in which it has consistently met its benchmark return.

The competitive market environment continues to be testing in finding appropriately priced deals. Despite this the LPPI Infrastructure team are working on several attractive opportunities and maintain a strong long-term pipeline.

Figure 15: LPFA Infrastructure Portfolio: strategy breakdown – as at 31 March 2020

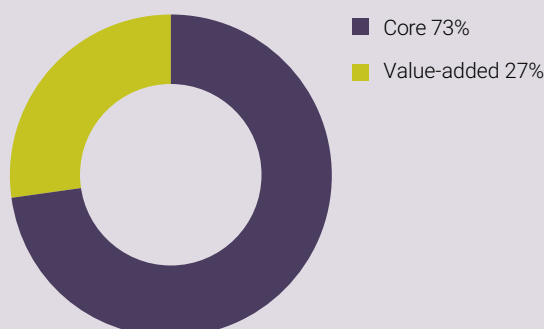


Figure 16: LPFA Infrastructure Portfolio: sector breakdown – as at 31 March 2020

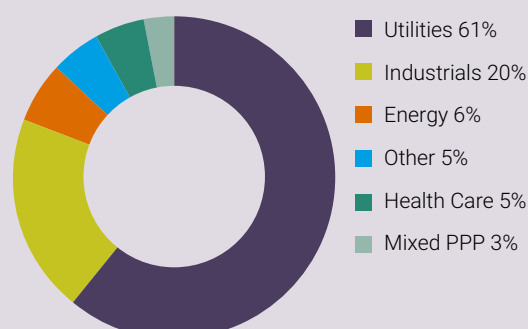
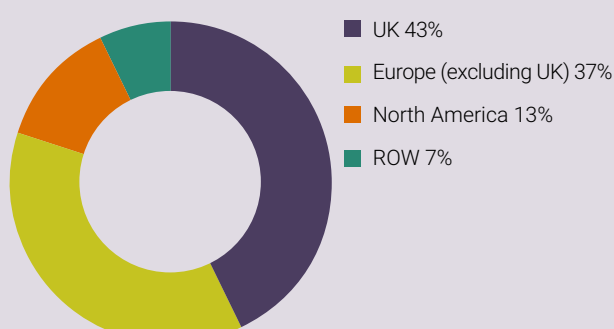


Figure 17: LPFA Infrastructure Portfolio: geographical breakdown – as at 31 March 2020



3. Investment review continued

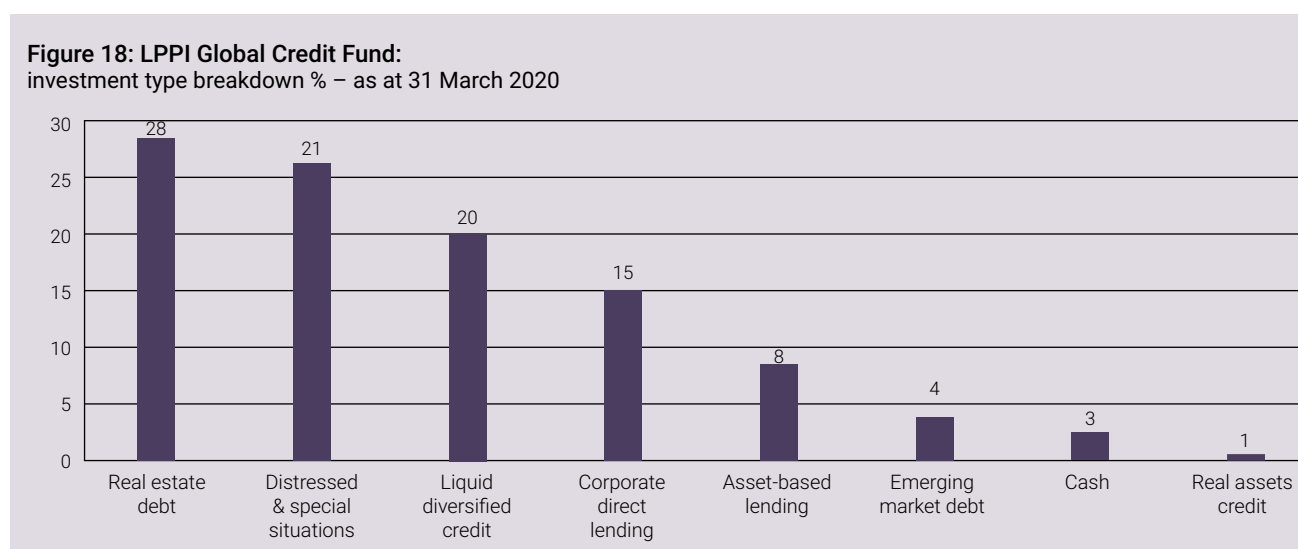
3.2 Investment performance continued

Credit

The entirety of the Fund's credit exposure is through LPPI's Global Credit Fund (GCF). The GCF invests in a range of credit-linked assets globally across the credit quality spectrum. Credit exposure is predominantly in illiquid investments which are typically held to maturity. The income generated from the GCF is a material source of cash that can be used to meet liability payments and is incorporated into the cash flow modelling that LPPI conducts on behalf of the Fund.

The support to credit markets from a relatively benign credit environment was interrupted by the COVID-19 pandemic and ensuing financial stress. In this environment, the GCF generated a positive return (+2.7%) over one year but lagged that of the benchmark set for the strategy. Among the different underlying strategies, distressed debt and corporate direct lending were worst affected and detracted from positive performance. However, negative returns in the lower-quality part of the portfolio were offset by resilience shown in liquid diversified credit and asset-based credits. Over the longer term, performance remains strong with notable outperformance against the benchmark since inception.

Over the course of 2019, steps were taken to incrementally tilt the portfolio towards higher-quality, senior secured and asset-based/asset-backed credits, which are likely to provide greater resiliency in challenging market conditions. The Fund's exposure to emerging market debt has notably decreased following this reorientation. The broad types of the investments comprising the GCF at 31 March 2020 are included in the graph below.



Looking forward, although there has been a substantial retracement of the drawdown since March, LPPI anticipates the next phase of this credit cycle to lead to many investment opportunities in rescue financing, restructuring and special situations while also concentrating on managers that are able to minimise expected losses whilst optimising returns.

Diversifying strategies

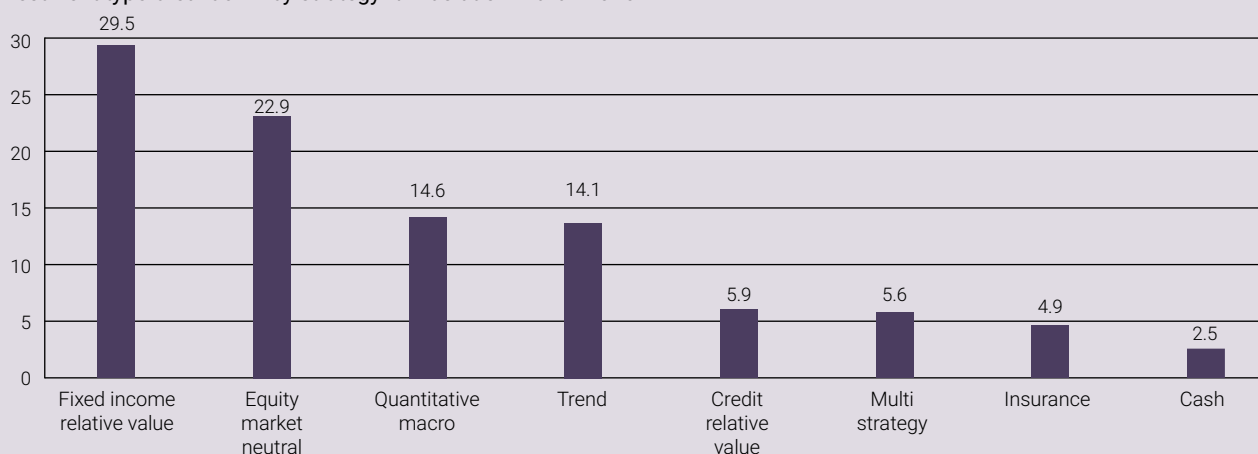
The majority of the Fund's diversifying strategies exposure is through the LPPI Diversifying Strategies Fund (DSF) with the exception of Aeolus Capital. The DSF seeks to generate a diversifying source of return to complement clients' equity and fixed income allocations, whilst maintaining low correlation to public equity (especially in times of market stress). The DSF follows a diverse, multi-strategy approach employing a range of relative value, risk premia and directional investment approaches in traditional markets, alongside alternative markets like insurance.

In the year to 31 March 2020, LPFA's diversifying strategies returned 1.6%. Although the return was below the target return, it nonetheless provided diversification against broader market turbulence as equity and credit markets underwent severe stress in the first quarter of 2020. The DSF returned 1.7% over the year while the steep depreciation in sterling boosted the Fund's exposure to Aeolus which returned in excess of 13%.

Over the year, the portfolio tilted to areas where greater opportunities have materialised, such as Fixed Income Relative Value and insurance-based strategies. Two external managers were appointed over this period to oversee the Credit Relative Value and Re-Insurance strategies while exposure to Discretionary Macro was reduced through a manager redemption in the fourth quarter of 2019.

Moving forwards, LPPI are reviewing long volatility programmes, with the idea of providing structural protection against an uncertain macroeconomic backdrop over the next 12 months.

Figure 19: LPPI Diversifying Strategies Fund:
investment type breakdown by strategy % – as at 31 March 2020



3. Investment review continued

3.2 Investment performance continued

Asset pooling disclosures

The table below shows the costs to the LPFA of setting up both the pooling company, Local Pension Partnership Ltd, as well as the individual pooling vehicles which continued in 2019 with the creation of the LPPI Real Estate Fund. LPFA transferred in both direct and indirect assets over the latter stages of 2019 and early 2020

Pool set up costs

	Current year		Since inception of the pool	
	Direct £'000	Indirect £'000	Total £'000	Cumulative £'000
Set up costs:				
Legal	–	127	127	957
Professional fees	–	110	110	441
Other support costs	–	10	10	185
Staff costs	–	–	–	–
Other costs	–	18	18	218
Total set up costs	–	265	265	1,801

Transition costs:

Transition fees	–	–	739
Total transition costs	–	–	739

Net savings realised

The table below compares the fee savings realised from the inception of pooling versus the preceding year, 2015-16. The savings are based on grossed up fees based on revised CIPFA guidance in 2016, whereas previously fees may have been lower as they may have been netted off against the change in market value.

	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
Set up costs	(76)	(225)	(449)	(430)	(356)	(265)
Transition costs	–	–	(439)	(281)	(19)	–
Fee savings	–	–	(624)	7,400	10,181	14,959
Net savings realised	(76)	(225)	(1,512)	6,689	9,806	14,694

Ongoing investment management costs

Investment expenses are shown broken down into their constituent categories and split between those resulting from investments held in the pooled vehicles and those held by the Fund. The following table summarises investment management costs for 2019-20. It has been compiled from cost transparency templates completed by each of the Fund's investment managers. The "Direct" costs column reconciles to the costs disclosed in Note 11b within the Statement of Accounts, while "Indirect" costs are those costs that do not meet the criteria from inclusion in the accounts but do represent underlying costs to the Fund's investments. The investment expenses are split between those held within pooled vehicles and those held directly by the Fund.

	LPPI pooled assets			LPFA directly owned assets			Fund Total £'000
	Direct £'000	Indirect £'000	Total £'000	Direct £'000	Indirect £'000	Total £'000	
Management fees	35,166	–	35,166	7,327	–	7,327	42,493
Performance fees	20,172	–	20,172	2,540	–	2,540	22,712
Transaction costs	1,687	2,398	4,085	1,212	–	1,212	5,297
Custody costs	–	–	–	65	–	65	65
Administration	–	2,581	2,581	–	22	22	2,603
Governance, Regulation and Compliance	–	937	937	–	36	36	973
Property expenses	–	–	–	–	189	189	189
Other	–	65	65	–	92	92	157
Total	57,025	5,981	63,006	11,144	339	11,483	74,489

Following clearer guidance from CIPFA, greater transparency on investment management costs has been achieved.

Despite the Fund's assets increasing in value over this period, overall management fees for pooled and non-pooled investments were marginally lower relative to the prior year. This is due to asset pooling. The strong investment performance prior to the onset of the COVID-19 pandemic did translate to higher performance fees being incurred. They were the main driver behind the increase in overall investment management costs for pooled assets relative to the previous year. There were no changes made to LPFA's strategic asset allocation over the year, nor were there material over/underweight positions which would translate to a change in management fees paid.

Following the establishment of the LPPI Real Estate Fund and the transfer of LPFA assets into the newly created fund, the percentage of total assets pooled with LPPI rose from 80% to 92% in March 2020. Additional pooling has led to a shift in where investment management costs are borne. With a higher proportion of assets pooled, relative to the previous year, investment management were relatively lower. Note, however, that the transfer of real estate assets was only completed in the latter part of the period and consequently the effect on costs is unlikely to be fully reflected until next year's accounts.

One of the key objectives for the Local Government Pension Scheme's pooling initiative was achieving economies of scale and benefiting from lower management costs – an example being LPPI's recent renegotiation of investment management fees with one of the external managers in the Global Equity Fund. Whilst not reflected in this year's investment management costs shown within this report, material savings will be enjoyed by LPFA (c. £1m total saving at the Global Equity Fund-level).

Understanding the relationship between costs, risks and return associated with the pension fund portfolio

Achieving excellent value for money is at the heart of LPPI's investment thinking. Whether this is in managing assets directly or by utilising specialist third party managers, weighting up the benefit of an asset/strategy against the cost is central to the process of selection. LPPI believes in the benefits of active management, seeking to provide long-term outperformance over passive/index returns in each segment of the portfolio.

A significant part of the Fund's portfolio is invested in alternative/private market asset classes such as real estate, infrastructure and private equity. These asset classes are unable to be managed passively due to their lack of liquidity and active management (undertaking operational improvements, for example) is a key driver of returns. In exchange for a greater involvement within the investment selection and management process, costs can exceed those typically seen within public market investments.

Whether an asset falls within the public or private market classification, active management typically requires additional research, diligence, and systems amongst other considerations to facilitate stronger returns. This additional investment in resource should translate through to better long-term risk-adjusted returns. Strong asset performance over the last few years, generated through actively managed assets, has been identified as the principal driver for the improvement in LPFA's funding position at the latest triennial valuation review.

LPPI's Investment Committee oversees all investment managers and weighs up the benefits of deploying capital across different asset classes to optimally balance capital growth and capital preservation whilst seeking to provide the best value for LPFA's members.

3. Investment review continued

3.3 Responsible investment

The LPFA is committed to the long-term responsible investment (RI) of retirement savings on behalf of Fund members.

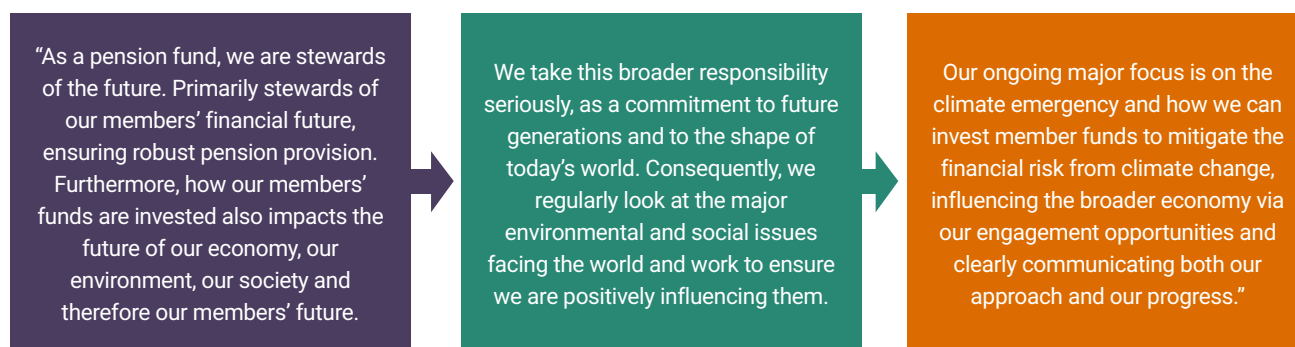
2019-20 has been a busy and productive year. Working with LPPI, the Fund has focused on being more transparent about its responsible investment approach and activities. Both parties' longstanding commitment to sustainable investment and active ownership are evident from the processes and standards that are already in place. However, it's been recognised that communication could improve so there has been a focus on sharing insights more readily and openly.

Improving transparency

A comprehensive statement encapsulating the Fund's values, beliefs and approach was an obvious starting point and, following Board consultation, an updated RI Policy was agreed for the Fund at the end of 2019. The Policy is a companion document to the Investment Strategy Statement and the Climate Change Policy both of which are available on the LPFA's website.

The Fund's RI Policy is a first port of call for anyone interested in understanding more about the Fund's approach. It articulates the thinking that shapes the Fund's approach, its outcome in terms of identified priorities, and the standards agreed with LPPI. The Policy reflects the Fund's commitment to fulfilling the responsibilities that it holds as an institutional asset owner and steward of the retirement savings of Fund members and their beneficiaries.

The LPFA Board vision for responsible investment



LPFA Board Vision, 11 September 2019

The updated RI Policy recognises that portfolio sustainability depends on informed and diligent investment selection and active asset ownership over the long term. The standards that are set for the Fund's investment managers include requiring them to routinely integrate ESG considerations within their investment decision-making. This in turn helps ensure a holistic approach to assessing investment risks and opportunities.

Applying high standards

The Fund uses two main external benchmarks to hold itself and LPPI to account. The Fund is a signatory to the UK Stewardship Code 2012 and ranked Tier 1 (highest) by the Financial Reporting Council (FRC) for its arrangements ensuring the effective stewardship of its investment portfolio. The Statement of Compliance describes the compliance with the Stewardship Code's best practice principles.

At the end of 2019, the FRC published a revised UK Stewardship Code 2020 which implements requirements under the Shareholder Rights Directive II and sets a much higher threshold for stewardship activity. In line with the FRC's timeline for new arrangements under the revised Code, the Fund and LPPI will be considering the best approach to demonstrating alignment with the new standard. It's anticipated that this will predominantly come through LPPI's reporting on behalf of the partnership since the focus of reporting has shifted to detailed disclosure about actions undertaken annually.

The LPFA is a responsible investor of long standing and from 2007 to 2018 the Fund was a signatory to the Principles for Responsible investment (PRI), the pre-eminent global standard for Responsible Investment practice. LPFA delisted as a PRI signatory in July 2018 to enable LPPI to become a signatory and report on behalf of the wider partnership. LPP Group has reported twice since becoming a PRI signatory (most recently in March 2020) and Transparency Reports are accessible from the PRI website describing arrangements in place and giving detailed examples of good practice which can be found on our website.

Company fundamentals, including the quality of leadership and broader corporate governance, determine how well positioned investee companies are to plan, adapt and thrive in response to multiple stimuli (economic, social, political, environmental). In addition to monitoring and engaging with investee companies to encourage them to address gaps or weaknesses, the Fund and LPPI are advocates for progressive policy and are active in a range of collaborations which bring investor voices together to achieve collective influence. Further details about the organisations with which we partner are available in our report – "Investing Responsibly for a more sustainable future" – on our website.

Some collaborations are multi-issue forums (PLSA, Local Authority Pensions Fund Forum (LAPFF)) whilst others are specifically focused on achieving progress on climate change (CDP, the Institutional Investor Group on Climate Change, Climate Action 100+ and C40 Cities).

Our RI priorities

Understanding and addressing climate change is a longstanding priority. Climate change is a systemic, multi-dimensional risk that is simultaneously ESG related. It will have an impact on all companies, markets, sectors and geographies over time but in ways and to timescales that are difficult to predict.

The Fund published the current Policy on Climate Change back in 2017. In articulating priorities and setting the objectives to be achieved by 2020, the Fund focused on extractive fossil fuel companies and the risk posed by assets becoming stranded as the global transition to lower carbon energy accelerates. The Policy on Climate Change is due a refresh in the 2020-21 business year and we will update in next year's report actions taken, progress made and how the portfolio is positioned. The report – LPFA Policy on Climate Change, Review of 2019 – can be found on the LPFA website.

As a result of integrating ESG and setting guidelines for the extractive fossil fuel sector, the Fund's portfolio has a relatively low level of exposure to traditional energy. Within listed equities, it holds just 1% in the energy sector (compared to 4% for the benchmark). The companies held are well rated by the Transition Pathway Initiative which assesses companies against a series of benchmarks based on the information they disclose publicly. The Fund's low exposure to energy in listed equities translates into a lower carbon intensity (relative to the benchmark) which reflects that the energy sector is disproportionately carbon intensive. Additional analysis suggests the listed equity portfolio has emissions below the pathway needed to achieve 1.5°C degrees of warming. However, methodologies for evaluating alignment are at a relatively early stage of development, so LPPI continues to seek tools and metrics to further understand the investment risks posed by climate change and assist its evaluation of the position of the portfolio.

In the future, the likelihood of stronger fiscal and regulatory interventions to achieve well below 2°C of global warming (in line with the Paris Agreement) require considered reflection. We should also be mindful of measures to deliver the UK Government's commitment to carbon neutrality by 2050 and how they may pose risks and offer UK investment opportunities. LPPI and the Fund are already investing in a low carbon future, with 2.5% of the portfolio in assets identified as "Green" because they are directly involved with renewable energy generation or otherwise support decarbonisation as part of the global transition.

3. Investment review continued

3.3 Responsible investment continued

Some examples of the Fund's responsible investment activity

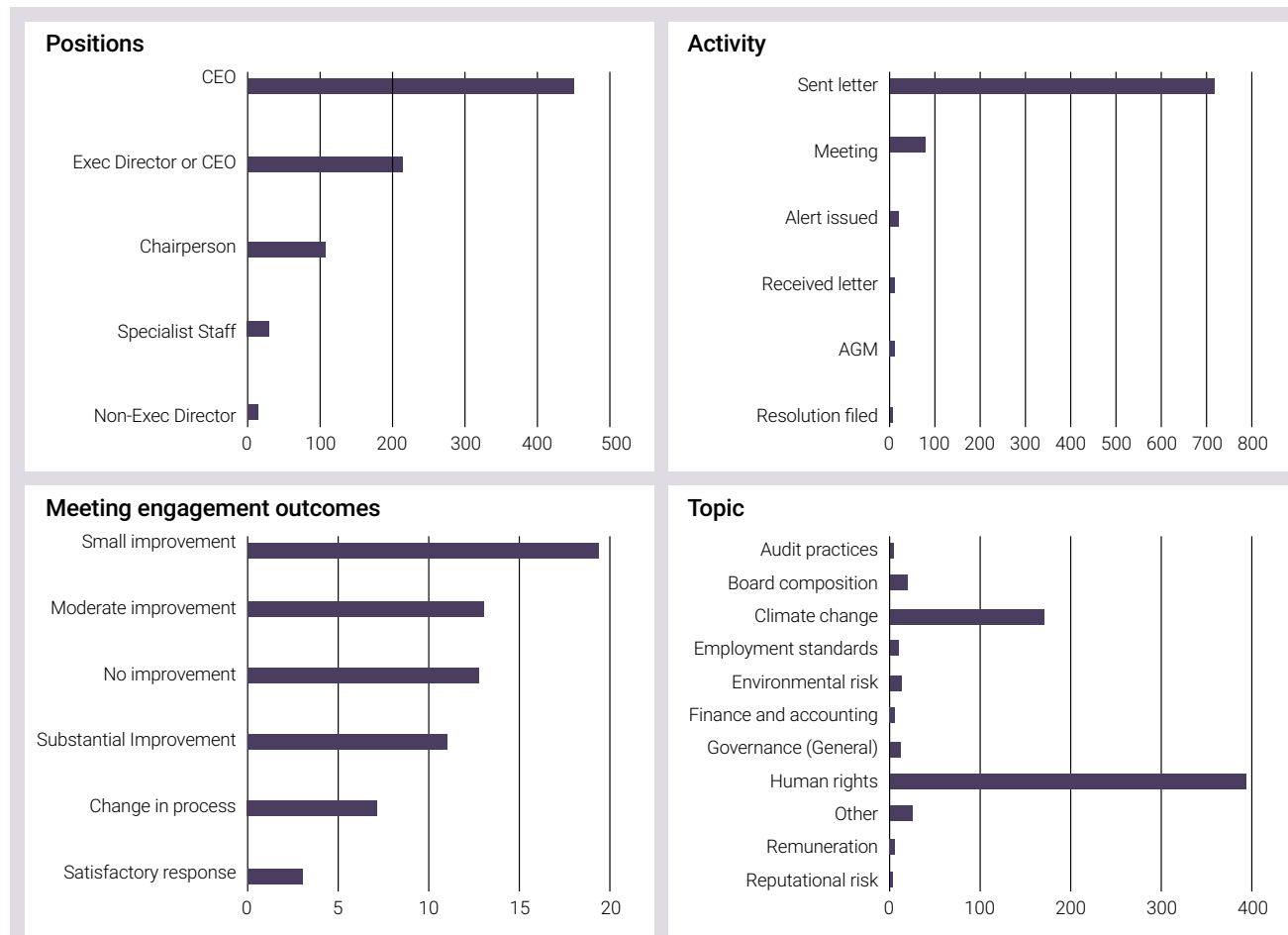
At the end of 2019, alongside other UK pension funds investing through our infrastructure collaboration, GLIL, a minority stake was secured in Cubico Sustainable Investments, which operates 18 wind and solar sites in the UK. LPFA's equivalent share of the investment represents renewable energy sufficient to power 6,000 homes annually.



Cubico Sustainable Investments

Over the last 12 months, as a member of LAPFF (a collaboration of 80 LGPS pension funds), LPFA has directly supported the engagement detailed in the tables and graphs shown below:

Local Authority Pension Fund Forum – Annual Engagement Statistics 2019*



The right of shareholders to vote at annual general meetings offers a direct route for communicating views and urging companies to make changes or improvements. As noted earlier, the Fund's investment in listed equities is through the LPPI Global Equities Fund (GEF). LPPI votes on shares in the GEF directly and publishes quarterly reports on meetings voted, the individual resolutions tabled and whether voting supported or opposed proposals. Voting reports are publicly available from the LPP website where they can be referred to for granular insights on our website.

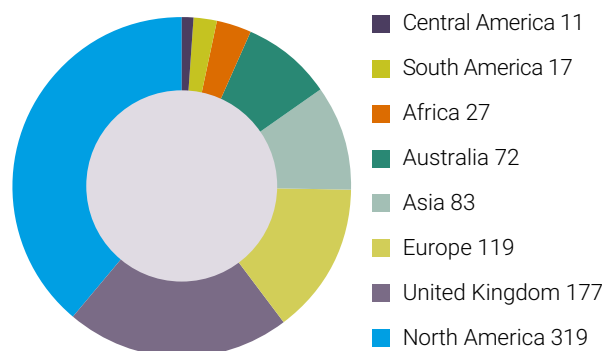
In the 12 months from April 2019 to March 2020, LPPI:

- Voted at 502 company meetings on 6,981 separate resolutions
- Voted against 19% of management proposals on remuneration and supported 57% of shareholder resolutions relating to remuneration
- Supported 85% of shareholder resolutions related to improving corporate action on human rights issues
- Supported 83% of shareholder resolutions relating to diversity
- Voted against management in 25 instances where board nominations failed to address an inadequacy in Board diversity
- Supported 77% of shareholder resolutions related to climate change.

Companies most engaged*

Company	Number of Engagements	Number of Members Holding
Exxon Mobil Corporation	8	27
Southern Company	7	22
Arcelormittal SA	7	21
General Electric Company	7	24
Royal Dutch Shell Plc	6	53
General Motors Company	6	17
Rio Tinto Group (Gbp)	5	44
Chevron Corporation	5	26
Amazon.Com Inc.	5	27
Glencore Plc	5	28

Engagement by region



* Graphics courtesy of Local Authority Pension Fund Forum, 2019 Annual Report
https://lapfforum.org/wp-content/uploads/2020/09/LAPFF_annual_report_2019_web.pdf

3. Investment review continued

3.2 Responsible investment continued

Moving forwards

In the year ahead, the Fund will work with LPPI to agree reporting on the priorities identified in the LPFA's updated RI Policy and how they are being reflected in the portfolio and implemented through stewardship activity. The Fund's assets are managed under pooled investment arrangements which means the Fund owns units in co-mingled funds managed by LPPI rather than shares or a direct stake in individual companies. As noted earlier, as part of pooling, day to day decision-making on the selection of investments, the appointment of asset managers and the exercise of ownership responsibilities are delegated to LPPI. The Fund's executives monitor and hold LPPI to account for delivering the investment strategy and policy commitments. LPFA colleagues are still involved directly in collaborations that engage with companies, regulators and interest groups (the most significant being our membership of the LAPFF). However, shareholder voting and related stewardship activities form part of core asset management activities overseen centrally by LPPI.

4. Governing the Fund

The LPFA aims to comply with the highest standards of corporate governance. These are reflected in the framework set out in the Fund's published Local Code of Corporate Governance (the 'Code') that has been developed in accordance with the requirements of the *Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)*.

In accordance with Regulation 55 of the LGPS Regulation 2013 (as amended), LPFA has published a Governance Compliance Statement explaining how the Fund complies with the governance best practice arrangements. The LPFA Board has considered the compliance and control measures in place related to the administration and strategic management of Fund assets and liabilities, pursuant to direction issued by the Ministry of Housing, Communities and Local Government (MHCLG).

This section will provide details of the: governance highlights for 2019-20; details of the Board and Committee structure, along with details of the executive team; the LPFA strategy; risk management, details of LPFA advisors and service providers; and a statement from the Local Pension Board (LPB).

4.1 Governance highlights

The Governance highlights throughout the year are as follows:

- The Fund has continued to enhance its relationship with employers and members. A successful Member Forum was held in September 2019, attended by a record 340 members of the Fund. The annual event was an important opportunity for the LPFA Board members and executives to directly hear from members and update them on recent activities.
- Successfully completing the 2019 Triennial Valuation through partnership and engagement with employers. A copy of the full version of the actuarial report from Barnett Waddingham is available on the LPFA website under the Employers section.
- Each year LPFA reviews its governance arrangements to ensure compliance with the Code and the delivery of good governance throughout the organisation. Several actions are captured in the Fund's Annual Governance Statement, published within the Statement of Accounts, and will be progressed during 2020-21.
- LPFA continues to work closely with the Greater London Authority (GLA) in implementing its Climate Change Policy in 2020. The Board receives regular updates on LPPI's delivery against LPFA's Climate Change Policy, resulting in all the Fund's investments in extractive fossil fuel companies in Transition Pathway Initiative (TPI) coverage being rated TPI 3 or above at the end of December 2019.
- In collaboration of the GLA, Robert Branagh presented at the C40 Divest/Invest Conferences in 2019 and 2020.
- The LPFA continues to focus and lead on ESG and RI issues. During 2019-20 the Board played an active part in creating the RI policy which outlines the Fund's position on the climate emergency. The Fund and LPPI will continue in 2020-21 to work on an implementation plan on how to meet the policy requirements.

4. Governing the Fund continued

4.2 Board, Committees and Executive team

The LPFA Board

Appointments

Board members are usually appointed for a term of three to four years, with the majority serving two appointment terms. All Board members are Independent Non-Executive post holders. Appointments are made through a transparent process based on merit, against objective criteria and with attention given to the benefits of

Board diversity. The diverse background of the Board is an asset and helps towards effective deliberations and decision-making.

Board changes

Sir Merrick Cockell retired as Chair on conclusion of his term (31 December 2019) after four years in the role and nine years on the LPFA Board. Following a transparent recruitment process, John Preston

was appointed as Chair from 1 January 2020. Tamlyn Nall and Terence Jagger were extended for a second term at the end of December 2019 for a further four-year appointment.

During the year, Nigel Topping resigned as a member the Board and Audit and Risk Committee (31 January 2020).

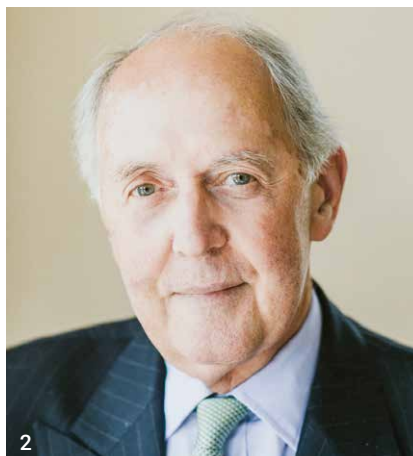
The table below shows the Board members' appointment period, experience, who appointed by, their Board attendance, Committee membership and Committee attendance.

Board member	Appointment period	Experience	Appointed as part of a London Council	Board attendance*	Committee Membership 2019-20	Attendance at Committee meetings
Sir Merrick Cockell Chair until 31 December 2019	1 October 2010 to 31 December 2018, extended to 31 December 2019	International Business Public Administration	Yes	4 out of 4	n/a	n/a
John Preston Chair from 1 January 2020	1 January 2020 to 31 December 2023	Finance General management UK and international Business Pensions Administration	No	1 out of 1	n/a	As part of induction observed an Investment panel and Audit and Risk Committee.
Dermot "Skip" McMullan Deputy Chair and LPP Shareholder Non-Executive Director	17 April 2013 to 31 March 2021	Business and Pension Fund Management Investment Management	No	5 out of 5	Investment Panel	5 out of 5
Terence Jagger	1 January 2016 to 31 December 2019, extended to 31 December 2023	Public Administration Finance	No	5 out of 5	Audit and Risk	4 out of 4
Tamlyn Nall Chair of Investment Panel from February 2019	1 January 2016 to 31 December 2019, extended to 31 December 2023	Finance	No	5 out of 5	Audit and Risk Investment Panel	4 out of 4 5 out of 5
Dr Barbara Weber	30 June 2017 to 31 July 2021	Investment Management	No	3 out of 5	Audit and Risk Investment Panel (interim member)	4 out of 4 4 out of 5
Nigel Topping	30 June 2017 to 31 January 2020	Manufacturing Business Climate Change	No	2 out of 4	Audit and Risk	3 out of 3
Cllr Ruth Dombey	19 October 2018 – 31 December 2022	Local Government Administration Finance	Yes	5 out of 5	n/a	n/a
Cllr Tony Newman**	19 October 2018 – 31 December 2022	Local Government Investments	Yes	5 out of 5	n/a	n/a
Christina Thompson Chair of the Audit and Risk Committee	1 January 2019 – 31 December 2022	Finance in Local Government	Yes	3 out of 5	Audit and Risk	4 out of 4

* Excludes attendance at the LPFA Board Strategy Away Day ** Cllr Tony Newman has recently stepped down from the LPFA Board.

Board composition

The current Board members are set out below:



1. John Preston
Chair
2. Dermot 'Skip' McMullan
Deputy Chair
LPP Shareholder Director
Member of the Investment Panel
3. Christina Thompson
Chair of the Audit and Risk Committee
4. Cllr Ruth Dombey
5. Cllr Tony Newman**
6. Tamlyn Nall
Interim Chair of the Investment Panel
7. Terence Jagger
Member of the Audit and Risk Committee
8. Dr Barbara Weber
Member of the Audit and Risk Committee
Member of the Investment Panel (interim)

Full biographies are available to view on our website.

4. Governing the Fund continued

4.2 Board, Committees and Executive team continued

Matters Reserved

Throughout the year, the Board has operated in accordance with its Matters Reserved. The Board gives particular emphasis on ensuring compliance with statutory and regulatory requirements, establishing the Pension Fund's strategy and driving its activities to deliver on objectives. All Board members have voting rights and decisions are by majority of the Board members present at a meeting. In the case of an equal number of votes, the Chair presiding at the meeting has a second or casting vote.

Risk is also a key focus with the Board agreeing a set of Risk Management Principles and undertaking a major review of the risk register, ensuring a robust system of internal controls.

The Board has continued to review public policy statements and published policies on a regular basis to ensure they are updated in consideration of the Fund's operating model. The LPFA policies framework ensures the policy statements and policies are regularly reviewed by the appropriate forum before final approval by the LPFA Board.

A Strategy Board Away Day was held on 10 and 11 September 2019, which was an opportunity to review both client deliverables and shareholder oversight matters. Productive discussions were held over the two days which facilitated the development of the RI Policy and established the focus for the expanded LPFA executive team.

The Board's Matters Reserved are set out in LPFA's Constitutional document which is available on the website.

Highlights of the work undertaken by the Board during the year	
Reviewed	<ul style="list-style-type: none"> Quarterly financial position Finance Service Review Investment and pension administrative performance Delivery of the LPFA's Climate Change Policy Oversight of LPP's Governance and Performance
Approved	<ul style="list-style-type: none"> LPFA Pension Fund Annual Report & Accounts 2018-19 Annual Governance Statement 2018-19 Strategic Policy Statement 2020-23 The Medium-Term Financial Plan 2020-23 The appointment of the Fund's new Internal Auditor (to commence from 2020-21) Responsible investment Policy Local Pension Board (LPB) Terms of Reference. GIS Investment Strategy 2020-21 Participation in the Pensions Archive Project Change in the AVC lifestyle Funds 2019 Triennial Valuation assumptions and actuarial valuation report An Additional Voluntary Contribution (AVC) Service review and subsequent recommendations LPP Budget and Strategic plan 2020-25 and Capital restructure (Shareholder reserved matter) Funding Strategy Statement Local Code of Corporate Governance The Fraud Control Framework Gifts, Hospitality and Expense Framework and subsequent six-month review Communications Policy Statement Whistleblowing Policy Freedom of Information Publication Scheme Information Security Statement Health and Safety General Statement of Policy Investment Strategy Statement
Noted	<ul style="list-style-type: none"> Updates on LPP Governance Investments in the pipeline and decisions made by LPPI on behalf of LPFA Annual Audit and Risk Committee report 2019-20 Annual Report from the Independent LPB Chair

Remuneration and nomination matters

The LPFA reviewed its Board and Committee structure in 2016, following the outsourcing of most of their functions to the LPP Group, and agreed to dissolve the Remuneration and Nomination Committee. The duties of the Remuneration and Nomination Committee have been subsumed into matters reserved for the LPFA Board.

Highlights of the Board's work in this area during the year include:

- Annual confirmation of the Board's composition and Committee membership
- Approval of the then Managing Director's objectives for the 2019-20 financial year
- Approval of the remuneration of the then Managing Director including a change in job title to LPFA CEO
- Approval of the remuneration proposals (shareholder reserved matter) from the LPP Group above required thresholds
- Approval of the LPFA 2019 Pay Policy

The Board members' remuneration is available on the 'Who we Are', 'Board and Board Reports' section of the LPFA's website.

Board development

An individual Board member performance review is conducted annually by the LPFA Chair to ensure that members contribute effectively and demonstrate commitment to the role. The review provides Board members with the opportunity to review their previous skills assessment and highlight opportunities for future training sessions. The LPFA Board training calendar is revised after the completion of the performance reviews, or as required, and discussed at the next Board meeting.

Board members also participate in a mixture of individual and group training sessions based on the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills Framework principles.

During 2019-20, the following training sessions were provided and events attended externally by members of the Board or Principal Officers:

- CIPFA Pensions Panel on 29 April 2019, 22 July 2019, 21 October 2019
- Public and Private Pensions Summit on 2 May 2019
- PLSA Local Authority Conference on 18 to 22 May 2019
- Responsible investment training by LPPI on 21 May 2019
- LGC Pension Conference on 11-12 July 2019
- 2019 Triennial Actuarial Valuation Assumptions and Training by Barnett Waddingham (LPFA Actuary) on 23 July 2019

- Room151 Finance Directors Summit on 19 September 2019
- AON annual DB Investment conference on 26 September 2019
- PLSA Annual Conference on 16 to 18 October 2019
- Willis Towers Watson Pensions and Savings Conference on 2 October 2019
- Employer Risk Training by LPP and Eversheds Sutherland on 24 October 2019
- Room151 LGPS Asset Allocation Forum (LGPS Pools and strategic asset allocation) on 7 November 2019
- PLSA Local Authority Update on 12 November 2019
- CIPFA Annual Conference on 13 November 2019
- Annual LGPS Governance Conference on 23- 24 January 2020
- PLSA Investment Conference on 11 to 13 March 2020

Board evaluation

The Board conducted an externally facilitated evaluation in 2018 which concluded that they were operating effectively. In 2019, the tracking of the effectiveness recommendations to completion was presented at Board meetings and a detailed discussion was held at the Board Away Day. A further effectiveness review was postponed from Winter 2019, along with a committee effectiveness review, to allow time for the new Chair, John Preston, to familiarise himself with the organisation.

4. Governing the Fund continued

4.2 Board, Committees and Executive team continued

Governance

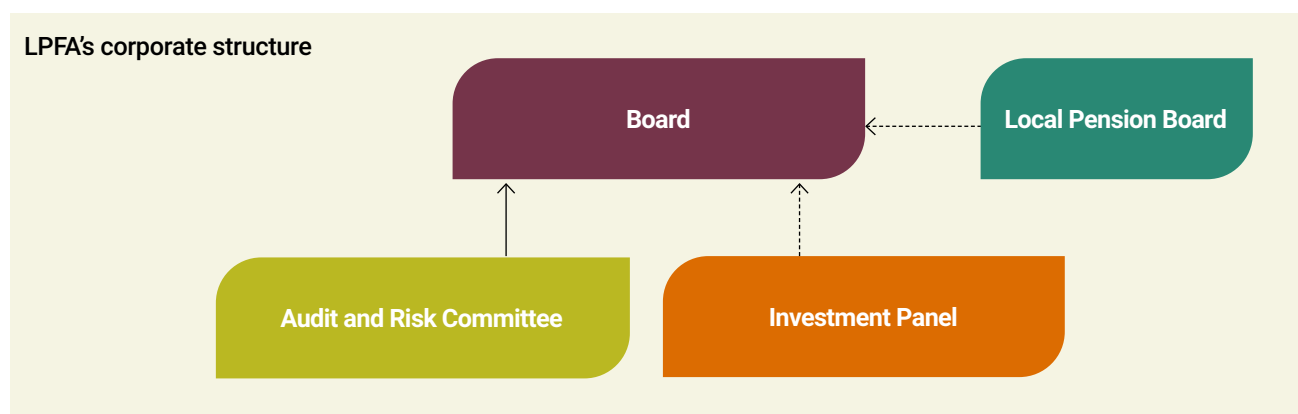
Constitutional Document

The Board members abide by the highest governance standards as set out in the LPFA Constitutional Document, in particular by the Code of Best Practice which sets out principles relating to openness, transparency and accountability. In terms of reporting, there is regular and proactive engagement between LPFA and the Mayor of London to achieve a mutually satisfactory outcome.

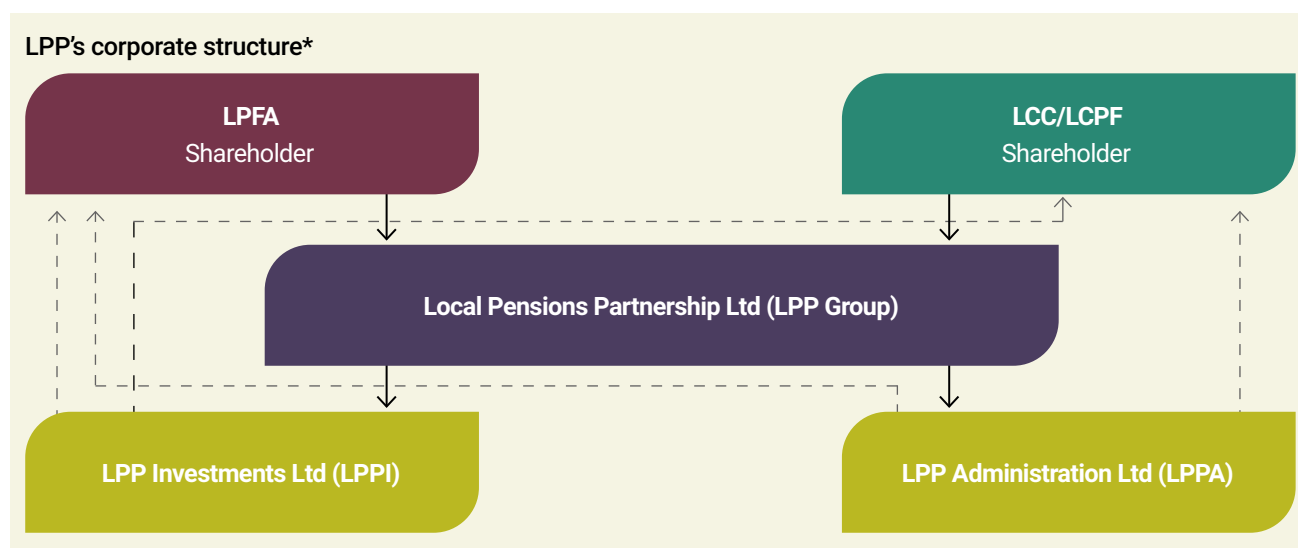
The LPFA's Constitutional Document brings together an underlying set of legislative requirements, governance principles, scheme of delegations to officers, and management processes, and underpins the Board's confidence that there is an effective system in place to ensure LPFA complies with its responsibilities.

LPFA Corporate Structure

There is one Standing Committee, namely the Audit and Risk Committee. Additionally, there is an Investment Panel which provides oversight of investment assets, prior to Board consideration. The Local Pension Board assists with providing a supplementary layer of compliance and governance to the administration of the LPFA.



LPFA is a joint shareholder of Local Pensions Partnership Ltd (LPP).



* The Local Pensions Partnership Ltd comprises a group holding company, (LPP Group) with two subsidiaries – an investment management company called Local Pensions Partnership Investments Ltd (LPPi), which is authorised and regulated by the Financial Conduct Authority (FCA), and Local Pensions Partnership Administration Ltd (LPPA) that provides pensions administration services.

Audit and Risk Committee

The function of the Audit and Risk Committee (the 'Committee' or 'ARC') is to monitor the operation of the LPFA's internal control, governance, compliance and risk arrangements and to make appropriate recommendations to the Board. All members of ARC have voting rights. The attendance at Committee meetings is set out on page 36.

Except where the Committee has been expressly authorised by the Board to make decisions, it will make recommendations for approval by the Board. The Committee also advises the Board on the following matters:

- Overall risk appetite and tolerance
- Current risk exposures and future risk strategy
- Risks surrounding any strategic alliances, co-investment processes or joint working, taking external advice where appropriate.

Due consideration was given to the following matters during the year – ensuring the integrity of financial statements, the effectiveness of the risk management systems, the robustness of internal controls, and exercising appropriate oversight of the internal and external audit works, with close monitoring of the implementation of recommendations.

Highlights of the ARC work during the year:	
Reviewed	<ul style="list-style-type: none"> • Quarterly financial updates • Internal Audit Findings reports including the Head of Internal Audit Opinion (Deloitte), and progress made against the recommendations, including robustness of internal controls • External Audit Findings report, and progress made against the recommendations • LPP's performance against the SLA • Annual review of LDI Hedging Strategy by LPPI • The appropriateness of the whistleblowing policy and anti-bribery policy
Approved	<ul style="list-style-type: none"> • The External Audit Plan for the year ending 2019-20 together with the audit fee and Annual Audit letter for publication • The Annual Audit and Risk Committee report for presentation to the Board
Recommended to the Board	<ul style="list-style-type: none"> • The Pension Fund Annual Report 2018-19 • 2019 Triennial Valuation assumptions • The Risk Management Framework Principles • The Fraud Control Framework 2019 • The Local Code of Corporate Governance 2019
Noted	<ul style="list-style-type: none"> • Senior Manager and Certification Regime report on LPPI's implementation status • Risk Management Updates • Updates on LPP Governance and Performance • Compliance against policies and annual monitoring on ESG • Treasury management activity • Residual liability claims relating to asbestosis • Employer Covenant and Liability Risk updates including the High-Risk employers dashboard

4. Governing the Fund continued

4.2 Board, Committees and Executive team continued

Investment Panel

LPFA also operates an Investment Panel ('IP' or 'Panel') whose role is to review the performance of the assets and whether these are compliant with the ISS. The IP also monitors whether investment activities are aligned with the Funding Strategy Statement (FSS) to ensure that the core risk of not being able to pay pension funds when they fall due is effectively mitigated. This panel promotes a constructive dialogue on the investment performance and receives updates on the investment decisions made on behalf of the LPFA by LPPI. IP is comprised of LPFA Board members and is attended by representatives from LPPI. The panel meets five times a year and usually takes place a few weeks prior to the LPFA Board meeting.

Local Pension Board (LPB)

(advisory body): The role of this Board, which comprises representatives of both members and employers, is to assist the LPFA Board with the oversight and the efficient management of the Fund. Its membership, an overview of its activities, including training received during the year, and attendance at quarterly meetings, can be found on page 52.

Annually, the Independent LPB Chair attends the Board meeting to report on the LPB activities and undertakes an appraisal with LPB members to identify any training requirements. All LPB members are actively encouraged and sponsored by the LPFA to attend at least one of the CIPFA/Barnett Waddingham LPB seminars held throughout the year.

Members are encouraged to attend suitable external training events where appropriate, to support their continued development knowledge and understanding of the items discussed at meetings.

Joint training was also undertaken with the LPFA Board with a view to increasing collaboration and sharing experiences. The LPB members have also been actively involved in the Fund's engagement activities, such as the Employer Forums and the Practitioners Conference.

LPFA Principal Officers and Executive Team

Principal Officers

The LPFA's Principal Officers consist of the CEO, the Section 151 Officer and the Monitoring Officer.

Many of the LPFA's executive functions have been outsourced to LPP while appointed officers at LPFA perform statutory functions, oversee LPP and report on performance. The Principal Officers ensure that appropriate advice is given to the Board on financial items, legal matters and that resources are used efficiently and effectively. They also review the LPFA governance framework, annual strategic business plan and budget, monitor audit recommendations and lead on generating improvements in risk management.

The LPFA's Section 151 Officer:

Abigail Leech monitors financial processes, liaises with external and internal auditors, and advises the Board on all financial and investment matters, particularly concerning their duties under the Regulations.

The LPFA's Monitoring Officer:

Emma Strain monitors statutory and regulatory compliance and reports to the Board on any action which in their opinion would be contrary to law. The Monitoring Officer is also responsible for the administration of the Code of Conduct for Board members and managing any conflicts of interest. This role was outsourced to the GLA. (The Board has recently appointed Helen Astle the LPFA Monitoring Officer effective, 13 October 2020.).

The LPFA's CEO: Robert Branagh

oversees the performance of LPP, ensuring that high standards of service delivery are maintained, the implementation of the LPFA's strategic programmes and compliance with the relevant statutory requirements. The CEO is the key point of contact with the GLA and the other Shareholder, LCC, and the wider pensions and LGPS communities. For 2020-21, the LPFA Board has extended the CEO's remit to include focus on developing the LPFA's future business strategy and expanding the LPFA's relationship with external stakeholders.

Executive Team

The LPFA has made several new appointments within its management team to manage the increasing workload of the Authority and the Fund. This team also provides specialist oversight and allow the LPFA to hold the LPP Group more fully and effectively to account for the services and activities which are outsourced to the LPP Group. The roles and responsibilities of the new members of the management team are as follows:

Commercial and Finance Director:

Morenike Ajayi ensures the outsourced Finance function is effective through proactive monitoring the financial benefits of the partnership. Morenike is responsible for the development, implementation and regular review of the Fund's financial strategy. She is the LPFA relationship manager for both internal and external audit to ensure the delivery of good value for money. In addition, Morenike represents the LPFA at the Society of London Treasurers and the GLA sponsored Group Investment Syndicate meetings and GLA Treasury management meetings.

Communications and Project

Manager: Alistair Peck is responsible for the development and implementation of a clear communications strategy including public relations, policies, service procedures, brand, website, corporate responsibility and social media. Alistair liaises with key stakeholders to manage the day to day communication activities of the Fund. Alistair works closely with the LPPA Engagement Team to deliver an internal and external events programme to ensure that the Fund's strategic objectives are met.

Funding and Risk Director: Peter

Ballard oversees all aspects of the funding policy for the LPFA, including liability, investment strategy and employer covenant assessment. Peter ensures that all aspects of risk are identified, managed and reported. He works closely with the outsourced provider and the Scheme Actuary to carry out in-house analysis, as well as design implementation of risk adjusted contribution payment capability.

Compliance and Governance

Director: Helen Astle This is a key role within the organisation, accountable for the entire range of the LPFA's legal, governance and monitoring activities both directly and via LPP. Helen is responsible for contributing to the development of the business strategy and monitoring compliance and delivery through a virtual team.

The extended management team works alongside the LPFA's Principal Officers to ensure that value for money, effective management and all regulatory requirements are being met. Each year the LPFA reviews its governance arrangements to ensure compliance with the Code and the delivery of good governance throughout the organisation.

Asset Pooling, Governance and Oversight

The LPFA is both a shareholder and a client of LPP Group. As a client the service provided by the LPP Group is governed by SLAs, based on an expectation of the levels of quantitative and qualitative service provided.

The governance and oversight of the LPP Group is a standing item for the LPFA Board, to ensure the delivery of operational efficiency through robust shareholder activity. The approval of any shareholder matter reserved for the LPFA Board and the LPP's other shareholder, LCC. The highlights of the shareholder activities undertaken are as follows:

- As one of two shareholders of LPP, the LPFA has entered into a Shareholder Agreement (with co-equal shareholder LCC).

The LPFA, along with LCC, are required to approve specific decisions undertaken by LPP including aspects of LPP remuneration, strategic planning and budgeting. A recent internal audit conducted by Deloitte evaluated that the shareholder agreement control framework in place is effective.

- The LPFA has a shareholder appointed Non-Executive Director (NED) on the LPP Group Board. The NED provides a biannual summary report to the LPFA Board on matters progressing at LPP Group. The LPFA's CEO is also an observer to the LPP Board.
- Quarterly formal meetings are held between LPFA and LPP to provide details of achievements and its strategic direction for the future, along with regular informal meetings between the LPFA's CEO and LPP senior executives are held throughout the year to review performance. LPP's Group performance is monitored at LPFA Board meetings, with updates on the progress made against KPI's by LPP Group representatives.

4. Governing the Fund continued

4.3 The LPFA's strategy

Board strategy 2019-20

The LPFA's objectives are reviewed annually by the Board, and key responsibilities and actions are identified for the ensuing three-year period. The LPFA's Mission Statement, objectives, key programmes and performance indicators are contained within its Strategic Policy Statement (SPS) which is presented annually to the Mayor of London, in accordance with section 402 of the Greater London Authority Act 1999.

The SPS sets out LPFA's direction following discussions by Board members and CEO at an annual strategy Away Day during which its vision and future strategy are reviewed and developed. This vision is then translated into the SPS and the Medium-Term Financial Plan (MTFP), in addition to the Board's and Principal Officers' objectives. The LPFA's achievements against each strategic objective is summarised below.

Strategic objectives

LPFA has three primary strategic objectives addressing:

- The evolution of investment and liability management
- Operational efficiency and robust shareholder activity
- Partnership working and wider collaboration.

Objective 1: Evolution of investments and liability management

LPFA remains at heart a pension fund committed to ensuring that its assets are invested prudently to meet its long-term responsibilities to both members and employers to pay their pensions when they fall due and to do this as efficiently and cost effectively as possible.

This objective is translated into:

- The delivery of stable contributions and funding requirements from the 2019 Valuation; and
- The delivery of investment returns based on effective strategies that demonstrate responsibility as well as performance.

FSS and Triennial Valuation

As part of the 2019 Triennial Valuation process, the LPFA has revised its FSS (Annex iv) which established a clear and transparent fund-specific strategy identifying how employers' pension liabilities are best met. The FSS has been prepared in line with statutory guidance. Throughout the year, the Fund, with the assistance of the LPPA Employer Risk Team, has invested increased time and effort in engaging with the scheme employers. This collaborative approach ensures that scheme employers receive the required level of support in terms of funding and contribution considerations.

Investments

To contribute towards a sustainable and healthy funding level, the Fund has developed an ISS (Annex iv), which seeks to maximise returns from investments whilst keeping risk within acceptable levels and ensure that liquidity requirements are met. The ISS has been prepared in line with statutory guidance.

The implementation of the ISS has been delegated to the LPPI, which is authorised by the Financial Conduct Authority. Investment performance is subject to thorough review at each Board meeting and specifically via the Investment Panel to ensure that the portfolio can meet the long-term funding, income and liquidity needs of the Fund. Significant progress has been made on oversight Investment during 2019 which will be further refined as LPP Group future Strategy takes shape.

LPFA's investments are also managed in line with the LGPS (Management and Investment of Funds) Regulations 2016 with compliance monitored by the LPFA Board and CEO through appropriate reporting and Asset Management Agreement with LPPI.

High level success deliverables for this objective are set out below:

- Complete transition of assets to LPPI's pooling vehicles to benefit from economies of scale.
 - ✓ We achieved: LPPI has launched the seventh investment pooling vehicle that LPFA is invested in. The Real Estate fund was launched in October 2019.
- Effective implementation of the revised SAA to ensure long-term funding needs are met.
 - ✓ We achieved: strong outperformance with the Fund's 10-year annualised performance remaining positive on both an absolute and relative basis, with total portfolio returns of 6.2% p.a., outperforming the actuarial benchmark of 5.9% p.a.

- Focus on investment risk monitoring, including ESG factors and LDI, through collaboration with industry peers and improved reporting and increased engagement with other stakeholders.
- ✓ We achieved: developed and published a strategic LPFA RI Policy, joint discussions with the RI Working Group of LCC Pension Fund to discuss approaches to future responsible investment, and commitment to supporting the C40 best practice.
- ✓ We achieved: a comprehensive review of the LPFA LDI Hedging Strategy, resulting in a revised framework with hard and soft limits for Repo controls and a reduction in levels of counterparty risk. In addition, stress and scenario testing will be undertaken to monitor risk in adverse market scenarios. An Additional Voluntary Contribution (AVC) review was undertaken resulting in recommendations which would allow for further oversight of the current provider.

ESG and RI initiatives

In terms of demonstrating responsibility as well as performance, as outlined earlier, the LPFA has a long-standing commitment to long-term responsible investment. The Fund's proactive approach to addressing ESG considerations in its investment policies has been refined over many years and continues to evolve. The Fund is a member of a range of investor groups including the Institutional Investor Group on Climate Change.

Objective 2: Operational efficiency and robust shareholder activity

The LPFA is committed to ensuring that the Fund is effectively managed, delivers a value for money and high-quality pensions service. In so doing, the LPFA exercises an active role as a shareholder of LPP.

As a shareholder and a client, LPFA has an essential and important role in ensuring that LPP remains accountable and provides the necessary assurance to LPFA. Details of the highlights of the activities undertaken pursuant to a robust shareholder role has been listed earlier under the Asset Pooling, Governance and Oversight on page 43.

In driving operational efficiency, the LPFA is supported by its Pension Administration Strategy which sets out the responsibilities of employers under the scheme. This document is available on LPFA's website and is addressed earlier in this document.

LPP's target operating model for its administration business has been strengthened, through enhanced processes and internal controls, and driven by a culture of continuous member services improvement.

High level success deliverables for this objective are set out below:

- Using the LPFA's position as shareholder, effectively oversee LPP (from an owner and client perspective) to ensure efficient and quality service delivery across all outsourced areas of activities.

- ✓ We achieved: ongoing formal review points to provide support and challenge to ensure continued high levels of service delivery in line with agreed key performance indicators and SLAs. Oversight of key projects such as the refreshed administration model ensures its robustness.
- LPP's five-year business strategy and budget demonstrates a focus on financial self-sufficiency, operational resilience and the reinforcement of good practice and controls. A capital restructure of LPP, supported by shareholders, has allowed LPP to hold a more equitable funded position, in line with practice adopted by other LGPS pools and their member funds.
- Continue to work with GLA to identify specific functions and responsibilities where closer co-operation might result in improved efficiencies.

Objective 3: Partnership working and wider collaboration

The LPFA works in a collaborative manner across all its relationships, sharing its learnings and experiences and learning from others. This comes naturally to an organisation that partners with LCC as co-owners of LPP and is a founding member of GLIL Infrastructure, an infrastructure investment platform.

4. Governing the Fund continued

4.3 The LPFA's strategy continued

High level success deliverables for this objective are set out below:

- Continued collaboration with the wider LGPS, including working with LPPI to identify suitable opportunities for investment in London's infrastructure and housing.
 - ✓ We achieved: we have increased our asset allocation to infrastructure and are keen to move beyond our housing investment, at Pontoon Dock, into further large rental housing opportunities.
- Enabling LPP to continue to develop value added business offerings to existing and new clients across all areas of pension fund management based on an appropriate business case.
 - ✓ We achieved: a Memorandum of Understanding on a planned London Fund signed with the London Collective Investment Vehicle (LCIV). This demonstrated a collaborative approach to seeking to access investment opportunities in Greater London across real estate, infrastructure and private equity. It also has a secondary investment objective which is to generate a social benefit in Greater London e.g. job creation, area regeneration and a positive environmental impact.

As mentioned, GLIL represents another example of collaboration. GLIL is an infrastructure partnership with four other local government pension funds (Greater Manchester Pension Fund, West Yorkshire Pension Fund, Merseyside Pension Fund and Lancashire County Pension Fund). Through GLIL, we collective investing in key infrastructure assets, mainly in the UK.

The LPFA team continues to build its knowledge and experiences with government representatives on the broader pooling agenda and is a member of a number of professional bodies. The team has developed initial relationships with a wide range of other bodies in 2019 including The Pensions Archive Trust, ShareAction and A4S and Accounting for Sustainability.

Communications

The LPFA has established clear channels of communication with all stakeholders on its strategic aims, objectives and performance, with procedures in place to monitor effectiveness. The Communication Policy Statement is provided in the appendices of this report.

Overview of the communication channels used with stakeholders:

- Members of the scheme – newsletters, guides, events, social media and the website

- Employers of the scheme – newsletters, guides, social media and the website
- GLA and Mayor of London – two-way communication is facilitated by regular meetings and the submission of the SPS and MTFP for comment
- Wider pensions community – LPFA has representation on national and local forums: CIPFA Pensions Panel, and the PLSA Local Authority Committee.

The LPFA's website is an essential communication tool for our members, employers and the wider stakeholder group. It provides information on LPFA's history, organisational and governance structures, services and support. All relevant statutory and regulatory publications pertaining to LPFA and the Fund are available on the website although we are planning to refresh and modernise it next year.

4.4 Risk management

The management of the Fund is based on the objectives outlined in its ISS and FSS. The Fund's primary investment and funding objective is to ensure that it has sufficient assets to cover pension liabilities as they fall due.

This is achieved by optimising investment returns within the Fund's agreed risk appetite and maintaining adequate liquidity to meet obligations when they fall due.

The ARC monitors the operation of the Fund's risk management processes, compliance and internal controls to ensure that risks are appropriately identified and managed, and that they remain within the Fund's risk appetite while pursuing its strategic objectives. Through this, the ARC seeks to provide the Board with assurance about the robustness of the Fund's risk management framework.

During 2019, we reviewed our Risk Framework to ensure that it remained suitable in light of the expansion of the Fund, its outsourcing activities and the macro environment within which it was operating. The Risk Management principles and a central risk register were refreshed during 2019-20 with additional risks, controls, and actions identified.

Risk services

Under an SLA, LPP Group assists the LPFA with the regular updating of the risks that LPP manage on behalf of the LPFA. In addition, LPP ensures organisational risk management procedures are in place and informs

the LPFA of any new or emerging risks related to the LPP Group. The main risk areas supported by LPP Group include asset and liability risk, investment risk and employer risk. Details about the employer risk services can be found under the Fund Administration section of this report.

Insights into the risk management process

LPFA, with assistance from LPP Group regularly identifies and mitigates a range of risks. Risk management principles have been developed to outline risk categories, as well as the governance roles and responsibilities to ensure the regular identification and monitoring of risks. The risk categories are guidelines and are as follows:

- **Governance** – Risks associated with the policies, principles, processes and resources used to govern LPFA.
- **Shareholder** – Risks associated with LPFA's ownership of LPP Group.
- **Funding** – Risks of LPFA having insufficient financial resources (assets) to pay its liabilities as they fall due.
- **Operational** – Risks associated with operational processes of LPFA to achieve its operational objectives and desired operational results.
- **Pensions Administration** – Risks associated with LPFA's interactions with members and employers, including record keeping.
- **Transitional** – Risks associated with short-term projects, likely to last for less than one year.

The risk register ensures any new risk, including administrative management of the partnership are identified and the correct controls are in place to manage these risks effectively. The ARC focuses on both strategic and operational risks, including the management of the Fund's assets and liabilities.

The risk register is regularly maintained by the extended executive management team and the CEO is responsible for ensuring that new risks are identified and captured and that controls remain appropriate. The risk register is also scrutinised by the ARC, which will then issue recommendations to the Board, providing an additional layer of assurance to the risk oversight.

The key controls in place are tested on a regular basis to ensure that they are sufficiently resilient and that there is adequate room for manoeuvre to ensure the Fund meets its strategic objectives.

The annual report from the ARC is published on the LPFA's website and provides an insight into the work undertaken by the ARC during the 2019-20 financial year. During 2019 the ARC received regular updates concerning the 2019 Triennial Valuation to ensure that the timetable of activity would be completed and final report submitted by the end of the 2019-20 financial year.

4. Governing the Fund continued

4.4 Risk management continued

LPFA manages risk in the following ways and is supported by the Committee's provision of assurance to the Board:

Management	Investment Panel	Audit and Risk Committee	Board
Identify and document all risks to which the business is exposed and inform LPP.	Review quarterly investment reports and the annual review of the Liability Driven Investment Hedging Strategy.	Review the Risk Appetite Statement and ensure that risk exposures are within tolerance.	Set the risk strategy of LPFA.
Assess the likelihood and impact of all risks.	Ensure investments comply with statutory and regulatory requirements.	Review the robustness of the risk management framework and the effectiveness of internal controls.	Agree the risk appetite.
Develop internal controls and processes to manage and mitigate risks in partnership LPP.	Ensure investments comply with the Investment Strategy Statement.	Review the appropriateness and effectiveness of all risk policies and methodologies.	Set the risk culture.
Monitor all risks on an ongoing basis.	Ensure investments are aligned with the Funding Strategy Statement.	Challenge management's assessment of the level of risk and review the accuracy of the risk scoring.	Approve the risk framework.
Report to the ARC and the Board on risk management.	Monitor performance against targets and consider any breaches.	Monitor progress against actions to mitigate risks.	Ensure that strategic decisions are undertaken in line with the risk framework.

Risk oversight

The principal risk to the Fund is its inability to pay the right pension to the right member as they fall due. This overarching risk governs a series of objectives at the administration, management and investment level to ensure that this risk is managed and mitigated effectively. This is linked to another overarching risk which is the failure of performance of key parties such as LPP.

The table below summarises the medium risk areas identified during 2019-20, and mitigating actions in place:

Risk areas identified	Principal controls
Governance	<ul style="list-style-type: none"> Formal governance structure in place Internal audits Formal risk management processes Regular training for Board, Local Pensions Board, and Officers
Funding	<ul style="list-style-type: none"> Diversified investment strategy, with focus on long-term returns Actuarial valuations Security over employer assets Liquidity management processes
Operational	<ul style="list-style-type: none"> Oversight of LPP operations by LPFA management team Business continuity plan Robust data protection policies
Pensions Administration	<ul style="list-style-type: none"> Oversight of LPP operations by LPFA management team Regular data cleansing work Well documented processes and procedures
Shareholder	<ul style="list-style-type: none"> Quarterly shareholder meetings LPFA representative on LPP board
Transitional	<ul style="list-style-type: none"> Large one-off change projects Regular horizon scanning

Asset and liability risk

In support of the Fund's strategic objectives, an asset and liability risk management framework has been established around the Fund's short- and long-term objectives which includes modelling the potential future behaviour of the Fund's pension liabilities and assets. This framework measures expected future funding levels and contribution requirements by simulating a range of possible outcomes over different time horizons. The results are monitored against the investment and funding objectives and the Fund's risk appetite statement.

Over the last year, the LPFA's IP and ARC have either reviewed or further developed:

- The 2019 Triennial Valuation assumptions
- Risk Management Framework Principles
- Additional Voluntary Contribution (AVC) Review
- Annual Review of the Liability Driven Investment (LDI) Hedging Strategy

Investment risk

The Fund manages its investment risk through the regular review of its investment performance and risk reports. We hold regular IP meetings with LPPI representatives to oversee any risks associated with the Fund's investment and funding strategies. LPPI reports on the Fund's policy portfolio, cash flow and liquidity requirements to ensure that these are aligned with the Fund's ISS, FSS and risk appetite.

With LPPI's assistance, LPFA has implemented sophisticated risk monitoring system on key issues such as ESG risk factors and liability driven investments (LDI). The Board and Officers of the Fund are working with industry peers to improve the quality and frequency of data in these areas to facilitate monitoring.

LPPI itself has added operational resilience to their investment risk and operational risk functions through new external hires and the procurement of Risk and Controls software. LPFA, as a client of LPP Group, benefits from this additional operational resilience.

LPPI assisted the LPFA with its own risk registers and provides regular updates in respect of those risks which are outsourced to LPPI, as well as LPPI's core services of providing Funding and Actuarial Risk reporting, and support throughout the 2019 Triennial Valuation process.

LPP continues to hold the Information Security 27001 accreditation and the Cyber Essentials Accreditation. This provides LPFA with a degree of assurance around the control framework at LPP.

Assurance provided by internal audit


















The LPFA engages the internal audit services of Deloitte LLP (until 31 March 2020) and PwC (from 1 April 2020) to provide assurance on the internal controls, governance, operational activity and oversight of the Fund. The LPP employs its own internal auditor (Deloitte) to provide assurance over LPP's administration

and investment activities, and ARC receives an annual partnership compliance report to provide assurance that the LPP has suitable controls in place and that they are adhered to. A summary of year 2 recommendations and actions are prepared by the LPP internal auditor for circulation to the LPFA CEO.

The LPFA internal audit work progressed well, completing 75% of the planned work by year end 2019-20 and provided favourable assurance rating that governance arrangements are largely established and embedded. The internal auditor provided assurance that controls over member communications and core financial controls were in place with assessments that these controls were 'effective with scope for improvements' and 'effective', respectively.

4. Governing the Fund continued

4.5 LPFA advisors and service providers

 <p>Legal advisor</p>	 <p>Legal advisor</p>	 <p>Internal audit</p>	 <p>Internal auditor</p>
 <p>External audit</p>	 <p>Fund Actuary</p>	 <p>AVC provider</p>	 <p>Bank</p>
 <p>Fraud support</p>	 <p>Custodian</p>	 <p>Investment manager</p>	 <p>Investment manager</p>
 <p>Investment manager</p>	 <p>Investment manager</p>	 <p>Investment manager</p>	 <p>Currency management</p>
 <p>Scheme administrator/ employer risk services</p>			

For contact details refer to Further information and contacts on page 115.

4.6 Statement from the Local Pension Board



→ The core of our duties is to review the reports and assurances of compliance and effectiveness which support the Fund's governance, and comment on them to the Board.

The LPFA's Local Pension Board (LPB) has now been up and running for nearly five years. As a reminder to readers, our legal duty is to assist the LPFA Board (The Board) and the LPB has no executive functions. However, because LPB members explicitly represent either employers or members, we do have a representative role in the Authority's governance structure.

We work from a Work Plan, which is approved by The Board each year, to ensure that we are working in tandem with them and are methodical in our activities. The core of our duties is to review the reports and assurances of compliance and effectiveness which support the Fund's governance, and comment on them to the Board. If we believe something requires particular attention, we may make a formal recommendation, which requires a response. However, we are always aware that our role is to assist the Board and a good relationship between the two bodies is absolutely essential. In particular, I thank Sir Merrick Cockell for his support over the past five years and welcome the arrival of John Preston as the new Chair of the Board.

In the previous year we made one formal recommendation, that the Board considers providing more resource to the CEO of the Pension Fund, and I am pleased to report that it has now been fully acted upon. We made no formal recommendations to the Board in this year, though we provided a wide range of comments and feedback.

This report commences with the mechanics of the LPB and the training we are required to undertake. It then covers our activities over the past 12

months and where we expect to focus our efforts in the next year.

Membership of the Pension Board

The LPB has nine members, four employer representatives, four scheme member representatives and I act as the Independent Chair. Members serve up to two four-year terms and we chose to stagger the initial appointments to avoid wholesale change. Apart from the Chair, none are remunerated other than for expenses incurred in attending meetings or training. There have been no changes to the LPB's composition during the year.

The LPB meets four times a year and we additionally create informal groups if we feel they are needed. As the independent Chair I report to the Board formally on the LPB's activities once a year and am in dialogue with its Chair when required. Information about the LPB, including minutes and public papers, are available on the Fund website. There is no internal budget, but costs are approved by the Authority and paid by the Fund. In this year, these amounted to £2,199.

We are supported by LPP staff and Officers from the LPFA, in particular the CEO, and I would like to take this opportunity to thank them all for their services.

4. Governing the Fund continued

4.6 Statement from the Local Pension Board continued

The following table shows members' attendance at Board meetings.

LPB members		Total attendance
Chair	William Bourne	4 out of 4
Member Reps.	Peter Scales	4 out of 4
	Omolayo Sokoya	4 out of 4
	Jenny Lo	4 out of 4
	Prashant Solanky	3 out of 4
Employer Reps.	Sean Brosnan	2 out of 4
	Frank Smith	3 out of 4
	Adrian Bloomfield	4 out of 4
	Amy Selmon	3 out of 4

Training

The LPB is under a legal obligation to maintain its levels of knowledge and understanding through regular training. We conduct a gap analysis of training needs once a year as part of our own annual appraisal, which becomes an agenda item at our next meeting, and we have all completed the online training modules from The Pensions Regulator's Public Service toolkit. All members are also encouraged to attend the regular sessions held by CIPFA to keep LPB members updated.

During the year, we held internal training sessions, either before or after each meeting. We aim to make the topic relevant to the meeting agenda and, during the year, covered cyber security, employer covenants, the role of The Pensions Regulator and the actuarial valuation. Some LPB members also attended a session held jointly with the Board and we will be doing similar sessions together more regularly going forward.

Activities during the year

A year ago, we said our major focus was on engaging LPPA (the shared administration service) to ensure that client service quality was given top priority. I am glad to say that satisfaction levels and key performance indicators have returned to their previous levels, and I commend LPPA's staff for their determination here.

In order to give a flavour of what we did during the year, I have grouped a sample of our activities into four different types. First is our core role of monitoring and oversight. Here we

Board date	Type	Topic
05/06/2019	Internal	Requirements of The Pensions Regulator's Code of Practice 14 (COP14) The Pensions Regulator (Prepared by Rebecca Woodley, Industry Liaison Manager) delivered by Robert Branagh
19/09/2019	Internal	Risk Appetite Statement and Valuation Process by Sarah Morris (LPPI In-house Actuary)
07/10/2019	External	LGPS LPB Members – Autumn Seminar by CIPFA and Barnett Waddingham (2 members attended)
26/11/2019	Internal	Employer Risk and Covenant Training by Andy Brown (LPPA Senior Employer Risk Manager)
20/02/2020	External	LGPS LPB Members – Spring Seminar by CIPFA and Barnett Waddingham (3 members attended)
05/03/2020	Internal	Cyber Security by James Ahlberg (LPP Information Governance Manager)

looked at a range of reports, from the KPI's on administration every meeting, the risk register every six months, through to the annual assurance that the Fund is compliant with The Pensions Regulator's code of practice for public sector funds. We also provide expertise to assist in monitoring the Fund's service providers, most notably LPPA.

A second function is to use our collective experience to review and offer suggestions to improve the formal statements and policies which the Fund is obliged to maintain. During the year we looked at statements such as the Funding Strategy Statement and local code of corporate governance, and also policies such as those on communications and fraud control. Our role here is both one of oversight to ensure they comply with the regulatory requirements and also acting as a critical friend.

A third area is to provide feedback for the Scheme Manager. LPB members are all users of the Fund, either as employers or members or both, and we are in a good position to advise on what is effective and what is less so. During the year, for example, we reviewed the Communications Policy, provided comments on the Fund's new RI Policy and continued to act as a sounding-board on the proposals to improve the member experience on the website. Two LPB members sat throughout the year on an informal working party which met with LPPA staff regularly to discuss administration issues.

Finally, we can add value by being effective communicators of what the scheme does to other members and employers. During the year LPB members spoke at a range of forums and we regularly write in newsletters. I believe it is important that members recognise the excellent value which the LGPS represents by comparison to private sector pension funds.

At the time of writing, the LPB is unable to meet in person because of the Government's social isolation policies. We have put in place the logistics to meet virtually with shortened meetings in order to fulfil our duties. I have also received confirmation from the Chair of The LPFA Board and its CEO that the Fund, despite the current pandemic crisis, is able to operate and meet its obligations to the fundholders.

Next year

Looking forward to the next year, we expect our focus to be similar to this year's: assisting better communications and engagement and fulfilling our basic task of reviewing compliance with the statutory and other requirements made of the Authority. We will be keeping a particularly beady eye on progress with the website.

The LPB remains firmly behind LPPA's ambition to use the combination of LPFA's administration resources with Lancashire County Pension Fund's as an opportunity to provide a better member experience, and to do so more efficiently. We will be providing feedback and comments from the perspective of users, both employers and members.

I note that the Scheme Advisory Board's Good Governance recommendations are likely to be enacted into legislation in the next 12 months across the LGPS and I expect the spotlight on governance to become even brighter. With the support of the LPFA's officers and LPPA's staff, we expect to play our part in assisting the Board to ensure that the Fund continues to be well managed and to pay member pensions on time. In what are difficult times that is always the ultimate focus of our activities.



William Bourne
Independent Chair of the LPFA
Local Pension Board

31 March 2020

5. Pension fund accounts

5.1 Auditor's statement

Independent auditor's report to the members of the London Pensions Fund Authority on the consistency of the pension fund financial statements of the London Pensions Fund Authority Pension Fund included in the Pension Fund Annual Report.

Opinion

The pension fund financial statements of the London Pensions Fund Authority Pension Fund (the "pension fund") administered by the London Pensions Fund Authority (the "Authority") for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2020 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019-20 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 27 November 2020.

That report also includes an Emphasis of Matter – effects of COVID-19 on the valuation of Private Equity and Infrastructure investments section that draws attention to Note 5 in the audited pension fund financial statements, which is replicated in Note 5 of the pension fund financial statements. Note 5 describes the effects of the COVID-19 pandemic on the valuation of the pension fund's Private Equity and Infrastructure investments as at 31 March 2020. Note 5 indicates that due to the COVID-19 pandemic, the valuers of Level 3 investments were left with an unprecedented set of circumstances on which to base a judgement. Due to these factors it is considered that there is a material uncertainty attached to the valuations for these assets. Further detail on the estimation uncertainties for Private Equity and Infrastructures is provided within the Accounts. As stated in our report dated 27 November 2020 our opinion is not modified in respect of this matter.

Section 151 Officer's responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Section 151 Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account,

the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019-20.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ciaran McLaughlin, Key Audit Partner

for and on behalf of
Grant Thornton UK LLP,
Local Auditor

London

27 November 2020

5.2 Pension fund accounts

Pension Fund actual results compared to budget

Pension Fund	Actual 2019-20 £'000	Budget 2019-20 £'000	Variance 2019-20 £'000
Dealings with members and employers			
Contributions	156,966	147,300	9,666
Transfers in	66,018	11,100	54,918
Benefits Payable	(274,215)	(260,200)	(14,015)
Transfers out	(17,440)	(11,100)	(6,340)
Net dealings with members and employers	(68,671)	(112,900)	44,229
Management Expenses			
Investment management	(67,104)	(46,900)	(20,204)
Administration	(1,860)	(1,860)	-
Oversight & Governance	(2,986)	(2,905)	(81)
Investment Services Fee LPPI	(1,075)	(2,300)	1,225
Total Management Expenses	(73,025)	(53,965)	(19,060)
Returns on Investments			
Net investment Income	155,316	58,400	96,916
Taxes on Income	(793)	-	(793)
Change in Market Value	(183,038)	417,600	(600,638)
Total return on investments	(28,515)	476,000	(504,515)
Net inflow/(outflow) to the Fund	(170,211)	309,135	(479,346)

Overview of the year

The net outflow from the Fund for the year was £170.2m compared to a budgeted inflow of £309.1m. The unfavourable variance of £479.3m was due to the change in market value of investments being a fall of £183.0m rather than the budgeted increase of £417.6m. These losses occurred in the last quarter of the year primarily as a result of the market response to the COVID-19 pandemic.

Dealings with members and employers

The net loss from dealings with members and employers is a favourable variance of 39.2% mainly due to a 494.8% increase in bulk transfers in above budget. In addition, contribution income increased by 6.6% above budget arising from a 4.9% increase in active members and increases, ranging from 2% to 4%, in the amount of deficit contributions paid by employers. The rate of normal contribution remained unchanged but the salaries that these rates were applied to have increased due to the annual increase in the salaries paid.

This increase in income was partially offset by an increase in benefit payments of 5.4% above budget, partly due to a 1.6% increase in pensioner numbers and the annual percentage increase in pensions paid to pensioners.

Management expenses

Management expenses have increased by 35.3% mainly due to an increase in investment fees. Investment fees, including those deducted from the investment funds, have increased by 43.1% above budget, partly due to a significant increase in the net asset value for the first three quarters of the year leading to a significant increase in performance fees.

5. Pension fund accounts continued

5.2 Pension fund accounts continued

Returns on investments

Investment income is £155m, being £97m and 166.0% above the budgeted income for the year. This is predominantly due to the significant incomes from private equity investments.

The reduction in market value compared to the budget is predominantly due to a 3% loss on the Global Equity fund, significant losses on forward exchange contracts and a 46% fall in non-pooled equities. The budget was based on achieving growth of 5% per annum. The results are significantly below budget as a result of a sharp fall in investments from February to March 2020 as a result of the market reaction to the COVID-19 pandemic.

Investment assets

The value of investments fell by £59m from £5.820bn to £5.733bn. This was due to the fact that the change in market value was a loss of £183.0m but this loss was partially offset by purchases in the year.

LPPI Real Estate pool was launched during the year. The real estate funds and the properties previously held directly by LPFA have now been moved within the LPPI Real Estate pool and the scheme now owns units in this investment vehicle.

Movement in non-investment assets

Cash balances held directly by LPFA reduced from £170.4m to £100.3m due to the purchase of investments in the year of £90.5m and an outflow from dealing with members of £68.7m, although the net reduction was mitigated by the receipt of investment income.

Current assets have reduced by £13.6m mainly due to a £9m reduction in sundry debtors. The 2018-19 balance included a £9.7m payment in advance relating to a property acquisition that was completed in 2019-20. In addition, bulk transfers receivable was £5m lower than the amount due at the end of 2018-19.

Current liabilities have reduced by £1.0m due to the cessation of output VAT on investments properties now that they have been transferred to the real estate pool. The 2018-19 property VAT balance included a voluntary declaration that was paid during 2019-20.

Fund Account

	Notes	2019-20 £'000	2018-19 £'000
Dealing with members, employers and others directly involved in the Fund			
Contributions	7	156,966	152,187
Transfer in from other pension funds	8	66,018	55,879
		–	–
		222,984	208,066
Benefits	9	(274,215)	(266,307)
Payments to and on account of leavers	10	(17,440)	(14,169)
Capital funding costs		–	448
		(291,655)	(280,028)
Net withdrawals from dealings with members		(68,671)	(71,962)
Management expenses	11a	(73,025)	(52,778)
Net withdrawals including fund management expenses		(141,696)	(124,740)
Returns on investments			
Investment income	12a	155,316	169,584
Taxes on income		(793)	54
Profit and loss on disposal and change in value of investments	13a	(183,038)	354,082
Net returns on investments		(28,515)	523,720
Net increase/(decrease) in net assets available for benefits during the year		(170,211)	398,980
Opening net assets of the scheme		6,053,254	5,654,274
Closing net assets of the scheme		5,883,043	6,053,254

5. Pension fund accounts continued

5.2 Pension fund accounts continued

Net assets statement for the year ended 31 March 2020

	Notes	31 March 2020 £'000	Restated 31 March 2019 £'000
Investment assets	13	5,781,870	5,827,903
Investment liabilities*			
Derivatives	14	(49,305)	(7,811)
Total net investments		5,732,565	5,820,092
Cash balances	18	100,303	170,421
Current assets	20	56,423	69,994
Current liabilities	21	(6,248)	(7,253)
Net assets of the Fund available to fund benefits at the year end		5,883,043	6,053,254

* The assets and liabilities of forward exchange contracts have been grossed up in the comparative accounts. The asset side of the contracts is shown in investment assets and the liability side of the contracts is the derivatives balance under investment liabilities.

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in note 25.

5.3 Notes to the pension fund accounts

1. Description of fund

The LPFA is part of the LGPS.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- The Local Government Pension Scheme (Amendment) Regulations 2018.

The LPFA is registered with the Register of Occupational and Personal Pension Schemes – Reference 100016237.

It is a contributory defined benefit scheme administered to provide pensions and other benefits to members of the scheme who are working for not-for-profit, charity, private sector and local government employers.

The Pension Fund is subject to triennial valuations by an independent Actuary. Employers' contributions are determined by the Actuary to ensure that in the long term the Pension Fund's assets match its liabilities. The LPFA's Actuary is Barnett Waddingham, who have supplied an Actuary's statement. This is shown in Section 5.4.

The last full triennial valuation of the LPFA Fund was carried as at 31 March 2019 in accordance with the FSS of the Fund. The funding level was 109%. New contribution rates for employers following analysis of the 2019 valuation came into effect from 1 April 2020. The rates are determined for each employer by the Actuary to be sufficient to fund the annual cost of benefits and to clear individual employer deficits that still exist.

b) Membership

Membership of the LGPS is automatic, although employees are free to choose whether to opt out of the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Details of the participating employers and their individual contribution rates are set out in section 5.5 The number of participating employers as at 31 March 2020 was 135 (2019: 142). A list of active and ceased employers in the Fund by scheduled and active bodies, along with their individual contribution figures for the year ended 31 March 2020 are set out in Annex ii.

The Fund membership was as follows:

Fund Membership	2019-20 Numbers	2018-19 Numbers
Active members	20,574	19,489
Deferred beneficiaries	29,120	28,222
Pensioner/Dependents	36,095	35,541
Undecided leavers and Frozen refunds	6,551	5,536
Total number of members in Pension Scheme	92,340	88,788

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2020. Employer's contributions are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2019. The employer primary contribution rates for the year ranged from 0% to 47.8%.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2019-20 financial year and its financial position at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 26 basis, is disclosed in note 25 to these accounts.

The LPFA has assessed its financial position, especially in the light of the COVID-19 pandemic that commenced in the final months of the year and the impact this had on the financial markets. The markets reacted adversely to the pandemic and this had a direct impact on the assets of the scheme. The assets fell significantly during February and March 2020 but these recovered quickly after the year-end. The change in market value had increased to over £400m for the quarter ended 30 June 2020.

The Board has therefore concluded that it is still appropriate to prepare the accounts on a going concern basis.

2a. Accounting standards issued, but not yet adopted

There are no relevant standards that have been issued but not adopted during the year.

3. Summary of significant accounting policies

Fund account – revenue recognition

Contributions

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate recommended by the Actuary, in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on an accruals basis in accordance with the due dates on which they are payable under the schedule of contributions set by the Scheme Actuary.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset.

Transfers to and from other schemes

Individual transfers in/out are accounted for when the receiving scheme agrees to accept the liability. The liability normally transfers when a payment is made unless the receiving scheme has agreed to accept liability in advance of the receipt of funds.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in transfers in.

Bulk transfers in and out, where the receiving scheme has agreed to accept the liability prior to receipt and the necessary employee consents have been obtained, are accounted for in accordance with the bulk transfer terms signed by qualified actuaries appointed by the two pension schemes involved in the bulk transfer.

Investment income

All investment income receipts and payments are accounted for on an accruals basis. Income from pooled investment vehicles is distributed back to the scheme throughout the year. Investment market value changes comprise all realised and unrealised profits/losses during the year. Dividends and interest on quoted investments are accounted for when received or quoted ex dividend.

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

The income element of private equity distributions is treated as investment income within the Fund account.

Fund account – expense items

Taxation

The Pension Fund is a registered public service scheme under Chapter 2 of Part 4 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers a withholding tax in the country of origin unless exemption is permitted. Tax deducted in some European countries is recovered.

Benefits

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Fund as appropriate.

Management expenses

Although not a requirement of the code, pension fund administrative expenses are broken down to enhance transparency in accordance with the CIPFA guidance “Accounting for Local Government Pension Scheme Management Expenses (2016)”, into the following categories:

- Administration expenses
- Oversight and governance expenses
- Investment management fees.

Administration expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the pension scheme must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;
- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer’s help desk or other employer support, and communications with employers; and
- Associated project expenses.

Oversight and governance expenses consist of the following:

- Investment advisory services (strategic allocation, manager monitoring etc.);
- Independent advisors to the pension fund;
- Operation and support of the Board (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body;
- Governance; and
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc.).

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

Investment management fees consist of the following:

- Investment management expenses incurred in relation to the management of pension fund assets and financial instruments;
- In accordance with the CIPFA guide Local Government Pension Management Expenses 2016, this includes expenses directly invoiced by investment managers and any fees payable to fund managers which are deducted from fund assets; and
- Transaction costs for all categories of investment, other than directly held property, are included within investment management expenses.

LPPI is responsible for managing all investment managers. Fees of the investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under management and there is also a fee payable based on a percentage of out-performance against an agreed benchmark, for some managers.

Financial assets

Financial assets are included in the net asset statement on a fair value basis as at the reporting date in accordance with IFRS 9. The asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value are recognised by the Fund in the Fund account as part of the change in market value.

The fair value is established in accordance with IFRS 13 for each category of investment by obtaining sufficient data as follows:

- Market-quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market;
- Fixed interest securities are recorded at net market value based on their current yields;
- Unquoted securities are valued by the Fund managers at the year-end in accordance with generally accepted guidelines. Unquoted private equities are valued by the investment managers in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012) using guidelines of the British Venture Capital Association. This includes the use of discounted cash flow models which are independently audited; and.
- Pooled investment vehicles are valued at the closing price under single pricing system, or bid price under dual pricing system, as advised by the respective fund manager.

Investment assets are allocated and disclosed within the fair value hierarchy, being within levels 1, 2 or 3.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash without significant risk of change in value.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction. Gains and losses arising on conversion or translation are dealt with as part of the change in market value.

Derivatives

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Derivative contracts' changes in fair value are included in change in market value.

Futures contracts' value is determined using exchange prices at the reporting date.

Exchange traded options' value is determined using the exchange price for closing out the option at the reporting date. Over the counter (OTC) contract options' value is determined by the investment manager using the Black-Scholes pricing model.

The future value of forward exchange contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Each forward exchange contract consists of an asset side for the currency receivable and a liability side for the currency payable. As currency values move, the net of the asset side and liability side may no longer be zero. Net contracts that are asset are included in investment assets and net contracts that are liabilities are included in investment liabilities.

Fund managers invest on behalf of the LPFA in accordance with the Investment the Investment Strategy Statement, subject to the LGPS guidelines (England and Wales).

Additional voluntary contributions (AVCs)

AVCs are not included in the accounts in accordance with 4(2)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 19). Contributions to AVCs are paid to the AVC providers by employers or contributors and are specifically for the provision of additional benefits for individual contributors.

Financial liabilities

Financial liabilities are included in the Fund account at fair value if they exist at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Actuarial present value of promised retirement benefits

The scheme undergoes triennial actuarial valuations in accordance with Local Government Pension Scheme Regulation 62. The last valuation was conducted as at 31 March 2019 (Actuary's statement section 5.4).

The actuarial present value of promised retirement benefits is calculated in accordance with IAS 26, every year using the results of the last triennial actuarial valuation, estimated income and expenditure for the year, fund returns for the year and details of any new retirements for the year that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 25).

4. Critical accounting estimates and judgement

Unquoted private equity, infrastructure investments and credit funds

The valuation of private equity, infrastructure and credit investments is highly subjective. They are inherently based on forward-looking estimates and judgement involving factors which include the valuations of companies deemed comparable to the asset being valued, the future cash flow expectations and discount factors used. Unquoted private equities, infrastructure and credit investments are valued by the investment managers at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012). The value of unquoted private equities, infrastructure and credit at 31 March 2020 was £1,448m (£1,404m at 31 March 2019). There is a risk that these investments may be under- or overstated in the accounts.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

Pension fund liability

The pension fund liability is calculated every three years by the appointed Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 26. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuary's statement in section 5.4 of this report. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised benefits	A triennial valuation is carried out in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations), the Funding Strategy Statement of the Fund and IAS 19. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rate, and returns on fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	For Instance: a) a 0.1% increase in the discount rate would reduce the present value of the total obligation by £150m. The rates have gone down over the past 3 years, currently being 2.35%, 2.4% for 2019 and 2.55% for 2018. b) a 0.1% change in the long-term pension increase would increase the present value of the obligation by £143m. More details on the assumptions are shown in note 25.
Private equity, Infrastructure and Credit	Private equity, Infrastructure and Credit investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity and Infrastructure investments are valued at £1,449m. The value at 31 March had declined due to the impact of COVID-19 on the markets. There are inherent risks within the valuation technique which means the asset value could vary between plus and minus 5.1%.

Emphasis of matter – property valuation

Note 15 describes the basis for valuing investment property in the LPPI Real Estate Pool. The Fund managers engaged Avison Young to value the investment properties within the pool. The expert valuation included 'a material valuation uncertainty' as per VP 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to pool valuation than would normally be the case.

Estimation uncertainty – COVID-19

Due to the COVID-19 pandemic, the valuers of Level 3 investments were left with an unprecedented set of circumstances on which to base a judgement. Due to these factors it is considered that there is a material uncertainty attached to the valuations for these assets (see above for further details). Further detail on the estimation uncertainties for Private Equities and Infrastructure are in the table above.

6. Post balance sheet events

There are two types of post balance sheet events. There are events after the Net Asset statement date that provide additional information relating to conditions that existed at the date of the Net Asset Statement (adjusting event) and there are events after the Net Asset Statement date relating to conditions that did not exist at the date of the Net Asset statement (non-adjusting event).

During the year a new virus, COVID-19, was discovered that led to a global pandemic. This had an adverse impact on global markets due to uncertainties over the extent of the pandemic, the period of isolation required to control the rate of infection and the impact this would have on world economies. As events unfolded after the year-end it was not felt necessary to make additional adjustments to the accounts. This is explained in note 24.

7. Contributions

By category

	2019-20 £'000	2018-19 £'000
Employers – normal	79,650	75,885
Employers – additional	34,488	35,929
Employers – one-off deficit payment	250	2,000
Members – normal	41,567	37,428
Cessation valuations	1,011	945
	156,966	152,187

By type of employer

	2019-20 £'000	2018-19 £'000
Scheduled bodies	63,476	59,771
Admitted bodies	92,497	90,335
Community admission body	659	558
Transferee admission body	334	1,523
	156,966	152,187

Additional deficit contribution

Employers in the Fund continue to approach LPFA regarding additional one-off contributions to the Fund in order to assist in clearing their respective deficit positions. LPFA enters into these discussions supported by statements from the Fund Actuary.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

8. Transfers in from other pension funds

	2019-20 £'000	2018-19 £'000
Group transfers	52,612	46,117
Individual transfers	13,406	9,762
	66,018	55,879

The Group transfers in related predominantly to the merger of the New City College with the Havering Further Education College and the Havering Sixth Form Colleges (£36.3m). Additional income was also received in relation to the 2019 Kingston College merger (£14.9m).

9. Benefits

By category

	2019-20 £'000	2018-19 £'000
Pensions	238,252	226,848
Commutation and lump sum retirement benefits	28,679	33,348
Lump sum death benefits	4,083	4,835
AVC payments	1,299	1,276
Tax on exceeding lifetime or annual allowance	1,902	–
	274,215	266,307

The AVC payment was not disclosed separately in the accounts last year and has now been recategorised to the correct heading.

By type of employer

	2019-20 £'000	2018-19 £'000
Scheduled bodies	169,367	165,549
Admitted bodies	102,997	98,295
Community admission body	372	316
Transferee admission body	1,434	2,105
Resolution body	45	42
	274,215	266,307

10. Payments to and on account of leavers

	2019-20 £'000	2018-19 £'000
Refunds to members leaving service	1,036	1,437
Payments for members joining state scheme	9	(6)
Group transfers	1,309	–
Individual transfers	15,086	12,738
	17,440	14,169

11a. Management expenses

	2019-20 £'000	2018-19 £'000
Investment management	68,179	48,852
Administration	1,860	1,862
Oversight and governance	2,986	2,064
	73,025	52,778

11b. Investment expenses

	2019-20 £'000	2018-19 £'000
Management fees	42,493	40,874
Performance related fees	22,712	7,427
Custody fees	65	68
Transaction fees	2,899	437
Other fees	10	46
	68,179	48,852

The management expenses are grossed up to include fees netted against the investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016). This adjustment has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

12a. Investment income

	2019-20 £'000	2018-19 £'000
Pooled Investments – Private Equity and Infrastructure	93,685	86,790
Pooled Investments – Unit trusts and other managed funds	47,904	66,954
Rents from property	8,230	8,443
Interest on cash deposits	4,679	1,972
Other	818	5,425
	155,316	169,584

The directly held property was transferred to the LPPI Real Estate ASC during the year as detailed in note 13d.

12b. Property income

	2019-20 £'000	2018-19 £'000
Property income	14,112	10,654
Property expenses	(5,882)	(2,211)
	8,230	8,443

13. Investments

	Market value at 31 March 2020 £'000	Restated market value at 31 March 2019 £'000
Pooled Investments:		
– Fixed income	297,011	271,774
– Equities	2,338,396	2,482,565
– Credit	443,719	449,316
– Private equity	551,276	586,895
– Infrastructure	432,999	367,435
– Real estate	586,543	–
– Diversified strategy	681,855	704,606
	5,331,799	4,862,591
Non-pooled investments:		
– Equities	75,851	–
– Private equity	12,500	–
– Infrastructure	7,405	–
– Real estate	–	288,757
– Direct property	–	268,780
– Managed funds **	302,378	343,680
– Commodity funds	–	33,890
– Diversified strategy	45,539	–
– Derivatives – Forward exchange contracts *	5,844	8,914
– Cash at investment managers	523	21,257
– Investment income due	31	34
Total investment assets	5,781,870	5,827,903
Investment liabilities		
Derivatives – Forward exchange contracts *	(49,305)	(7,811)
Net investment assets	5,732,565	5,820,092

* The opening forward exchange contracts have been restated to show the total of the asset side and liability side of the contracts. The net of the assets and liabilities remain unchanged and therefore the restatement has had no impact on the opening net assets of the scheme.

**The Managed Funds is a Liability Driven Investment (LDI) that looks to hedge the real interest rate (the difference between nominal interest rates and inflation) exposure as determined by the valuation basis methodology used at LPFA triennial valuation. At high level, the programme gives a funding protection against lower nominal interest rate movements, and higher movements in inflation. The programme will usually generate positive returns when long-term interest rates fall and when inflation expectations rise. This is a hedge against any variation in performance in the triennial valuation basis actuarial calculations and is offset against the movements in the assets and liabilities. The programme is tailored specifically to LPFA's assets, liabilities and actuarial methodology; it is undertaken as a standalone programme for LPFA, and therefore cannot be reasonably pooled with other investments.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

13a. Reconciliation of Movements in Investments and derivatives

	Market value at 31 March 2020 £'000	Change in market value during in the year £'000	Sales during the year and derivative receipts £'000	Purchases during the year and derivative payments £'000	Re-class £'000	Market value at 31 March 2019 £'000
Pooled investments:						
– Fixed income	297,011	(19,042)	–	44,279	–	271,774
– Equities	2,338,396	(104,999)	(90,553)	51,383	–	2,482,565
– Credit	443,719	1,191	(3,380)	(3,408)	–	449,316
– Private equity	551,276	11,533	(94,566)	47,414	–	586,895
– Infrastructure	432,999	(780)	(30,521)	127,406	(30,541)	367,435
– Real estate	586,543	533	–	586,010	–	–
– Diversified strategy	681,855	(10,380)	–	(12,371)	–	704,606
	5,331,799	(121,944)	(219,020)	840,713	(30,541)	4,862,591
Non-pooled investments:						
– Equities	75,851	(21,077)	(26,000)	122,928	–	–
– Credit	–	110	(3,459)	3,349	–	–
– Private equity	12,500	–	–	12,500	–	–
– Infrastructure	7,405	(3,879)	(234)	11,518	–	–
– Real Estate	–	8,371	(346,438)	18,769	30,541	288,757
– Direct Property	–	7,612	(292,202)	15,810	–	268,780
– Managed funds – cash	302,378	15,355	(84,796)	28,139	–	343,680
– Commodity funds	–	–	(33,890)	–	–	33,890
– Diversified strategy	45,539	6,946	(99,903)	138,496	–	–
	5,775,472	(108,506)	(1,105,942)	1,192,222	–	5,797,698
Derivative contracts:						
– Forward exchange contracts	(43,461)	(75,894)	–	(40)	–	1,103
	5,732,011	(184,400)				5,798,801
Cash at investment managers	523	1,362	–	–	–	21,257
Investment income due	31	–	–	–	–	34
Net investment assets	5,732,565	(183,038)				5,820,092

During the year, an Infrastructure investment was reclassified to real estate once the construction of the asset was completed.

In addition, some assets were transferred from pooled to non-pooled and some assets were designated as part of non-pooled diversified strategy. This has had the impact of increasing purchases and sales to reflect these transfers.

13a. Reconciliation of Movements in Investments and derivatives (continued)

Net Investment Assets (Prior year comparative) Period 2018-19	Market value at 31 March 2019 £'000	Change in market value during in the year £'000	Sales during the year and derivative receipts £'000	Purchases during the year and derivative payments £'000	Market value at 31 March 2018 £'000
Pooled investments:					
– Fixed income	271,774	(11,204)	(453,167)	135,000	601,145
– Equities	2,482,565	341,594	(260,000)	–	2,400,971
– Credit	449,316	8,038	(1,456)	175,000	267,734
– Private equity	586,895	(13,480)	(83,002)	90,388	592,989
– Infrastructure	367,435	3,799	(254,196)	106,963	510,869
– Diversified strategy	704,606	(11,172)	–	715,778	–
	4,862,592	317,575	(1,051,821)	1,223,129	4,373,708
Non-pooled investments:					
– Property	288,757	8,418	(64,374)	16,420	328,293
– Managed funds	343,680	105,000	(258,388)	88,940	408,128
– Commodity funds	33,890	980	(10,742)	15,939	27,713
– Cash instrument	–	11	(10,280)	–	10,269
– Property	268,780	4,917	–	96,503	167,360
	5,797,698	436,901	(1,395,605)	1,440,931	5,315,471
Derivative contracts					
– Forward exchange contracts	1,103	(82,819)	–	–	–
	5,798,801	354,082			5,315,471
Cash at investment managers	21,257	–	–	–	58,849
Amount receivable for sale of investments	–	–	–	–	617
Investment income due	34	–	–	–	81
Net investment assets	5,820,092	354,082			5,375,018

During the year certain investments were transferred into new pooled vehicles. This has had the impact of increasing both purchases and sales to reflect the transfer.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

13b. Analysis of Investments

	31 March 2020 £'000	Restated 31 March 2019 £'000
Overseas equities		
– Quoted	75,851	–
Pooled Funds – additional analysis		
UK		
– Fixed income – quoted	297,011	271,774
– Credit – unquoted	443,719	449,316
– Private Equity – unquoted	551,276	586,895
– Infrastructure – unquoted	432,999	367,308
– Diversified Strategy – unquoted	681,855	704,606
– Real estate – unquoted	586,543	–
Overseas		
– Global equities – quoted	2,338,396	2,482,565
	5,331,799	4,862,464
Private equity		
UK		
– Unquoted	12,500	–
Infrastructure		
UK		
– Unquoted	7,267	–
Overseas		
– Quoted	138	127
	7,405	127

13b. Analysis of Investments (continued)

	31 March 2020 £'000	Restated 31 March 2019 £'000
Real estate		
UK		
– Quoted	–	212,846
– Unquoted	–	–
– Direct property – unquoted	–	268,780
Overseas		
– Quoted	–	75,911
	–	557,537
Diversified strategy		
Overseas		
– Unquoted	45,539	–
Managed funds – cash instruments unquoted		
Overseas		
– Unquoted	302,378	343,680
Commodity funds	–	33,890
Derivatives – Forward exchange contracts	5,844	8,914
Cash at investment managers	523	21,257
Investment income due	31	34
Investment assets	5,781,870	5,827,903
Investment liabilities		
Derivatives – Forward exchange contracts	(49,305)	(7,811)
	5,732,565	5,820,092

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

13c. Investments analysed by fund manager

	Market value at 31 March 2020 £'000	% of market value at 31 March 2020 %	Market value at 31 March 2019 £'000	% of market value at 31 March 2019 %
Investment managed within LPPI asset pools				
LPPI Global Equities	2,338,396	40.49%	2,437,012	42.03%
LPPI Diversified Strategy	681,855	11.81%	704,606	12.15%
LPPI Real Estate	586,543	10.16%	–	0.00%
LPPI Private Equity	551,276	9.55%	586,511	10.12%
LPPI Credit	443,719	7.68%	445,947	7.69%
LPPI Infrastructure	432,999	7.50%	330,534	5.70%
LPPI Fixed Income	297,011	5.14%	271,774	4.69%
	5,331,799	92.32%	4,776,384	82.38%
Investments managed outside asset pools				
Insight Investment Management (Global)	377,756	6.54%	388,853	6.71%
Aeolus Property	45,539	0.79%	92,307	1.59%
LPP group	12,500	0.22%	–	0.00%
InfraRed Capital Partners	5,776	0.10%	4,638	0.08%
M&G Investment Management	–	0.00%	3,369	0.06%
Foresight Group	1,162	0.02%	1,595	0.03%
Impax Asset Management	329	0.01%	384	0.01%
BlackRock Management	472	0.01%	381	0.01%
Standard Chartered	139	0.00%	126	0.00%
Knight Frank	–	0.00%	268,780	4.64%
CBRE Global Investors	–	0.00%	212,846	3.67%
Pontoon Dock	–	0.00%	30,541	0.53%
Brookfield Howard Asset Management	–	0.00%	17,494	0.30%
	443,673	7.68%	1,021,314	17.62%
	5,775,472	100%	5,797,698	100%
Forward exchange contracts	(43,461)		1,103	
Cash with investment managers	523		21,257	
Investment income due	31		34	
	5,732,565		5,820,092	

13c. Investments analysed by fund manager (continued)

The following investments represent more than 5% of the net assets of the scheme:

Security	Market value at 31 March 2020 £'000	% of total Fund	Market value at 31 March 2019 £'000	% of total Fund
LPPI Global Equity Fund	2,338,396	39.75%	2,437,013	40.00%
LPPI Diversified Strategy	681,855	11.59%	704,606	11.64%
LPPI Real Estate	586,543	9.97%	–	0.00%
LPPI PE Investments (No.1) LP	551,276	9.37%	586,511	9.69%
LPPI Credit	443,719	7.54%	445,947	7.37%
LPPI Infrastructure	432,999	7.36%	330,534	5.46%
Insight Liability Driven Investment (LDI) solutions plus LDI active '1'FD	377,756	6.42%	343,300	5.67%
LPPI Fixed Income	297,011	5.05%	271,774	4.49%
Total	5,709,556	97.05%	5,119,685	84.32%

13d. Property holdings

The Fund's investment in property portfolio comprises investment in pooled property funds. The previously directly owned properties have now been included in the LPPI real estate pool. Details of these directly owned properties are as follows:

	31 March 2020 £'000	31 March 2019 £'000
Opening balance	268,780	167,360
Purchases	15,810	96,503
Sale	(292,202)	–
Change in fair value	7,612	4,917
	–	268,780

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposals and the Fund is not under any contractual obligations to purchase, construct or develop any of the properties. Nor does it have any responsibility for any repairs, maintenance or enhancements.

14. Analysis of derivatives

Objectives and policies for holding derivatives

Derivatives are used to hedge liabilities or hedge exposures to reduce risk to the Fund. They are also used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the Investment Management Agreement between the LPFA and the various Investment Managers.

Futures

There were no directly held outstanding exchange traded futures contracts at 31 March 2020 (31 March 2019: £nil).

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

14. Analysis of derivatives (continued)

Open Forward Foreign Currency contracts

The net position on open forward currency contracts at 31 March 2020 amounts to a loss of £43.461m (2019: gain of £1.103m). This amount is reflected within the cash balance held by managers.

Analysis of open Forward Foreign Currency contracts

To maintain appropriate diversification a significant proportion of the Fund's investments is in overseas assets. To reduce the volatility associated with fluctuating currency rates, the Fund hedges a proportion overseas investments currency exposure.

Settlement	Currency code purchased	Currency purchased amount £'000	Currency code sold	Currency sold amount £'000	Asset value £'000	Liability value £'000
1 month	GBP	27,064	HKD	257,138	326	–
	GBP	22,569	EUR	25,998	–	(448)
	GBP	20,292	USD	26,148	–	(784)
	GBP	138,580	USD	178,573	–	(5,352)
	GBP	1,067	EUR	1,243	–	(34)
	GBP	1,082	USD	1,411	–	(56)
	GBP	2,566	USD	3,366	–	(147)
	GBP	24,872	CHF	31,439	–	(1,357)
	GBP	15,947	JPY	2,258,600	–	(939)
	CHF	293	GBP	233	11	–
	EUR	428	GBP	365	13	–
	JPY	87,800	GBP	620	37	–
	GBP	990	USD	1,291	–	(50)
	CHF	2,442	GBP	1,997	40	–
	JPY	301,000	GBP	2,186	65	–
	EUR	2,927	GBP	2,553	39	–
	USD	12,999	GBP	10,154	323	–
	JPY	97,100	GBP	738	–	(12)
	CHF	1,437	GBP	1,237	–	(38)
	EUR	3,180	GBP	2,909	–	(94)
	USD	26,262	GBP	21,867	–	(699)
	GBP	149	NZD	306	3	–
	GBP	1,589	SGD	2,788	10	–
	GBP	3,741	AUD	7,538	22	–
	GBP	737	NOK	9,550	4	–
	GBP	1,165	DKK	9,684	16	–
	GBP	18,986	CAD	32,690	469	–
	GBP	15,088	SEK	184,051	106	–

14. Analysis of derivatives (continued)

Settlement	Currency code purchased	Currency purchased amount £'000	Currency code sold £'000	Currency sold amount £'000	Asset value £'000	Liability value £'000
1 to 6 months	GBP	20,221	USD	26,148	–	(844)
	GBP	138,094	USD	178,573	–	(5,767)
	GBP	22,375	EUR	25,998	–	(657)
	GBP	1,068	EUR	1,243	–	(33)
	GBP	1,081	USD	1,411	–	(56)
	GBP	2,562	USD	3,366	–	(149)
	EUR	428	GBP	366	13	–
	GBP	990	USD	1,291	–	(50)
	GBP	24,815	CHF	31,146	–	(1,191)
	GBP	15,231	JPY	2,170,800	–	(1,009)
	CHF	2,442	GBP	2,000	39	–
	JPY	301,000	GBP	2,187	65	–
	EUR	2,927	GBP	2,552	41	–
	USD	12,999	GBP	10,153	320	–
	JPY	97,100	GBP	738	–	(11)
	CHF	1,437	GBP	1,236	–	(36)
	EUR	3,180	GBP	2,910	–	(93)
	USD	26,262	GBP	21,856	–	(699)
	GBP	20,131	USD	26,148	–	(926)
	GBP	23,538	EUR	27,241	–	(613)
	GBP	138,565	USD	179,984	–	(6,371)
	GBP	2,557	USD	3,366	–	(154)
	EUR	428	GBP	366	14	–
	GBP	988	USD	1,291	–	(51)
	EUR	2,927	GBP	2,556	39	–
	USD	12,999	GBP	10,149	319	–
	EUR	3,180	GBP	2,910	–	(91)
	USD	26,262	GBP	21,904	–	(756)
	GBP	23,161	CHF	27,267	372	–
	GBP	13,351	JPY	1,772,700	79	–
	GBP	13,351	JPY	1,772,700	79	–
	GBP	19,984	USD	26,148	–	(1,069)
	GBP	23,162	EUR	27,241	–	(1,006)
	GBP	70,073	USD	91,675	–	(3,737)

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

14. Analysis of derivatives (continued)

Settlement	Currency code purchased	Currency purchased amount £'000	Currency code sold	Currency sold amount £'000	Asset value £'000	Liability value £'000
1 to 6 months	GBP	70,062	USD	91,675	–	(3,748)
	EUR	428	GBP	366	14	–
	GBP	987	USD	1,291	–	(52)
	EUR	2,927	GBP	2,559	38	–
	USD	12,999	GBP	10,147	318	–
	EUR	3,180	GBP	2,913	–	(92)
	USD	26,262	GBP	21,897	–	(753)
	GBP	20,137	USD	26,148	–	(913)
	GBP	22,726	EUR	26,813	–	(1,079)
	GBP	142,193	USD	184,641	–	(6,446)
	EUR	2,927	GBP	2,561	37	–
	USD	12,999	GBP	10,145	319	–
	EUR	3,180	GBP	2,916	–	(92)
	USD	26,262	GBP	21,894	–	(751)
	GBP	18,719	EUR	20,706	322	–
	GBP	21,341	USD	26,148	295	–
	GBP	118,652	USD	145,380	1,638	–
	Open forward contracts at 31 March 2020				5,844	(49,305)
	Net forward contracts at 31 March 2020					(43,461)
	Open forward contracts at 31 March 2019				8,914	(7,811)
	Net forward contracts at 31 March 2019					1,103

15. Fair values – basis of valuation

The LPFA has financial liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next 12 months from the net asset statement date is assumed to equate to the fair value.

The fair values of loans and receivables at 31 March 2020 have been reviewed and were assessed as being the same as the carrying amounts in the net asset statement. Assets are carried at fair value. When an asset or liability is translated at balance sheet date the gain/loss is taken as unrealised but when the asset or liability is settled (i.e. received/paid) the gain/loss becomes realised.

LPFA has not entered into any financial guarantees that are required to be accounted for as financial instruments.

All other investments are held at fair value in accordance with the requirements of the code and IFRS 13. The valuation basis is set out in a table below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used this year.

15. Fair values – basis of valuation (continued)

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, futures and options.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity and infrastructure are based on valuations provided by the general partners of the funds in which the LPFA has invested. The valuations are determined using the guidelines set out by the British Venture Capital Association or International Limited Partners Association.

Basis of valuation	Valuation hierarchy level	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting valuations provided
Pooled global equities	1	Unadjusted quoted bid market prices.	Not required.	Not required.
Fixed Income funds	1	Unadjusted market values based on current yields.	Not required.	Not required.
Pooled real estate investments	2	The Real Estate ASC is valued in accordance with RICS Red Book Global valuation methodology. The valuations are used to calculate the unit price.	NAV-based pricing set on a forward pricing basis.	Not required.
Forward foreign exchange derivatives	2	Market forward exchange rates at year-end.	Exchange rate.	Not required.
Private equity, long-term credit and infrastructure investments	3	Annually at fair value in accordance with international Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent.	Discount rates, cash flow projections.	Material events occurring between the date of the financial statements provided and the pension funds own reporting date; changes to expected cash flows; differences between audited and unaudited accounts.

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments at 31 March 2020.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

15. Fair values – basis of valuation (continued)

Assets	Assessed valuation range (+/-)	Value at 31 March 2020 £'000	Value increase £'000	Value decrease £'000
Private equity	5.1%	563,776	592,480	535,072
Infrastructure	5.1%	440,404	462,827	417,981
Credit	5.1%	443,719	466,323	417,139
		1,447,899	1,521,630	1,374,192

15a. Fair value hierarchy

	Quoted market prices	Using observable inputs	With significant unobservable inputs	Total
Market value at 31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial assets at fair value through profit or loss	2,711,257	1,576,621	1,493,438	5,781,316
Financial liabilities at fair value through profit or loss	–	(49,305)	–	(49,305)
Net investment assets	2,711,257	1,527,316	1,493,438	5,732,011

Reconciliation of Level 3 assets

	Market value at 31 March 2020	Change in market value during the year	Sales during the year	Purchases during the year	Transfer	Market Value 1 April 2019
Private equity	563,776	6,423	(87,876)	58,333	–	586,895
Infrastructure	440,404	4,175	(6,904)	136,780	(30,541)	336,893
Commodity	–	–	(16,396)	–	–	16,396
Real Estate	–	–	(75,911)	–	–	75,911
Diversified strategy	45,539	6,946	(99,904)	138,496	–	–
Credit	443,719	1,301	(6,839)	(58)	445,947	3,369
Total	1,493,438	18,845	(293,829)	333,551	415,406	1,019,465

15a. Fair value hierarchy (continued)

	Quoted market prices	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Market value at 31 March 2019				
Financial assets at fair value through profit or loss	3,548,345	970,022	1,019,465	5,537,832
Non-financial assets at fair value through profit and loss	–	268,780	–	268,780
Financial liabilities at fair value through profit or loss	–	(7,811)	–	(7,811)
Net investment assets	3,548,345	1,230,991	1,019,465	5,798,801

In measuring the Level 3 investments it is possible that one or more of the inputs could be changed, by the valuing manager, to acceptable alternative assumptions. For example, different earnings multiples could be used for a comparable company or industry sector. These assumptions may significantly change the valuation of the investment being valued. However, each investment is valued in isolation and changing assumptions for one investment may not be applicable to others. Therefore, carrying out a sensitivity analysis on the whole class may be inappropriate. LPFA has a large portfolio of Level 3 investments and changes to the value of any one investment is not likely to have a significant impact on the value of the whole class of investments or to the value of LPFA's total asset portfolio.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

16. Classification of financial instruments

Category

	Market value at 31 March 2020 £'000	Market value at 31 March 2019 £'000
Financial assets – fair value through profit and loss		
Pooled investments:		
– Equities	2,338,396	2,482,565
– Fixed interest	297,011	271,774
– Credit	443,719	449,316
– Private equity	551,276	586,895
– Infrastructure	432,999	367,435
– Real Estate	586,543	–
– Diversified strategy	681,855	704,606
	5,331,799	4,862,591
Equities		
Private equity	75,851	–
Infrastructure	12,500	–
Real estate	7,405	–
Diversified strategy	–	288,757
Managed	45,539	–
Commodities	302,378	343,680
Forward exchange contracts	–	33,890
Total financial assets at fair value through profit and loss	5,844	8,914
	5,781,316	5,537,832
Assets at amortised cost		
Cash at investment managers	523	21,257
Investment income due	31	34
Cash balances	100,303	170,421
Current Assets – Note 20	56,423	69,994
Total – Financial assets at amortised cost	157,280	261,706
Finance liabilities – fair value through profit and loss		
Forward exchange contracts	(49,305)	(7,811)
Finance liabilities – at amortised cost		
Current liabilities – Note 21	(6,248)	(7,253)
Total – Liabilities	(55,553)	(15,064)
Grand Total	5,883,043	5,784,474

17. Nature and extent of risks arising from financial instruments

LPFA's investment and hedging activity expose it to a variety of financial risks in respect of financial instruments and which are managed in line with LPFA's investment and funding strategy as set out in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

The procedures for risk management in relation to key financial instruments is set out through the legal framework detailed within the Local Government Act 2003 and associated regulations. These require LPFA to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services of Code of Practice and Investment Guidance.

Overall, LPFA manages risk in the following ways:

- By formally adopting the requirements of the Code of Practice;
- By approving annually in advance prudential indicators which limit the LPFA's overall borrowing;
- By following treasury management guidelines; and
- By approving an investment and funding strategy.

The primary risk arising from investments and hedging in financial instruments are market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk of loss from fluctuations in market prices which includes interest and foreign exchange rates, credit spreads, equity prices and volatility. The Fund is exposed to market risk from its investment and hedging activities, with the level of risk exposure depending on asset mix, market conditions, expectations of future price and yield movements. Most of the market risk arises from financial instruments held in investments in LPPI pooled funds.

Market risk is managed in line with the risk management objectives within the Fund's ISS and FSS, which is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising return on risk. The Fund manages its market risk by establishing a well-diversified asset allocation across different asset classes, countries and currencies. The Fund also seeks to include assets which provide real term returns as well as cash flow generating assets that try to match the Fund's liabilities.

Market risk – sensitivity analysis

Several approaches are used to measure and monitor the market risk of the Fund including sensitivity analysis, expected volatility, Value at Risk (VaR) and stress testing. The methodology used may be based on historical data or using simulation techniques, depending on the measure and the type of risk.

The expected volatility over a one-year time horizon is used as one risk measure for the Fund and is measured as a one standard deviation movement in the returns for each of the major asset classes in which the Fund is invested. The expected volatility provides a measure of the potential largest change in the value of the Fund in around 2/3rds of the time. The total fund volatility considers the expected interactions between the different asset classes, based on underlying volatilities and correlations of the assets.

The approach makes assumptions on the potential distribution of prices and the potential movement and correlation in equity prices, interest and foreign exchange rates and credit spreads. The limitations of the approach are that the expected asset volatility and correlations may be different over the 1-year time horizon, the assumed distribution of prices may be different and it does not provide a measure of potential outcomes outside the one standard deviation movement.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

17. Nature and extent of risks arising from financial instruments (continued)

Asset class	2020 1 year expected volatility (%)	2020 % of Fund	2019 1 year expected volatility (%)	2019 % of Fund
Global Equities	24.1	44.3	17.4	45
Private Equity	32.0	9.7	25.7	9.8
Property	19.6	9.9	20.5	9.0
Fixed Income	5.6	5.0	3.3	4.5
Infrastructure	23.8	7.3	18.0	5.7
Credit	13.9	7.8	8.4	7.6
Total Return	6.7	12.9	4.5	13.3
Cash & LDI	0.0	3.1	0.0	4.6
Total Fund	16.3	100.0	11.8	100.0

The value of the Fund as at 31 March 2020 was £5,883m (2019: 6,054m) and the expected volatility was 16.30% (2019: 11.8%). Given these figures, we would expect that in roughly 2/3rds of outcomes the value of the Fund would lie between £6,842m (2019: £6,768m) and £4,924 (2019: £5,340m) in 12 months' time, expressed in today's equivalent present value.

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest rate risk for the Fund is within the fixed income assets.

The Fund is also exposed to interest rate risk within its pension liabilities, which is managed using bonds and swaps through a liability-driven investment (LDI) programme.

The sensitivity of financial instruments in the Fund to interest rate movements is captured in the sensitivity analysis within the market risk section.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk through non-sterling investments, where the currency risk has not been hedged, while it holds sterling liabilities. The currency risk is mainly in the global equity, private equity, credit and infrastructure pooled portfolios.

The Board has established a currency hedge programme to dampen the effect of foreign currency fluctuations on the value of the non-sterling investment asset. The hedge currently covers 50% of the non-sterling exposure of the global equity portfolio, excluding emerging markets, and 100% of the total return portfolio. The currency hedge program is reviewed regularly as part of LPFA's investment strategy review.

17. Nature and extent of risks arising from financial instruments (continued)

Currency risk sensitivity analysis

The increase in currency exposure over the year reflects the inclusion of currency risk from investments in private equity, infrastructure and credit in the table below.

The expected standard deviation of the Fund's significant currency exposure is based on 12-month market implied volatilities as at 31 March 2020. The following tables summarise the Fund's currency exposure and expected 12-month volatility by currency as at 31 March 2020 and as at the previous period end:

Value at 31 March 2020 (£m)	Implied volatility %	Currency	Value at 31 March 2019 (£m)	Implied volatility %
1,593	14.4	USD	1,481	9.3
33	16.1	JPY	43	10.7
495	12.6	EUR	447	8.1
95	13.4	CHF	88	9.0

The sensitivity of the Fund to currency movements is captured in the sensitivity analysis within the market risk section.

Credit risk

Credit risk is the risk that the issuer or counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The main credit risk within the Fund arises mainly from investments in fixed income securities within the pooled funds, where the issuer may default or is unable to pay its obligation when due. The Fund seeks to minimise its credit risk by the selection of high-quality counterparties, brokers and financial institutions.

Credit risk also arises with LPFA deposits held with banks and financial institution. During 2013-14 the LPFA joined a Group Investment Syndicate (GIS), operated by the Greater London Authority (GLA), under the supervision of the participants; the GLA, the London Fire and Emergency Planning Authority (LFEPA), the London Legacy Development Corporation (LLDC) and the Mayor's office for Policing and Crime (MOPAC). The GIS has an approved counterparty list using a creditworthiness methodology. The methodology uses an average of the ranked ratings from the ratings agencies; Fitch, Moody's and Standard & Poor's.

The sensitivity of the Fund to credit spreads is captured in the sensitivity analysis within the market risk section.

The LPFA believes it has managed its exposure to credit risk and has had no experience of default and uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £76.9m (2019: £151.3m).

Liquidity risk

Liquidity risk is the risk that LPFA has insufficient funds to meet its financial obligation when due. These obligations may arise from operating expenses, payment to members or to meet investment commitments.

LPFA manages its liquidity risk by forecasting future cash requirements and having immediate access to enough funds, either through cash holdings or holding highly liquid assets that can be readily liquidated if required. The LPFA has immediate access to its cash holdings with the GIS and Lloyds Bank Plc.

The LPFA defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2020, the value of illiquid assets (private equity, infrastructure, credit and real estate) was £2,034m, which represented 34.6% of the total LPFA assets (31 March 2019: £1,920m which represented 32.1% of the total LPFA assets).

All financial liabilities at 31 March 2020 are due within one year.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

18. Cash balances

	31 March 2020 £'000	31 March 2019 £'000
Short-term deposits	100,303	170,421
Cash at investment managers	523	21,257
	100,826	191,678

19. AVC investments

	31 March 2020 £'000	31 March 2019 £'000
Prudential	12,209	12,810
	12,209	12,810

AVC contributions of £1.44m (2019: £1.57m) were paid directly to Prudential in the year.

20. Current assets

	31 March 2020 £'000	31 March 2019 £'000
Contributions due – employees	3,063	1,972
Contributions due – employers	5,798	7,253
Transfer value receivable	37,137	43,961
VAT	2,124	–
Sundry debtors and prepayments	8,301	16,808
	56,423	69,994

21. Current liabilities

	31 March 2020 £'000	31 March 2019 £'000
Other current liabilities	1,075	1,539
VAT	–	1,119
Other taxes	2,813	2,931
Benefits payable	2,360	1,664
	6,248	7,253

The majority of creditors are with other entities and individuals, investment management and performance fees being the vast majority of this.

22. Related party transactions

This disclosure note has been produced using a specific declaration obtained in respect of related party transactions. The LPFA has prepared this note in accordance with its interpretation and understanding of IAS 24 and its applicability to the public sector using current advice and guidance.

Some of the Board members have positions of authority within organisations that are participating employers of the scheme. The employer contributions paid into the scheme by these employers have been disclosed as related party transactions. Ruth Dombey is the Vice Chair of London Councils. London Councils paid employer contributions of £688k (£2019: £645k). Christina Thompson is the Director of Finance and Property at the London Borough of Lambeth. The London Borough of Lambeth paid employer contributions of £42k (2019: £183k). The London Councils are Admitted bodies in the Fund, whereas Lambeth is a Scheduled body in the Fund.

The Mayor of London is involved in the approval of the LPFA annual budget. As the Mayor is part of the Greater London Authority and it is a participating employer, the employer contributions are deemed to be related party transactions. The Greater London Authority paid employer contributions of £6,413k (2019: £5,345k) during the year.

The LPFA Operational Account and Residual Liabilities accounts are deemed to be related parties and transactions relating to such are reflected elsewhere in their accounts. LPFA entered into a joint venture with Lancashire County Council and incorporated Local Pensions Partnership Ltd (LPP) and its subsidiaries on 19 October 2015. LPP is a related party of LPFA. The 50% share of LPP group is consolidated within the operational accounts, using the equity method of accounting. In addition, during the year the scheme acquired a £12.5m direct investment in LPP, being 12.5m non-voting X £1 ordinary shares. This is included as private equity within investment assets. LPP invoiced the scheme £1.075m for investment fees.

23. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2020 totalled £631.2m (2019: £646.2m) based on:

Currency	Commitment	Exchange rate	£
US\$	224,173,405	1.240	180,792,287
CHF	7,029,000	1.200	5,858,896
EUR	115,904,565	1.130	102,565,654
GBP	342,029,208	1.000	342,029,208
Total			631,246,046

These commitments relate to outstanding call payments due on unquoted Limited Partnership funds held in the Private Equity and Infrastructure parts of the portfolio.

The amounts "called" by these funds are both irregular in size and timing over a period of between four and six years from the date of each original commitment.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

24. Post balance sheet non-adjusting event – COVID-19

The outbreak of COVID-19, declared by the World Health Organization as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in all sectors by the efforts and restrictions being made to reduce the spread of the virus.

There have been a number of material factors which make it difficult to quantify what the outcome could be on financial markets: How long will the pandemic last? Will there be a second flare-up? How deep will its economic impacts be? There has been unprecedented government support through stimulus policies including support via the furlough scheme; central banks have reacted by immediately reducing the base rate and have embarked on substantial asset purchase programmes. Both the short- and long-term implications of the shutdown and the effect it will have on companies remain uncertain and longer-term performance will ultimately be impacted by how long the recovery takes.

For a pension scheme, a non-adjusting event could be the significant decline in the value of investments. As a result of COVID-19, the future investment values may be more volatile, at least over the short to medium term, until a vaccine or other successful cure is found for COVID-19.

The assets of the scheme, particularly the Global Equity and Diversified Strategy, did experience a sharp decline in market value between February and March 2020 due to the market’s response to the pandemic but these recovered within a couple of months after the year-end. Although there has been significant variation to individual fund values (both upwards and downwards), as at the end of May 2020 the investments are valued overall at a higher value than they were at 31 March 2020 (in these financial statements).

With regards to the Fund’s Level 3 investments, these are well diversified between sectors and also vintage year (year in which first influx of investment capital is delivered to a project or company) meaning that there will be a wide dispersion between the potential valuation effects. Some of the underlying Level 3 investment assets could have seen positive uplifts to their valuations (e.g. broadband/telecommunications infrastructure providers) as well as those which will have seen negative (e.g. transport sectors due to short-term demand shocks).

25. Actuarial present value of promised retirement benefits

In addition to the triennial valuation, the Fund's Actuary also undertakes a valuation of the pension fund liabilities in accordance with IAS 26, every year using the results of the Triennial Actuarial Valuation as at 31 March 2019, estimated income and expenditure for the year, fund returns for the year and details of any new retirements for the year that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

The present value of the Funded Obligation at 31 March 2020 for the Fund was £8,063m (2019: £8,465m). The net liability for the Fund at 31 March 2020 was £2,212m (2019: £2,480m).

Life expectancy from age 65 (years)	31 March 2020	31 March 2019
Retiring today		
Males	21.30	20.40
Females	23.90	23.30
Retiring in 20 years		
Males	22.70	22.20
Females	25.50	25.20

- Members will exchange half of their commutable pension for cash at retirement.
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age.
- No members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

The financial assumptions used for the purposes of the calculations are as follows:

	31 March 2020 % p.a.	31 March 2019 % p.a.
RPI increases	2.70	3.45
CPI increases	1.90	2.45
Salary increases	2.90	3.95
Pension increases	1.90	2.45
Discount rate	2.35	2.40

These assumptions are set with reference to market conditions at 31 March 2020.

5. Pension fund Accounts continued

5.4 Actuary's statement

Introduction

The last full triennial valuation of the London Pensions Fund Authority Pension Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The Fund as a whole had a funding level of 109% on the "Fund-level" basis. This means the assets were 109% of the value that they would have needed to be to pay for the benefits accrued to that date based on the assumptions used. This corresponds to a surplus of £481m which is an improvement in the position from 2016.
- This basis uses a single discount rate assumption based on a weighted average of estimates of the Fund's future long-term asset returns, with an allowance for prudence.
- The contribution rate for each employer was set based on the employer's calculated cost of new benefits, known as the primary rate, plus any adjustment required (for example, to allow for deficit recovery), known as the secondary rate.
- The assumptions used for each employer in setting these contributions varied based on the period that they were expected to continue in the Fund and the assessed strength of their covenant.
- In particular, the discount rate varied by employer as higher allowances for prudence (leading to lower discount rates) were applied for less secure employers. As a result they are required to pay higher contributions than if they were valued on the "Fund-level" basis.
- The funding level taking into account the individual employer funding targets is 106%. The surplus on this basis is £326m.

Updated position since the 2019 valuation

Fund investment performance was strong for the first three quarters following the valuation date; however, recent events relating to the COVID-19 crisis have seen significant falls in equity values. As at 31 March 2020, in market value terms, the Fund assets were significantly less than where they were projected to be based on the previous valuation. However, the smoothed funding model used at the 2019 valuation was designed to withstand short-term market shocks and using a consistent approach, updated for market conditions, the funding position is estimated to be broadly similar at 31 March 2020. We are continuing to monitor the impact on the Fund and the assumptions used in our model as the situation develops.

Future investment returns that will be achieved by the Fund are particularly uncertain at this time. There are also other uncertainties in respect of future benefits, in particular the remedies that will be required in respect of the McCloud and Sargeant court cases and any changes in relation to the cost cap management process.

Ross Anderson FFA

Associate, Barnett Waddingham LLP

5.5 Employers participating in the Fund

Based on any employer with whom the LPFA has had an economic transfer in 2019-20

Employer body	Contribution rate %*	Employer body	Contribution rate %*
Alleyns School	22.14	L.B. of Camden	21.19
Archbishop Tenison's Church of England GMS	12.97	L.B. of Enfield	20.43
Association of Colleges	12.03	L.B. of Greenwich	24.20
Babcock Critical Services Ltd	13.70	L.B. of Hackney	19.47
Babcock Training Limited	10.57	L.B. of Hammersmith & Fulham	0.00
Bishop Thomas Grant School	12.70	L.B. of Islington	20.67
Bouygues ES FM UK Ltd	17.56	L.B. of Lambeth	21.16
Briggs Marine Contractors Ltd	11.83	L.B. of Lewisham	22.69
British Film Institute	11.50	L.B. of Southwark	20.23
Broadacres Housing Association Limited	22.69	L.B. of Tower Hamlets	19.90
Brunel University	14.44	L.B. of Wandsworth	20.62
BUVFC	13.10	La Retraite RC Girls' School	12.87
Capital City College Group	13.00	La Sainte Union Convent School	13.57
CFBT Education Trust	32.82	Lee Valley Leisure Trust	12.70
Charlotte Sharman Foundation Primary School	12.50	Lee Valley Regional Park Authority	21.70
Chartered Institute of Environmental Health	12.80	Lionheart (RICS Benevolent Fund)	26.10
Chartered Institute of Housing	0.00	Local Pensions Partnership	12.00
Churchill Services	14.34	Local Pensions Partnership Investments	12.00
City Literary Institute	12.00	London Councils	12.00
City University	12.00	London Fire & Emergency Planning Authority	13.74
Commission for Local Administration in England	13.76	London Legacy Development Corporation	12.00
Compass Brunel Catering	25.60	London Metropolitan University	17.30
Compass Group	19.80	London Nautical School	14.96
Computacenter Ltd	12.06	London Pensions Fund Authority	12.00
Coram's Fields	19.31	London South East Colleges	17.30
Corpus Christi School	12.45	Mary Ward Centre	14.30
Dulwich College	19.55	Morley College	12.00
Dunraven School	12.00	Mountain Training Limited	21.37
Durand Academy	12.00	N.I.A.C.E.	12.16
Ealing, Hammersmith & West London College	14.00	New City College	16.00
East London Waste Authority	13.80	Newable Ltd	5.50
FHSVSA	47.83	Newcastle College Group	13.40
Food Standards Agency	19.42	Notre Dame School	13.98
Food Standards Scotland	20.02	NSL Limited	0.00
Freedom Leisure	19.80	OPDC	12.00
Friars School	16.10	Open College Network London Region	15.70
Gallions Housing Association	17.45	Orchard Hill College Academy Trust	17.80
Geffrye Museum Trust Ltd.	12.87	Peabody Trust	17.45
Genesis Housing Group	19.16	Poplar Harca	19.75
GLL (Nexus)	17.69	Prospects Services Ltd	24.40
Goldsmith College	22.80	R.B. of Kensington & Chelsea	23.61
Greater London Authority	12.00	Raine's Foundation School	14.93
Guinness Partnership Ltd	19.50	Rathbone Training	21.76
Horniman Museum & Gardens	13.41	Roehampton University	13.67
Ibstock Place School	6.74	Royal Central School of Speech & Drama	14.00
Immanuel & St Andrew C of E Primary School	12.00	S.S.A.F.A. Forces Help	16.07
Julian's Primary School	12.10	Sacred Heart School	12.00

* Note that some employers also pay lump sum contributions on top of these percentages of pay.

5. Pension fund accounts continued

5.5 Employers participating in the Fund continued

Based on any employer with whom the LPFA has had an economic transfer in 2019-20

Employer body	Contribution rate %*
SDP Regeneration Services 2 Ltd	14.32
SITA	20.10
South Bank University	12.71
South Bank Colleges	13.50
South Thames College	15.20
Sport and Recreation Alliance Limited	12.00
Sport England	16.07
St Andrew's RC Primary School	12.99
St Anne's RC Primary School	15.22
St Anthony's School	14.11
St Bede's GM Infant & Nursery School	13.43
St Bernadette's School	16.60
St Francesca Cabrini Primary School	14.80
St Francis Xavier Sixth Form College	15.15
St Joseph RC Infant School	19.32
St Joseph RC Junior School	13.59
St Martin-in-the-Fields High School	17.51
St Mary's RC Primary School	14.77
St Michael's RC School	12.75
St Thomas the Apostle College	12.00
Surrey Square Primary School	14.49
The English & Media Centre	41.78
The English Institute of Sport	12.00
The Froebel Trust	21.52
The Pioneer Group	12.30
Transport for London	15.86
Trinity Laban	20.15
Turney School	15.77
Turnham Primary GMS School	12.41
UAL Short Courses Ltd	12.06
UK Anti-Doping	12.00
United Colleges Group	26.90
United Kingdom Sport	12.00
University of the Arts London	12.06
University of Greenwich	14.00
University of St. Mark & St. John	15.48
University of Westminster	12.47
Valuation Office Agency	20.43
Valuation Tribunal Service	15.30
W. London Waste Authority	12.00
W. Riverside Waste Authority	12.43

* Note that some employers also pay lump sum contributions on top of these percentages of pay.

6. Annexes

i Reporting and controls

The following describes how the organisation is controlled and any associated reporting requirements.

External review

The Public Sector Audit Appointments Ltd (PSAA) commission auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice. PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 to set the scale fees by the start of the financial year. The LPFA Board ratified the PSAA proposal to reappoint Grant Thornton (UK) LLP to audit the accounts of LPFA for a further five years from 2018-19 with effect from 1 April 2018. An Annual Governance Report provides their opinion on the financial statements and a value for money conclusion for 2019-20.

Internal review and control

PricewaterhouseCoopers (PwC) have been appointed as the LPFA internal auditor with effect from 1 April 2020, replacing Deloitte LLP whose term concluded on 31 March 2020. Internal auditors attend and report to the Audit and Risk Committee (ARC). An Internal Audit plan is presented at the start of every year detailing all audit reviews that will take place on a phased basis throughout the financial year. The resulting report from the reviews and any recommendations are reported and monitored at each ARC meeting along with progress against each recommendation.

Annual report and accounts

Regulation 57 of The LGPS Regulations 2013 (England and Wales) requires the Fund to prepare and publish an annual report. This annual report has been prepared following the CIPFA guidance – *Preparing the annual report: Guidance for LGPS Funds (2019 Edition)*.

The timelines for the preparation of the 2019-20 annual report and accounts have been amended by *The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020*, which extends the timelines for the preparation of the accounts including publication date for final accounts to 30 November 2020. The LPFA Board has extended the constitutional document annual report and accounts publication date to follow the amended regulations.

Fraud control

To combat potential instances of fraud and to reduce the risk of pension overpayments, LPFA participates in a range of data initiatives. These are outlined in more detail in the Fraud Control Framework which is reviewed annually and published at www.lpfa.org.uk/What-we-publish

LPFA's Fraud Control Framework outlines the LPFA's general approach to internal controls and fraud prevention. The document includes an annual action plan for LPFA officers which serves to increase awareness amongst stakeholders of actions taken to mitigate the risk of fraud.

National Fraud Initiative (NFI)

LPFA participated in the National Fraud Initiative in January 2019 and the results from the data matching exercise, including regular updates, were reported to the LPFA CEO. The exercise proved successful and provided savings to the Fund of just over £20,000. The results have been reported to the Audit and Risk Committee and to the Board.

ATMOS data services

The LPFA carries out monthly mortality screening on pensioners and their dependants residing in the UK. This reduces the costs and risks of Impersonation of the Deceased (IOD) fraud and pension overpayments and is a far more effective exercise than the life certificate processes previously adopted. The reduction in death overpayments reduces the amount of administrative work. In addition to ATMOS, LPFA has adopted the Tell Us Once (TUC) service which provides another method of being notified of deaths to help reduce the risk of death overpayments.

Overseas pensioners

LPP undertook a Life Certificate exercise in Q4 2019-20 on behalf of the LPFA to verify the existence of pensioners who reside overseas. The exercise ensures that pension records are up to date as well as act as an anti-fraud measure and safeguards members' pensions. Three communications were issued to members before any action was taken.

6. Annexes continued

i Reporting and controls continued

Code of best practice for members

This Code is enforced under the Authority's power of self-regulation and sets out the rules relating to disclosure of personal interests and related-party transactions. It incorporates the seven Nolan Principles of Conduct and is further underpinned by local guidance on gifts and hospitality for Board members.

The registers of interests declared by Board members and Principal Officers are available for public inspection and are completed upon joining the LPFA and at the start of every financial year. Any concerns are reviewed by the ARC.

Quality of data

LPFA has various processes in place to ensure LPP Group examines the quality of the data it uses and maintains.

These include a central electronic performance reporting system integrated with quality checks; employers' data cleansing exercise and monthly returns; online member service that reduces the risk of human error; and data monitoring against The Pensions Regulator Record-Keeping Guidance 2010 on Common and Scheme Specific Data. The Pensions Regulator has also issued Code of Practice 14 which requires LPFA to maintain certain standards of data management, risk management processes and communication with members and employers.

Information security

LPFA's Information Security Compliance Statement predominantly mirrors LPP's Information Security Policy which is reviewed periodically to respond to any significant changes that might have an impact on LPFA's strategy and objectives. LPP is certified by the standard ISO 27001 Standard and has implemented an Information Security Management System. The LPP Group and LPFA are committed to preserving the confidentiality, integrity and availability of all the information assets throughout the organisation.

Freedom of Information (FOI) Scheme

LPFA is committed to the culture of openness and therefore operates a Freedom of Information Scheme as required by The Information Commissioner. The document provides guidance on the type of information that LPFA provides in order to meet its commitments under the model publication scheme. This document is available under 'What we publish'.

Equalities objectives

LPFA operates an equality and diversity policy, which has been updated following the transition of assets to LPP Group. A further review is planned for 2020-21 as part of a review of the LPFA public policy framework.

Exercise of discretions under LGPS

Under the LGPS Administration Regulations 2008, LPFA was required to produce a written statement of its policy in relation to the use of its functions under specific areas of discretion. These have been published on the LPFA's website: www.lpfa.org.uk/Employers/. LPPA exercises the pensions discretions policy on behalf of the Fund as part of the outsourced pensions administration service.

Health and safety

Officers monitor performance regarding health and safety and report annually to the Board. This report covers accidents, general fire safety, electrical equipment, display screen equipment, housekeeping and premises, training and emergency procedures.

ii Employers active and ceased in the Fund by scheduled and active bodies (as at 31 March 2020)

Number of employers in the Fund

Status	Admitted	Scheduled	Grand Total
Ceased	15	19	34
Current	67	68	135
Grand total	82	87	169

Category and employer name	Admitted £	Scheduled £
Chartered Institute of Housing	670,316	
City of Westminster		- 8,121
Clarion Housing Group	39,717	
Compass Group	-	
Downland Affinity Group	-	
Dulwich Picture Gallery	179,900	
Haberdashers Aske's Hatcham College	76,085	
Kingston University Service Company Ltd	317,374	
L.B. Barnet		-
L.B. Barking & Dagenham		-
L.B. Bexley		-
L.B. Brent		-
L.B. Bromley		80,000
L.B. Croydon		-
L.B. Ealing		-
L.B. Haringey		-
L.B. Harrow		-
L.B. Havering		-
L.B. Hillingdon		-
L.B. Hounslow		-
L.B. Merton		-
L.B. Newham		-
L.B. Redbridge		-
L.B. Richmond upon Thames		-
L.B. Sutton		-
L.B. Waltham Forest		-
Mid Sussex HSG Association	-	
N.L. Hospice Group	7,608	
SENSE England	1,171,875	
Sense Scotland	-	
Shenley Leisure Centre Trust Ltd	2,086	
SLCF & Southwark DB of Finance	33,232	
Sutton Community Leisure Ltd	28,748	
Woughton Leisure Trust	25,300	
Ceased employers total	2,552,241	71,879

6. Annexes continued

ii Employers active and ceased in the Fund by scheduled and active bodies (as at 31 March 2020) continued

Category and employer name	Admitted £	Scheduled £
Alleyn's School	284,560	
Apleona HSG Ltd	296,320	
Archbishop Tenison's Church of England GMS		110,153
Association of Colleges	846,939	
Babcock Critical Services Ltd	149,550	
Babcock Training Limited	190,083	
Bishop Thomas Grant School		164,128
Bouygues ES FM UK Ltd	41,338	
Briggs Marine Contractors Ltd	231,209	
British Film Institute	3,163,421	
Broadacres Housing Association Limited	103,075	
Brunel University	5,631,939	
BUVFC	98,500	
Capital City College Group		3,586,568
Caterlink	8,174	
CfBT Education Trust	210,351	
Charlotte Sharman Foundation Primary School		107,971
Chartered Institute of Environmental Health	399,109	
Churchill Services	1,367	
City Literary Institute	939,724	
City of Westminster College		2,417,379
City University	3,639,914	
Commission for Local Administration in England		1,558,348
Compass Brunel Catering	208,027	
Computacenter Ltd	6,951	
Coram's Fields	86,349	
Corpus Christi School		82,943
Dulwich College	871,477	
Dunraven School		388,092
Ealing, Hammersmith & West London College		1,060,421
East London Waste Authority		130,310
English Sports Council	594,374	
Food Standards Agency	4,164,802	
Food Standards Scotland	718,003	
Freedom Leisure	19,505	
Friars School		44,156
Gallions Housing Association	–	
Geffrye Museum Trust Ltd	138,005	
Genesis Housing Group	44,285	
GLL (Nexus)	202,204	
Goldsmiths College	3,974,132	
Greater London Authority		10,604,650
Guinness Partnership Ltd	192,797	
Horniman Museum & Gardens	722,991	
Ibstock Place School	356,008	
Immanuel & St Andrew C of E Primary School		106,934
Julian's Primary School		175,850

Category and employer name	Admitted £	Scheduled £
L.B. of Camden		185,116
L.B. of Enfield		91,549
L.B. of Greenwich		249,256
L.B. of Hackney		68,297
L.B. of Hammersmith & Fulham		106,715
L.B. of Islington		92,618
L.B. of Lambeth		74,409
L.B. of Lewisham		135,356
L.B. of Southwark		185,716
L.B. of Tower Hamlets		164,511
L.B. of Wandsworth		308,981
La Retraite RC Girls' School		274,359
La Sainte Union Convent School		203,822
Lee Valley Leisure Trust	562,746	
Lee Valley Regional Park Authority		917,214
Lionheart (RICS Benevolent Fund)	34,046	
Local Pensions Partnership	1,190,735	
Local Pensions Partnership Investments		604,921
London Councils	1,136,818	
London Fire Commissioner		13,454,728
London Legacy Development Corporation		1,905,448
London Metropolitan University		6,871,760
London Nautical School		25,294
London Pensions Fund Authority		341,326
London South Bank University	6,935,576	
London South East Colleges		1,822,405
London Treasury Ltd	48,044	
Mary Ward Centre	162,243	
Morley College		551,437
Mountain Training Limited	11,953	
National Learning and Work Institute	453,980	
New City College		2,941,726
Newable Ltd	430,609	
Newcastle College Group		1,367,845
Notre Dame School		154,097
NSL Limited	2,839	
OPDC		437,776
Open College Network London Region	73,923	
Orchard Hill College & Academies		562,610
Peabody Trust	2,030,243	
Poplar HARCA	90,277	
Prospects Services Ltd	1,352,833	
R.B. of Kensington & Chelsea		85,847
Raine's Foundation School		160,703
Rathbone Training	808,371	
Roehampton University	4,039,376	
Royal Central School of Speech & Drama	718,360	

6. Annexes continued

ii Employers active and ceased in the Fund by scheduled and active bodies (as at 31 March 2020) continued

Category and employer name	Admitted £	Scheduled £
S.S.A.F.A. Forces Help	1,465,620	
Sacred Heart School		145,838
SDP Regeneration Services 2 Ltd	27,816	
SITA	212,146	
South Bank Colleges	1,012,743	
South Thames College Group		2,479,605
Sport and Recreation Alliance Limited	102,063	
St Andrew's RC Primary School		118,456
St Anne's RC Primary School		74,349
St Anthony's School		108,964
St Bede's GM Infant & Nursery School		53,198
St Bernadette's School		71,454
St Francesca Cabrini Primary School		101,454
St Francis Xavier Sixth Form College		266,850
St Joseph RC Infant School		83,078
St Joseph RC Junior School		83,735
St Martin-in-the-Fields High School		176,318
St Mary's RC Primary School		57,266
St Michael's RC School		143,740
St Thomas the Apostle College		124,162
Surrey Square Primary School		180,323
The English & Media Centre	24,977	
The English Institute of Sport	3,240,806	
The Froebel Trust	45,034	
The Pioneer Group	10,399	
Transport for London		2,435,481
Trinity Laban	59,261	
Turney School		172,684
Turnham Primary GMS School		87,017
UAL Short Courses Ltd	871,042	
UK Anti-Doping	658,682	
United Kingdom Sports Council	1,596,943	
University of the Arts London		14,296,200
University of Greenwich	9,474,965	
University of St. Mark & St. John	1,069,725	
University of Westminster		7,641,816
Valuation Office Agency		918,677
Valuation Tribunal Service		492,261
Van Gogh Primary School		14,925
W. London Waste Authority		436,409
W. Riverside Waste Authority		139,744
Current	68,633,179	85,182,832
Grand total	71,185,420	85,254,711

Public policy statements

The following public policy statements are reviewed regularly and available on the LPFA website under the “What we publish” section. As per statutory requirements, the Funding Strategy Statement, Investment Strategy Statement, governance compliance statement and communications policy are appended to the annex of this report.

iii Funding Strategy Statement (FSS)



Introduction

This is the Funding Strategy Statement (FSS) of the London Pensions Fund Authority Pension Fund (the Fund), for which the London Pensions Fund Authority is the Administering Authority (the Authority). It was prepared in collaboration with the Fund's Actuary, Barnett Waddingham, and after consultation with the Fund's employers and has been reviewed and updated as part of the 2019 Fund valuation. It has been prepared with regards to the 2016 CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement. The Actuary has had regard to this statement in carrying out the valuation.

Regulatory framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the regulations at a level which covers only part of the cost of accruing benefits. Employers currently pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

FSSs were introduced such that the first statement was to be published by 31st March 2005 and it forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;
- the Public Service Pensions Act 2013;
- the Rates and Adjustments Certificate, which is issued in addition to the Fund's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service or pension;
- the Investment Strategy Statement (ISS); and
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

This is the framework within which the Fund's Actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund or to employers who have ceased contributing without paying a cessation debt and are not fully funded.

Purpose of the Funding Strategy Statement in policy terms

The purpose of the FSS is as set out by the Department for Communities and Local Government and the 2016 CIPFA Pensions Panel Guidance on preparing and maintaining a Funding Strategy Statement:

- “to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework **taking into account the requirement to set contributions so as to ensure solvency and long-term cost efficiency under relevant legislation and the desirability** of maintaining as

nearly constant a primary employer contribution rate as possible*; and

- to take a **prudent longer-term view** of funding those liabilities.”

These objectives are desirable individually but may be mutually conflicting. This statement, therefore, sets out how the Authority has balanced the conflicting aims of ensuring solvency, affordability of contributions, transparency of processes, desirability of stability of employers' contributions and prudence in the funding basis.

Aims and purpose of the Fund

The aims of the Fund are to:

- manage employers' liabilities effectively; and
- ensure that sufficient resources are available to meet all liabilities as they fall due;
- safeguard the Fund against the consequences of employer default;
- set contributions to ensure Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile to the Fund and the Authority and employers' risk profiles (Public Service Pensions Act);
- enable employer contribution rates to be kept as stable as possible and at reasonable cost to the taxpayers, scheduled, designated, resolution and admitted bodies (LGPS Regulations);
- seek returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses. as set out in the 2016 CIPFA Pensions Panel Guidance and defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

6. Annexes continued

Public policy statements

iii Funding Strategy Statement (FSS) continued

Responsibilities of the key parties

The sound management of the Fund can only be achieved if all interested parties exercise their statutory duties and responsibilities conscientiously and diligently. Although a number of these parties, including investment fund managers and external auditors, have responsibilities to the Fund, the following may be considered to be of particular relevance for inclusion as a specific reference.

The Administering Authority should:

- collect employer and employee contributions, investment income and other amounts due to the Fund;
- operate a pension fund paying benefits as they become due;
- invest monies in accordance with the Regulations and agreed strategy;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund's Actuary;
- notify employers of the expected timing of key events and actions related to completion of the valuation process. Good communication between all parties and stakeholders is essential in building strong relationships throughout the valuation process;
- prepare and maintain an FSS and an ISS, both after proper consultation with interested parties, including participating employers; and
- monitor the Fund's performance and funding and amend the FSS and ISS accordingly;
- take measures to safeguard the Fund against the consequences of employer default;
- manage potential conflicts of interest arising from its dual role as fund administrator and scheme employer;
- enable the Local Pension Board to review the valuation process as set out in their terms of reference.

The individual employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate in accordance with LGPS Regulations;
- pay all ongoing contributions, including employer contributions determined by the Actuary and set out in the Rates and Adjustments Certificate, promptly by the due date;

- develop policies on discretions and exercise discretions as permitted within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain including payment of penalties for late payment;
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding;
- comply with the valuation timetable where required and respond to communications as necessary to complete the process; and follow all requirements laid down in the Pensions Administration Strategy;
- send timely and accurate data to the Authority, as required;
- discharge their responsibility for compensatory added years which the Administering Authority pays on their behalf and is subsequently recharged to them;
- comply with The Pensions Regulator requirements outlined within Code of Practice 14;
- pay any exit payments on ceasing participation in the Fund, where agreement has been reached with relevant parties that these should be paid;
- manage early retirements to minimise extra costs falling on the Fund.

The Fund Actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS and LGPS Regulations;
- set contribution rates in order to secure the Fund's solvency and long-term cost efficiency having regard to the desirability of maintaining as nearly constant a contribution rate as possible;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- provide advice and valuations on the exiting of employers from the Fund;
- assist the Administering Authority in assessing whether any increase is required in an individual employer's contributions under Regulation 64(4) of the 2013 LGPS Regulations;

- agree a timetable for the valuation process with the Administering Authority and provide timely advice and results.

Solvency issues, target funding levels and long-term cost efficiency

The principal issues facing the solvency of the Fund include the ability to finance liabilities as and when they arise, the rate or volatility of variations in employer contribution rates, the pace at which deficits are recovered (or surpluses used up), and the returns on the Fund's investments within reasonable risk parameters.

Securing solvency and long-term cost efficiency are regulatory requirements with a constant as possible employer contribution rate a desirable outcome. The Authority will prudentially seek to ensure the income stream from contributions and investments achieve the aim of ensuring benefits can be paid as and when they fall due. The rate of employer contributions will be set to target an ongoing valuation basis funding level of 100% for the whole Fund over an appropriate time period and using appropriate actuarial assumptions. The rate of employer contributions will be sufficient to make provision for the cost of benefit accrual, with an adjustment for any surplus or deficit in the Fund.

The Authority will set funding strategy appropriately having regard to factors such as:

- strength of covenant and security of future income streams;
- guarantor arrangements from scheme employers;
- prospective period of participation in the Fund, and specifically the implications if the employer has closed membership of the scheme to new employees;
- secondary rate (deficit recovery) contributions.

Taking these factors into account, a case by case assessment review of contribution rate setting requirements may in some cases, prove necessary as part of the triennial valuation process.

All Fund employers are expected to fully meet their pension obligations outlined within the LGPS Regulations on both an ongoing and cessation basis using the methodology applied by the Fund's appointed actuarial advisor.

The assumptions used to value the liabilities of the various employers as at 31 March 2019 are set out below. Base market statistics used to derive the assumptions are smoothed around the valuation date so that market conditions used are the average of the daily observations over the period 1 January 2019 to 30 June 2019. Assets are also smoothed in a consistent way.

Other assumptions

- The liabilities have been calculated using Club Vita 2019 mortality tables, which assign a mortality assumption to each individual member based on individual characteristics which distinguish them as being longer/shorter lived than others.
- Allowance is made for members' mortality to improve in the future, using the 2018 version of the CMI model with a 0.5% initial addition to improvement parameter, a smoothing parameter of 7.0 and a long-term rate of improvement of 1.25% per annum.
- Staff turnover and death in service reflect updated expectations of future experience taking into account the most recent study of national LGPS experience, as assessed by the Government Actuary's Department.
- Allowance for promotional salary increases has been included within the general salary increase assumption.
- Ill-health retirements reflect the Fund's specific experience.
- Employers will manage early retirements to minimise extra costs falling on the Fund and the capitalised cost of early retirements, other than on ill-health terms up to the levels of

experience assumed by the Actuary, and augmentation of service or pension will be funded by the employer, by lump sum payment at the time of retirement.

- 75% of males and 70% of females are assumed to have an eligible dependant at retirement or earlier death. For members that have already retired, allowance is made for their dependant to have died since retirement.
- At retirement members will commute 50% of the maximum pension allowed by HMRC at a rate of 12:1.
- No allowance has been made for individual member transfers out based on member experience up to the 2019 valuation date.
- For each tranche of benefit, members have an age at which they are able to take their benefits unreduced. This is their "Rule of 85" age for service prior to 1 April 2008, it will be their "Rule of 85" age (for older members) or 65 (for younger members) for service between 1 April 2008 and 31 March 2014 and it will be their State Pension Age (but with some transitional protection for older members) for service after 1 April 2014. It is assumed that each member will retire at the average of these ages (weighted by pension).
- 75% of ill-health retirements assumed to be at Tier 1, 15% at Tier 2 and 10% at Tier 3.

McCloud/Sargeant judgement allowance

- On 20 December 2018 a judgement was made by the Court of Appeal in relation to two employment tribunal cases (McCloud and Sargeant), which were brought against the Government in

relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015.

The Court of Appeal ruled that the transitional protection offered to some members as part of the scheme reforms amounted to unlawful discrimination. On 27 June 2019, the Supreme Court denied the Government's request to appeal the judgement.

- It has been noted by the Government in its 15 July 2019 statement that it expects to have to amend all public service pension schemes in light of the judgement, including the LGPS. However, any remedy will either be imposed by the Employment Tribunal or negotiated and applied to all schemes, so it is not yet clear how this judgement may affect LGPS members' benefits.
- The outcome of McCloud/Sargeant case is likely to mean changes to the LGPS benefit structure. The changes and timing of these changes are still highly uncertain but are likely to impose additional albeit not particularly material costs on the LGPS. Allowance has been made in the 2019 actuarial valuation via the prudence allowance built into the discount rate to meet these potential costs.

Other strategy considerations

- LPFA recover pension increases from some employers with no remaining active members and these payments are allocated to the appropriate employer's notional asset allocation. Where appropriate the Authority would also seek to recover such payments in accordance with the relevant LGPS regulations from other employers in accordance with actuarial advice and dependent on the level of guarantee provided by the former employer.
- Pooling of employers will be considered where an employer is directly related to another employer (e.g. common ownership).
- Phasing in contribution changes may be agreed on an incremental basis to reduce the impact of large changes and to meet the regulatory requirement and FSS objective for rates to be as nearly constant as possible. Each employer shall be reviewed on its own merits.

		Nominal	Real
Price inflation (CPI)	Market expectation of long-term future Retail Price Index (RPI) inflation as measured by the bank of England implied RPI inflation curve based on the difference between yields on fixed and index-linked gilts as at the valuation date less 1.0% to allow for the difference between RPI and CPI	2.6% p.a.	
Pay increases	Assumed to be in line with CPI +1.0% p.a.	3.6% p.a.	1.0% p.a.
Discount rate	Based on the long-term investment strategy of the Fund and the relative strength of each employer	1.7% to 5.3% p.a.	-0.9% to 2.7% p.a.

6. Annexes continued

Public policy statements

iii Funding Strategy Statement (FSS) continued

- Past service deficit contributions are to be paid as cash sums by all employers unless they specifically request a change to a percentage requirement, are actively open to new members, can demonstrate a stable or increasing active membership and pensionable payroll and LPFA agree to such an approach.
- In the event of an employer being in surplus, consideration will be given to the funding position that would apply if they were to cease active accrual. Should the employer also be in surplus on that measure, this surplus may be released back to the employer through an adjustment to their contribution rate. Should the employer be in deficit on that measure, no deduction is to be made from their future service contribution rate.
- Where employers have a deficit, their spread period will first be considered based on the funding categories set out in Annex 2 and, combined with the cost of new benefits, this will give the implied total contributions (whether expressed wholly as a percentage of salary or as a combination of salary and cash elements).
- In order to improve the funding position as quickly as possible, where implied total contributions have decreased, employers will generally be required to maintain their previous contributions to ensure 100% funding is achieved at the earliest opportunity.
- The Administering Authority may consider and implement an individual funding target with consideration to the expected deficit when the employer ceases.
- On the cessation of an employer's participation in the Fund, the Fund Actuary will be asked to carry out an actuarial valuation to determine the assets and liabilities in respect of the benefits held by the exiting employer's current and former employees, as required by the LGPS Regulations. The assumptions used for this valuation will not necessarily be consistent with the long-term funding assumptions used for the 2019 valuation and, in particular they will take into account the amount of funding support available after the employer ceases.

Following the cessation of an employer in the Fund, the Administering Authority may consider agreeing to a formal payment plan with the employer or guarantor as appropriate, rather than receiving full payment of any cessation debt. Any such arrangement would only be allowed where evidence of financial security e.g. through a first charge on assets or appropriate guarantee from a government department is provided to the LPFA's satisfaction. Should an exiting employer be in surplus on the assumptions used for the cessation valuation, then an exit credit may be paid to the exiting employer, subject to agreement between any relevant parties.

Links to investment policy

Funding and investment strategy are inextricably linked. The investment strategy is set after taking investment advice, to reflect the liabilities of the Fund and these may be set to achieve the funding strategy agreed with employers. The investment strategy is set out in the published Investment Strategy Statement.

LPFA does not account for each employer's assets separately. The Fund's Actuary is required to notionally apportion the assets between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. In addition, any bulk transfers between employers or individual transfers of which the Actuary is aware are allowed for through notional transfers between the employers.

This approach aims to broadly replicate the assets that would have resulted had each employer participated in their own ring-fenced section but some approximations are required with regard to internal transfers and the timing of cashflows.

The limitations in the process are recognised but, having regard to the extra administration cost of building in new protections, it considers that the Fund Actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Key risks and controls

LPFA has an active risk management programme in place to identify, measure and control key financial, demographic, regulatory, and governance risks as well as employer and liquidity risk. The key risks are summarised in Annex 3 and reviewed regularly.

Consultation and publication

The Authority has prepared and updated the FSS in collaboration with the Fund's Actuary and consulted the employers in the Fund through written correspondence at various stages. The FSS has been published on the LPFA web site and printed copies are available on request.

A copy has been sent to each employer, the Fund's Actuary, investment managers and advisers, the Department for Communities and Local Government (DCLG), other interested parties and the Local Pensions Board.

Scheme members will be informed of the publication and the key elements of the strategy in the annual report to members. A summary of the funding principles which underpin the strategy will also be published in the Annual Report and Accounts.

Monitoring and review

The investment performance of the Fund is monitored relative to the growth in the liabilities on a monthly basis.

The key funding principles will be monitored on an annual basis and a statement of significant variance will be incorporated into the actuarial report as part of the LPFA's annual report and accounts.

As a policy statement, the FSS is reviewed in detail at least every three years ahead of completion of the triennial valuation, with the next full review due to be completed by 31 March 2023 in order to inform the 31 March 2022 triennial valuation.

The FSS will be reviewed in the event of any significant or material change arising prior to the next valuation and a revised statement issued accordingly.

ANNEX 1 - Employer funding categories and termination requirements

The period over which any current past service deficit is to be recovered and the discount rate to be used in calculating contribution rates will be dependent on a number of factors, including the statutory nature of any overriding level of guarantee, or where other forms of security such as a bond or charge on assets can be provided with due consideration of the maturity profile of the Fund. The overall aim of the Fund and the funding strategy is to maintain an ongoing valuation basis funding level of 100% for the Fund within the prudential framework in which the Fund operates. Those employers with a strong covenant will be able to benefit in full from our overall investment approach. LPFA also need to ensure that other employers who are not as secure are not unduly subsidised by those employers. Given there is a wide range of credit risk posed by the various scheme employers the LPFA have determined the need for some employers to contribute more in order to mitigate those risks and consequently ensure equitable treatment of all scheme employers.

Notes

1. In any case an appropriately shorter funding period will be substituted by LPFA, e.g. where the body is known to be of short or fixed-term life (e.g. the duration of the relevant service contract held by the "Admitted Body").
2. The LPFA may choose to apply a longer or shorter funding term or different funding basis for a given employer as a result of specific advice received from the Fund's Actuary.
3. Category A and B employers have the option to request a shorter funding period over which any prevailing deficiency is recovered.
4. It is the known/evidenced position for a given employer at the time in question that will inform funding decisions taken under the above and the position will be kept under review.
5. External advice may be needed to provide the "satisfaction" required under Category B (a).

6. Where employers under any category close (or are already closed) to new members, specific guidance will be sought from the Fund's Actuary as to the appropriate revised contributions required, to ensure liabilities are fully funded. The period over which recovery is made can be adjusted to take account of evidence of financial security or appropriate guarantees subject to external advice being obtained where necessary. The general aim will be to ensure that the relevant cessation deficit is met in full in accordance with regulation 64(2), i.e. that the value of the assets in respect of current and former employees of a particular employing authority is neither materially more nor materially less than the anticipated liabilities of the Fund in respect of those employees at the date of cessation.

Category	Employers	Funding term	Discount rate
A	LGPS "Scheduled" and "Resolution/Designated Bodies" where, in the event of such an employer ceasing to participate in the Scheme, the liabilities are guaranteed by a government department or similar body. These are statutory entities that are either required to, or can choose to, offer the LGPS under the LPFA Fund. "Admitted Bodies" where, in the event of such an employer ceasing to participate in the Scheme, full deficiency funding is provided via a statutory body or government department (e.g. bodies with statutory guarantor). "Admitted Bodies" delivering "outsourced" functions as prescribed under the LGPS Regulations where the letting authority party to the admission agreement was a category A employer at the commencement of the agreement.	Up to 11 years from the 2019 valuation	100% of outperformance of the Fund-level discount rate over gilts
B	"Admitted Bodies" or LGPS "Scheduled" and "Resolution/Designated Bodies" with no statutory underpin but where either; (a) the body can now provide, to the LPFA's satisfaction, evidence of financial security to justify the longer funding term than prevailing future working life (FWL) (e.g. a "parent company" guarantee, secured income streams or external bond/insurance cover for an appropriate amount, a charge over assets), or; (b) the body is part of a directly related group of bodies within the LPFA Fund and where another one of those bodies has now formally accepted default funding for the body in question through "pooled sub-funding" within the Fund. In this case the funding period for the body will equal funding period of the guarantor body if longer. For the avoidance of doubt, if a category A employer is fully underwriting the liabilities of the body then that category will apply. "Admitted bodies" delivering "outsourced" functions as prescribed under the LGPS Regulations where the letting authority party to the admission agreement was a category B employer at the commencement of the agreement.	Up to 11 years from the 2019 valuation	90% of outperformance of the Fund-level discount rate over gilts
C	"Admitted Bodies" with no external underpin. "Admitted bodies" delivering "outsourced" functions as prescribed under the LGPS Regulations where the letting authority party to the admission agreement was a category C employer at the commencement of the agreement.	Up to Future Working Life from the 2019 valuation	50-75% of outperformance of the Fund-level discount rate over gilts (depending on financial strength)

6. Annexes continued

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iii Funding Strategy Statement (FSS) continued

Termination requirements

Background

One of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor. Previous sections of this policy are drafted with a view to safeguarding against this. However, it is also important that the Fund has the flexibility to terminate an admission agreement at the appropriate point to protect the other employers in the Fund and to allow it to levy an exit payment (assuming there are appropriate grounds for doing so under the relevant LGPS Regulations).

Policy

The Fund will take legal advice on the appropriate termination requirements

to be included in admission agreements and these will be incorporated into all new admission agreements. These will include the option for an admission agreement to be terminated by the Fund in any of, but not limited to, the following circumstances:

- Where the admission body is not paying monies in a timely manner or encountering significant financial difficulties;
- Where the admission body is not meeting administrative requirements relating to the provision of information;
- Where the admission body is not meeting its requirement to provide or review any bond/ indemnity or guarantor;
- Where the employer is not complying with Pension Regulator requirements including adherence to Code of Practice 14;

- Where no further active members exist.

On an employer exiting the Fund a degree of flexibility will be used to ensure cessation liabilities are met in full. In particular, those agreements could be effected over an extended period subject to appropriate guarantees and legal agreements being in place.

Proposals to exit the Fund will be considered to ensure they achieve both the best outcome for the Fund and the remaining participating employers.

Any proposal to exit will ultimately require LPFA board approval and would need to take account of appropriate legal, actuarial and financial evidence coupled with a detailed risk analysis before approval of any offer could be considered.

ANNEX 2 - Summary of key risks & controls

Risk	Controls
Investment risk: Failure to achieve anticipated investment returns; failure of investment strategy to deliver investment objectives leading to the forced selling of assets to pay pensions.	Quarterly monitoring by the LPPI Investment team where underperformance will be reported to the LPFA Board. Quarterly LPFA Investment Panel meetings are held with the LPPI investment team and presentations made to the LPFA Board and at any other meetings as required. LPPI should only anticipate long term return on a relatively prudent basis to reduce risk of under-performing. This will be supplemented by analysing progress at triennial valuations and by the calculation of liabilities and funding level between formal valuations, monitored regularly against asset returns. LPFA further control this risk with a diversified strategic asset allocation and by having a treasury management strategy in place. The results of the triennial valuation will further inform strategy. Quarterly risk framework reporting is used to assess risks to the funding level and total contributions which are also used to inform the LPFA Board and the investment strategy.
Pay increases and price inflation significantly more than anticipated.	Inter-valuation monitoring of funding level provides early warning of this risk. Inflation sensitivity analysis is included within monthly solvency reporting. A liability driven investment strategy is in place with the aim of mitigating inflation risk in the context of the triennial valuation basis, and the inflation hedge ratio is regularly monitored.
Liquidity risk: insufficient cash available to pay pensions leading to the forced selling of assets to pay pensions.	Liquidity reporting is included in regular reporting. Cashflow capacity is reported to LPFA Audit & Risk Committee (ARC) quarterly. The Fund aims to maintain a cash balance sufficient to cover at least three months' pension obligations. This risk is further mitigated by ensuring that there are sufficient liquid assets available to support unexpected but plausible cash outflows.
Employers become unstable, insolvent or abolished with insufficient funds to meet liabilities, whereby their liabilities fall on other Fund employers.	Adherence to the Risk based approach adopted at 2013 valuation. An admitted body policy is in effect and a process to ensure that employers have been categorised accurately. All cessation debts are proactively chased with a built-in escalation process. LPFA Board and LPFA ARC are regularly notified on high-risk employers. New admission agreements are added to a register prior to storing securely. Validity of all admission agreements are reviewed at each annual covenant check. This risk is further mitigated by sector specific annual covenant checks and by establishing a financial monitoring system for high risk employers; security is implemented as appropriate. Employer services continue to educate employers on their liabilities and responsibilities.
Impact of regulatory changes or government intervention on LGPS benefits and liabilities.	These risks will be dealt with as they arise and the LPFA Board will consider mitigations on a case by case basis.
Incorrect longevity and mortality assumptions.	Participation in Club Vita analysis of mortality in Fund. Mortality assumptions and allowance for future mortality improvements determined as part of the triennial valuation following advice from Fund Actuary.
Regulatory and compliance risk	LPP has governance, risk management and compliance functions that are responsible for building regulatory and compliance checks into business processes.

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iv Investment Strategy Statement (ISS)



1. Introduction

The Board ("the Board") of the London Pensions Fund Authority ("the Fund") has prepared this Investment Strategy Statement ("the Statement") in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement and after taking appropriate advice.

As set out in the Regulations, the Board will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change in relation to any matter contained in this Statement, changes will be reflected within six months of the change occurring.

The Regulations require all Administering Authorities to take "proper advice" when formulating an investment strategy. In preparing this document and the overall investment strategy the Board has taken advice from Local Pension Partnership Investment Limited which is an FCA regulated investment manager with specific expertise and regulatory permissions to provide advice on investments.

2. Investment objectives

The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due.

In order to meet this overriding objective the Board maintains an investment policy so as to:

- Optimise the net returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- Contribute towards achieving and maintaining a sustainable future funding level;
- Enable employer contribution rates to be kept as stable as possible.

The Fund will use its influence as a large institutional investor to encourage responsible long-term behaviour.

Note that all returns quoted below are net of fees and expenses.

3. Asset allocation framework

To pay benefits over time the Fund needs to generate a rate of return that is at least equal to the actuarial discount rate. The starting point for considering asset allocation is a simple portfolio of bonds and equities. However, this basic portfolio does not optimise diversification and therefore expected risk adjusted return.

In order to prudently diversify sources of risk and return, the Fund allocates capital across a wide variety of different asset classes. To be added to the portfolio, asset classes are first judged for **suitability**; they have to be well understood by the Board, consistent with the Fund's risk and return objectives; and they have to make a significant contribution to the portfolio by improving overall net return and risk characteristics. In addition, the new asset classes have to be less than perfectly correlated with equities and bonds, so that the portfolio benefits from increased **diversification**. The scheme has identified a total of seven asset classes plus cash (viewed as a store of liquidity) that combined form the **Policy portfolio**. The seven asset classes shown below have different exposures to economic factors (GDP growth and inflation), and combine different geographies, and currencies. In assessing suitability the Board has considered the respective return drivers, exposure to economic growth and sensitivity to inflation – each an important consideration, relative to the sensitivities of the Fund's liabilities and managing risk.

These are the eight building blocks (seven asset classes plus cash) used to create the Policy Portfolio. The Board have determined benchmark weights each asset class which it believe to be

best suited to meeting the long term objectives of the Fund. It has also identified tolerance ranges within which shorter term variations would be tolerated and/or actively pursued due to a combination of relative returns and investment opportunity. The benchmark weight and tolerances are shown in the table below. The weights are to be maintained within the ranges as long as the scheme can find attractive opportunities that meet its return, risk, and cash flow requirements. In the absence of opportunities investments will not be "forced" and under/over allocations may be made to any asset class. This includes allocations falling outside of the tolerance range. Should any allocations fall outside of the range the Board shall seek to bring the allocation back within the range as soon as suitable opportunities are identified.

Each asset class has its own specific investment objective and within each asset class there are further diversification controls. The mandates are managed by Local Pensions Partnership Ltd (LPP)'s subsidiary, Local Pensions Partnership Investments Ltd (LPPI), to whom the Fund has delegated investment management and implementation duties in line with the principle of asset pooling within LGPS. LPPI has discretion to act on behalf of the Board in order to implement the allocations set out in the Policy Portfolio. This includes determining any over/under allocation within the tolerance ranges. Should allocations fall out of the ranges LPPI is responsible for informing the LPFA and agreeing appropriate action. Note that all returns referred to below are net of fees and expenses.

Cash

The objective is to maintain a store of liquidity in a cost effective manner by allocating capital to securities or funds in appropriate markets. It is intended that the bulk of cash liquidity is stored in GBP sterling.

Credit

The objective is to deliver 1-month GBP LIBOR + 3% to 5% over a 7-year cycle. The aim is to gain cost effective exposure to (mostly illiquid) diverse sources of return linked to global credit markets and credit instruments, while minimising risk of permanent loss. The pool will pursue this aim primarily by allocating capital to investment vehicles, mandates or pooled funds managed by external third parties.

6. Annexes continued

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iv Investment Strategy Statement (ISS) continued

Asset class	Long-term return drivers	Economic Growth sensitivity*	Inflation sensitivity*	Geography	Currency
Credit	- Yield (minus credit losses) - Roll down - Change in yield - Liquidity premium	Low	Medium	Diversified	Diversified
Diversifying strategies	Diversified	Low	Low	Diversified	Diversified
Fixed income	- Yield (minus credit losses) - Roll down - Change in yield	Low	High	Diversified	Diversified
Infrastructure	- Dividend income - Dividend growth - Capital growth	Medium	Medium	Predominantly OECD	Diversified
Private equity	- Dividend income - EPS growth - Change in PE	Medium	Medium	Diversified	Diversified
Public equity	- Dividend Income - EPS growth - Change in PE	High	Low	Diversified	Diversified
Real estate	- Rental yield minus Capex - Rental growth - Capital growth	Medium	Medium	Predominantly UK	Predominantly GBP

Diversifying strategies

The pool seeks to gain cost effective exposure to diversifying sources of return distinct from global equity beta and bond duration. The pool will pursue this aim primarily by allocating capital to investment strategies managed by external third parties. The objective is to deliver 1-month GBP LIBOR + 4% - 6%.

Fixed income

The objective is to outperform Barclays Global Aggregate Bond Index + 0.5% over a 7-year cycle. The pool will pursue this aim by investing in underlying funds actively managed by external third parties which are diversified across geographies, instrument types and maturities, with an emphasis on capital preservation.

Infrastructure

The objective is to deliver UK CPI + 4% - 6% over a 7-year cycle. The investments seek to generate a satisfactory risk adjusted return through improved diversification predominantly in OECD nations and predictable cash flows that indirectly hedge against inflation. .

Private equity

The objective is to outperform the MSCI World, net dividends reinvested, in GBP unhedged Index by 2% to 4% over a 7-year cycle with minimal J-curve effect. Investments include, but not be limited to: Buyout, Venture Capital, Growth Equity, Special Situations/Distressed and Upstream Energy.

Public equity

The objective is to outperform the MSCI All Country World, net dividends reinvested, in GBP unhedged Index by 2% over a seven year period. Equity investments are made via LPPI, by investing in underlying funds managed by LPPI and by external third parties. LPFA also gains exposure to equities via equity index futures which are designed to replicate the performance of the MSCI All Country World Index.

Real estate

The aim is to gain cost effective, diversified exposure to property assets that earn predictable cash flows and provide a partial hedge against inflation, as well as meet the investment objectives of UK CPI + 4% - 6%. The largest exposure of the portfolio will be to traditional sectors of the UK commercial real estate market. A smaller allocation will be made to value-added and opportunistic investments.

4. Investment governance

The Board is responsible for setting the objectives and risk tolerances of the scheme. The Board sets in conjunction with the scheme's Actuary the required rate of return needed to achieve its objectives and the risks it is willing to take. Once these parameters are established, the Board will determine the strategic asset allocation or Policy Portfolio that it believes has the highest probability of succeeding.

Asset class	Benchmark weight	Range
Cash	1.0%	0%-10%
Credit	9.0%	0%-12.5%
Diversifying strategies	15.0%	0%-20%
Fixed Income	2.5%	0%-15%
Infrastructure	10.0%	0%-15%
Private equity	7.5%	0%-15%
Public equities	45.0%	35%-55%
Real estate	10.0%	5%-15%
Total	100%	0

The implementation of the asset allocation is delegated to an expert investment manager, in this case, LPPI. LPFA is a shareholder of LPP and maintains ongoing corporate governance controls but plays no direct role in Investment Management activities. The Board will monitor the performance of LPPI and the portfolio.

5. Investment implementation

The implementation of all investments is delegated to LPPI, an FCA authorised company. The partnership was set up by the LPFA and Lancashire County Council for the purpose of achieving economies of scale, greater internal resource and superior investment opportunities. The partnership brings the benefit of scale and expert resources beyond that which would be available to the Fund alone. This facilitates lower costs and a broader opportunity set which together facilitate improved net returns.

Pooled vehicles are used wherever appropriate. Where assets are not physically pooled the management is typically pooled.

The partnership has created seven asset class categories to allow access to the asset classes listed in the Asset Allocation Framework section. The asset class categories are a combination of internally managed and externally managed strategies that offer an effective and efficient way of achieving asset class exposures.

The Fund also expects to benefit from scale via pooling arrangements with other funds in order to better access direct investments in areas such as infrastructure. Some of the asset class categories are expected to use derivatives as part of their strategies. Derivatives can reduce implementation costs, or change economic exposures. They may be used for both active and passive management

strategies. The broad use of derivatives is explicitly approved by the Board for both investment purposes and efficient portfolio management. Both exchange traded and over the counter derivatives may be used.

6. Pooling of assets

The Board has delegated the management of its investments to LPPI who are responsible for managing 100% of the assets of the Fund. A significant majority of the Fund's assets have already, or are expected to be, transitioned into investment pooling vehicles managed by LPPI. A small minority of assets will remain on the balance sheet of the Fund as "legacy assets". Assets will be held as legacy assets if the costs of transitioning outweigh any potential gains, the assets have reached "harvesting period", or transitioning would have a negative impact on the scheme's investment strategy. Proceeds from assets in "harvesting period" will be reinvested through LPPI pooled funds.

7. Risk management

The gradual reduction and elimination of funding deficit is a core goal for the Board. Funding deficit is influenced by both assets and liabilities and for this reason the Board adopt an Asset and Liability Management approach which includes the use of liability hedging strategies. The Board review the hedging policy on an ongoing basis and may seek to hedge inflation and/or interest rate exposure using a combination of physical and derivative instruments.

Diversification is a very important risk management tool. As described in the section on Asset Allocation, the scheme will seek to maintain a diversified exposure to several different asset classes, geographies, and currencies. The Board expect this to provide (at least) two levels of protection: first, in periods of market turmoil some assets will preserve capital

better than others, allowing the portfolio to better withstand a shock. Second, in periods of rising markets, some assets will do better than others, and since the Board do not know with certainty which ones will do best, it is better to diversify.

Another line of defence at the scheme level is to examine how the portfolio would perform under different scenarios including stress scenarios. The objective is to minimise the impact that losses to the portfolio have on future contribution rates. When setting Asset Allocation the Board have considered different stress scenarios and possible outcomes.

The asset class categories described in the implementation section are also subject to a number of constraints to allow for intra-asset class diversification, including sector, country, manager, and maximum exposure to a single asset.

8. Performance measurement

Fund performance is measured at a number of different levels. The objective of the Fund is to outperform the actuarial discount rate. The Policy Portfolio is selected by the Board with advice from LPPI, the delegated investment manager, and is expected to generate returns above the discount rate over the long run.

The performance of the pooling arrangements is monitored via regular reporting and through periodic meetings. Performance for LPPI is measured against the Policy Portfolio. LPPI seeks to outperform the Policy Portfolio on a risk adjusted basis by tilting asset weights in an opportunistic manner, via active sub-asset class selection, selecting the best stocks/managers for each of the pooled funds, and by implementing investments in a low cost manner. Investment performance is measured against widely used and transparent benchmarks.

Asset class	SAA target	% Pooled*	Legal structure
Cash	9.0%	98%	Limited partnership
Diversifying strategies	15.0%	87%	Limited partnership
Fixed income	2.5%	100%	Authorised contractual scheme
Infrastructure	10.0%	98%	Limited partnership
Private equity	7.5%	100%	Limited partnership
Public equities	45.0%	98%	Authorised contractual scheme
Real estate	10.0%	0.0%	Authorised contractual scheme (pooling vehicle to be launched H2 2019)

6. Annexes continued

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iv Investment Strategy Statement (ISS) continued

Where performance falls short of expectations the Board will identify the cause of this underperformance and will respond appropriately either to alter its Policy Portfolio (where asset allocation is the underlying cause). The Board can request changes to the management of the pooled funds (where management skill within LPPI is the underlying cause) or withdraw approval of any of the LPPI pooled funds from the list of approved funds for use within the Policy Portfolio. In practice LPFA would expect to work collaboratively with LPPI to identify and remedy the cause of any underperformance.

9. Environmental Social and Corporate Governance (ESG) Policy, and approach to social investments

The Fund is committed to being a long term responsible investor. The Fund complies with and follows the principles of both the UK Stewardship Code and to the UN-backed Principles of Responsible Investment.

Responsible Investment is an investment approach which recognises the significance of the long-term health and stability of the market as a whole and encompasses

- the integration of material ESG factors within investment analysis and decision-making
- the active use of ownership rights in order to protect and enhance shareholder value over the long term – primarily through voting and engagement.

The objective of responsible investment is to decrease investor risk and improve risk-adjusted returns. Responsible investment principles are at the foundation of the Fund's approach to stewardship and underpin the Fund's fulfilment of its fiduciary duty to scheme beneficiaries.

ESG integration and the active use of ownership influence are integral to the investment management services provided by LPPI, which are delivered in accordance with an LPPI Responsible Investment Policy. It is an LPPI RI belief that ESG factors are relevant at every stage in the investment cycle - within investment strategy, investment selection and within the stewardship of assets in ownership. As part of a prudent approach which applies care, skill and diligence, LPPI

procedures ensure that ESG issues are routinely considered as part of the investment analysis, are incorporated into the due diligence leading to investment selection and continue to be monitored and reviewed as part of the active ownership of assets under management.

The approach to incorporating ESG factors is to establish the type and materiality of relevant issues on a case by case basis, whilst taking account of global norms, rather than to apply artificial exclusions through negative screening. ESG factors are considered over the time horizon within which specific investments are likely to be held, in order to clarify the context that risks and returns operate within and assist the evaluation of investment risks and opportunities.

The Fund shall invest on the basis of financial risk and return having considered a full range of factors contributing to financial risk including both those detailed above and relevant social factors to the extent these indirectly or directly impact on financial risk and return.

LPFA has identified climate change as a long-term material financial risk with the potential to impact all asset classes within the portfolio over time. The Fund has developed a Policy on Climate Change which sets out expectations of LPPI in relation to how the risks and opportunities arising from climate change will be identified, monitored and managed

10. Exercising the Rights of Ownership

The Fund recognises that encouraging the highest standards of corporate governance and promoting corporate responsibility by investee companies protects the financial interests of pension fund members over the long term. The Fund's commitment to actively exercising the ownership rights attached to its investments, reflects the Fund's conviction that responsible asset owners should maintain oversight of the way in which the enterprises they invest in are managed and how their activities impact upon customers, clients, employees, stakeholders and wider society.

The routes for exercising ownership influence vary across asset types and a range of activities are undertaken on the Fund's behalf by LPPI, including direct representation on company boards, presence on investor & advisory committees and participation in partnerships and collaborations with

other investors. In the case of listed equities the most direct form of ownership influence comes through shareholder voting and engagement.

11. Voting

In most cases the Fund holds no direct ownership of shares of companies. However, through the investments managed by LPPI, the Fund has indirect ownership interests in listed companies across the globe. To ensure effective and consistent use of the voting rights attached to these assets LPPI works with an external provider of governance and proxy voting services. Voting is undertaken centrally rather than being delegated to individual managers and is in line with LPPI's Shareholder Voting Policy which promotes risk mitigation and long-term shareholder value creation by supporting responsible global corporate governance practices. The policy is reviewed and updated on an annual basis to reflect emerging issues and trends. A quarterly report on voting activity is available from the LPP website which is signposted via a link from the LPFA website.

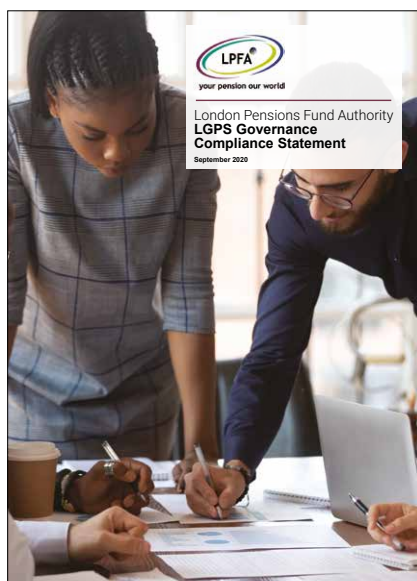
12. Engagement

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund appreciates that to gain the attention of companies in addressing governance concerns, it needs to join with other investors sharing similar concerns. It does this primarily through:

- Membership of representative bodies including the Local Authority Pension Fund Forum (LAPFF) and the Pensions and Lifetime Savings Association (PLSA);
- Giving support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interests;
- Joining wider lobbying activities when appropriate opportunities arise.

The Fund complies with the UK Stewardship Code and a statement of compliance which explains the arrangements which support its commitment to each of the seven principles is displayed on the Fund's website.

Public policy statements v LGPS Governance Compliance Statement



The LPFA was established as a Public Body on 31st October 1989 by 'The Local Government Reorganisation (Pensions etc.) Order 1989' [SI No. 1815]. The Order was the primary instrument for the LPFA's powers and duties, which in the context of the Fund administration are very similar to those of local government authorities.

The LPFA is an administering authority of the local government pension scheme (LGPS) and this Compliance Statement is made pursuant to Regulation 55 of The LGPS Regulations 2013. The LPFA has also adopted the Local Code of Corporate Governance (Code) reflecting the seven core principles of good governance, as identified in the 'Delivering Good Governance in Local Government: Framework' (CIPFA/Solace, 2016 Edition)). This Code captures the full range of LPFA's statutory responsibilities and governance activities. It can be accessed from the LPFA web site www.lpfa.org.uk.

From April 2016, the majority of LPFA's functions were outsourced to the Local Pensions Partnership Ltd (LPP Group) under a Service Level Agreement (SLA). The LPP Group is a business jointly owned by the LPFA with Lancashire County Council. As a joint shareholder and as a client, the LPFA has an important role in ensuring that the LPP remains accountable and provides the necessary assurance to the Authority that services

are being delivered. The LPFA Board remain answerable for the statutory and regulatory responsibilities of the Authority and a statutory corporation. The LPFA is responsible for the strategic aspect of pension fund management; however, the implementation of the LPFA Board's strategy and policies are carried out by LPP.

Appointments to the LPFA Board are the responsibility of the Mayor of London in accordance with the provisions of SI No. 1815 which require there to be between seven and eleven members, of which at least one half, excluding the chairman, are to be appointed following consultation with representatives of local government in London. The Mayor of London appoints a chairman and may appoint a deputy chairman of the LPFA.

The appointment process is operated by the Greater London Authority (GLA) and is by open advertisement and subject to independent scrutiny. The terms and conditions of appointment are set out in a formal letter from the GLA which includes the length of appointment, remuneration, and details of the role and responsibilities of members.

The LPFA Board operates under a framework of corporate governance and undertakes its responsibilities with reference to Standing Orders (SO), which were based on similar SO's to those found in local authorities, and prescribe all activities relating to the conduct of LPFA Board business. These SO's form a section of LPFA's Constitutional document and represents a key aspect of LPFA's corporate governance; they may only be amended by unanimous formal approval of the Board.

The Constitutional document details matters reserved for decision by the Board and contains the terms of reference (ToR) of the Audit and Risk Committee (ARC) and Local Pension Board (LPB). The ARC and LPB have certain delegated powers and are empowered to carry out specific duties, as outlined in their ToR. The governance arrangements of the LPFA are monitored and reviewed by the ARC as part of the oversight of internal controls. The LPB has a first core function to assist the LPFA with compliance to governance of the Fund. The LPFA Constitutional document can be

accessed on the LPFA web site www.lpfa.org.uk under the Governance & Strategy Section of 'What we publish'.

The Board meets five times a year, with the ARC and LPB convening at least four times a year.

The LPFA Principal Officers have certain statutory functions and formal responsibilities. Executive powers are delegated to the Principal Officers under the 'Scheme of Delegations to Officers' which sets the parameters within which the officers can exercise the powers delegated under the scheme and operate the day-to-day business of LPFA.

The Public Service Pensions Act 2013 (sections 5 (1) and (2)), established the role of the LPB and is a sub-committee. It is distinct from LPFA's Standing Committee (ARC). The LPB assists the LPFA with securing compliance with the LGPS regulations but is not a decision-making body itself. Comprised of member and employer representatives plus an independent Chair, the LPB provide an additional layer of compliance and governance to the administration of the LPFA.

Member representation also continues to be facilitated through the use of the annual Fund Member Forum. All members of the public are invited to observers the public session of the LPFA Board meetings.

This policy statement will be regularly reviewed, subject to material changes being made to the content, and after Board and Committee approval a revised statement will be published.

6. Annexes continued

Public policy statements v LGPS Governance Compliance Statement continued

Governance Compliance Statement

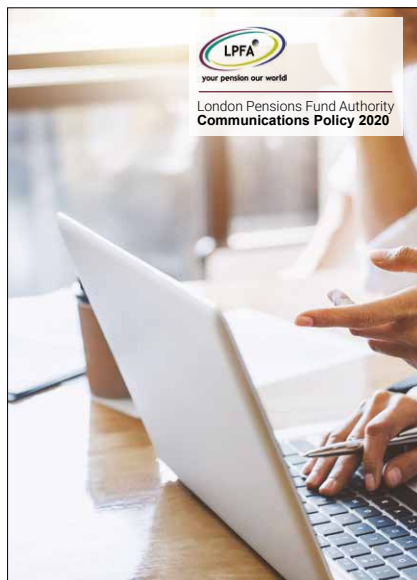
Guiding principles	LPFA position
Structure a) The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee (LPFA Board) established by the appointing council.	Fully compliant. The Board receives regular updates at their meetings, at least on a quarterly basis.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main (LPFA Board) or secondary committee (LPFA's sub-committees) established to underpin the work of the main committee.	Fully compliant. The LPB, created by Regulation and as a sub-committee, is distinct from the LPFA's Stand Committee. There are total of eight representatives (four from within the Fund membership and four from participating employers on the LPFA LPB, in addition to the Independent Chair.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Fully compliant. All minutes from the LPFA standing Committees, informal panels and the LPB are reviewed by the LPFA Board to ensure that Board Members are informed. The approved Corporate and Strategic meeting minutes of the LPFA Board is also shared with the LPB.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Fully compliant in regard to LPFA Standing Committees. The LPB members do not have a seat on the LPFA Board. However, LPB members are encouraged to attend the public and training sessions of LPFA Board Meetings. The LPB Chair also has a standing invitation to present the LPB Annual Report at a LPFA Board meeting.
Representation a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g., admitted bodies), ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Fully compliant. Members of the LPB do not have a seat on the LPFA Board however there is representation via feedback and recommendations provided to the LPFA Board and the LPB Chair attends the meeting to present an annual report of activities. i) Employer representatives are selected from LPFA's three main employer groupings - London's Local Government, Higher Education sector and admitted bodies/charities. ii) Member representatives are selected from the active, pensioner and deferred membership. iii) Board meetings are held in public and members of the public in attendance are provided with copies of all public reports via the website. iv) Expert advisors such as lawyers or actuaries are invited to attend Board meetings on a required basis.
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Fully compliant. The LPP Company Secretarial Team via the SLA between LPFA and LPP provides support to the LPFA Board, Standing Committees and the LPB The same regulations apply in terms of access to papers and meetings to all formal meetings. LPFA provides effective induction and training to members of the Board/Standing Committees/LPB. The LPB reports back to the LPFA Board. An Independent Chair (without voting rights) reports back to the LPFA Board on an annual basis.
Selection and role of lay members a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Fully compliant. This is covered in the LPFA's Board Induction Programme and Members are encouraged to observe a standing committee or panel meeting. As part of the induction various documents are highlighted as part of a reading room or published on the website. These include the sections of the Constitutional Document (LPFA Standing Orders, Matters reserved for decision by the Board, Terms of Reference of the Standing Committees, and The LPFA LPB Terms of Reference).
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Fully Compliant. Recorded in the minutes, as well as part of an annual declarations and Third party transaction review at the start of every financial year. Members of Board, Standing Committees, and LPB comply with: the Code of Conduct for Members; and Conflicts Policy.

Governance Compliance Statement continued

Guiding principles	LPFA position
Voting a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant. The Authority's policy on voting is laid out in Standing Orders which are incorporated in the Constitutional Document which is available via the LPFA's website.
Training / Facility / Expenses a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant. LPFA has adopted the key recommendations of the CIPFA code of practice on public sector pensions finance knowledge and skills. A compliance statement has been embedded with the Boards training plan. A Framework on the reimbursement of expenses is available on LPFA's website, including the Gifts, Hospitality and Expenses Register which is approved for publication each quarter by the Audit and Risk Committee.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels, or any other form of secondary forum.	Fully compliant.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Fully compliant. Training plan is reviewed by the Board and LPB on an annual basis following the appraisal process.
Meetings a) That an administering authority's main committee or committees meet at least quarterly.	Fully compliant. Meeting dates are published on LPFA's website with ARC and LPB meeting on a quarterly basis and the LPFA Board formally meeting five times a year.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Fully compliant. Meeting dates are published on LPFA's website. The ARC and LPB meetings are scheduled to take place prior to the LPFA Board meeting to allow any decisions to be escalated the appropriate decision making forum.
c) That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Fully compliant. Engagement with employer and member representatives is achieved via the LPFA LPB, the annual Fund Member Forum and the annual Employer Forum.
Access a) That subject to any rules in the constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant. All members of LPB are encouraged to attend and have access to the public session of LPFA.
Scope a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant. Updates are considered by the ARC and LPB.
Publicity a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant. Governance arrangements are published via the Constitutional document and Local Code of Corporate Governance on the LPFA website.

6. Annexes continued

Public policy statements vi Communications Policy Statement



Our communication principles

All communications undertaken by the LPFA, or carried out on our behalf by LPP, will be:

Straightforward, clear, accessible

We will try to avoid jargon and make our communications clear and easily understood by the reader. We use multiple media channels to reach as many members as possible.

Accurate and timely

We deliver accurate communications on time. We are transparent and not misleading. All communications issued on our behalf are consistent with the LPFA or (if appropriate) LPP Brand Guidelines.

Measurable and open to feedback

To ensure continuous improvement and value for money, we will try to measure the effectiveness of our communications. We listen to feedback from all scheme members, employers, and other stakeholders and act when appropriate.

Targeted

We ensure that all communications are relevant for the audiences. We conduct regular reviews of our member's contacts to ensure that their details are kept up to date.

Digital by default

We follow the Government's 'digital by default' aims but, for statutory and regulatory communications we will accommodate those who decide to opt out of electronic communications.

Regulatory compliance

Communications issued by the LPFA or LPP Group are compliant with the following: The Occupational Pension Schemes (Disclosure of Information) Regulations and the Public Sector Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (and any amendments thereto) and applicable codes of practice issued by the Pensions Regulator.

Communications with our stakeholders

We communicate with Members of the Fund, Employers, Pension organisations, (e.g. The Pensions Regulator and the Pensions and Life Savings Association), Greater London Authority (The Mayor of London), the media and numerous public sector bodies. We set out how we communicate with these stakeholders below.

Member communications

Objectives

- To improve the understanding of how the Fund works.
- To encourage use of our online services (My Pension Online and YourPension).
- To inform scheme members of their pension rights, the full benefits of scheme membership, and the contributions that employers make.
- To reduce queries and complaints through continuous improvement.
- To improve take up of the Scheme.
- To comply with our statutory obligations.
- To highlight our approach to responsible investment.

We do this in the following ways:

1. Online

The easiest way to stay in touch is through online services. Our web platforms are detailed below.

2. By post

We aim to reply to letters in a timely manner. Members who have opted out of electronic communications can request printed copies of the following communications posted to a home address:

- Annual Benefit Statements (ABS)
- Fund Newsletters
- Pensioners' pay advice
- P60s
- Scheme publications and literature
- Monthly pay advice

3. Through our helpdesk

Our helpdesk is based in Preston and aims to respond to calls and queries in a timely manner.

4. Events

We use invitation only events to inform our members and employers of our progress, to provide training and to gain feedback from our stakeholders. We will review the format of our events regularly to ensure that they provide value for money and support the sustainability of the Fund. The current member events are:

- **Annual Fund Members' Forum** – The Fund Members' Forum is an opportunity for fund members to review the year as well as ask questions of Board members and senior management of both LPFA and LPP.
- **The LPFA Board Meeting** (Public Sessions). These can be found on our website.

Site	www.lpfa.org	www.mypensiononline.org.uk	www.yourpensions.org.uk
Purpose	This is the corporate website of the LPFA	This is our member self-service portal	This is our member site.
Content available	Corporate news and updates LPFA's annual report Statutory and regulatory documents Responsible Investment information	Here members can find their Annual Benefit Statements (ABS), Scheme Newsletters, Monthly pay advice and their P60s	Here members can find information about the pension scheme including videos, guides and factsheets as well as calculation examples

5. Newsletters and publications

The table below details the types of publications issued by the LPFA or LPP (Administration), the frequency with which they are provided and how they can be received.

Employer risk communications

Objectives

- To assist employers in understanding costs/funding issues.
- To assist employers with providing accurate member data.
- To ensure their members are provided with all the necessary information.
- To ensure they are fully aware of developments within the Fund.
- To ensure they are aware of the policies in relation to any decisions that need to be taken concerning the Fund.
- To highlight the value of LPFA membership in the attraction and retention of employees.

We do this in the following ways:

- **Online** – Your Fund is the site for employer secure access. Employers can submit online forms, data or carry out data matching facilities. Please see Member section above.
- **Through our Employer Risk team** – We aim to collaborate to achieve the best possible outcomes for Employers and the Fund. We respond to employer queries in a timely manner and act as the main point of contact between Employers and the Fund. We communicate flexibly depending on each Employer's needs. We engage formally with Employers in relation to the Actuarial Valuation every three years to discuss the results and options available to Employers.

Events

We use events to support our employers, provide training and to gain feedback from our stakeholders. We will regularly review the format of our events to ensure that they provide value for money and support the sustainability of the Fund. The current events are:

- **Practitioners conference** – This is an opportunity for employer staff with HR and payroll responsibilities to undertake training and improve their understanding of working with the LPFA.
- **Employer workshops** – Providing employer workshop sessions set up as and when required to debate current issues and regulations changes as required and requested.
- **Training** – Providing training on provision of end of year member data, including the completion of the appropriate data capture spreadsheet. Providing training for small groups to improve understanding of pension administration, legislation, the principles of the Scheme, changes and costs e.g. as a result of restructuring.
- **The Employer Forum** – To discuss the Pension Fund's Annual Report, Investment Strategy and any other relevant issues.
- **Newsletters and publications**

Please see table below. In addition to the newsletter, we produce numerous guides and factsheets. These can be found here: <https://www.lpfa.org.uk/employers/employer-guides-factsheets>. We also provide timely bulletins when appropriate.

Communication with media and other stakeholders

As a high-profile organisation, we are frequently approached by the media for information. Our dealings with the press will confirm to the principles outlined above.

Objectives

- To communicate the accurate reporting of the Fund's valuation results, the overall performance of the Fund and the Fund's policy decisions against discretionary elements of the scheme.
- To ensure accurate reporting on issues relating to the Fund such as our progress against our Responsible Investment Policy or our Climate Change Policy.
- To meet our obligations under various legislative requirements such as the Freedom of Information Act and the requirements of the Pensions Regulator (tPR).
- To ensure the proper administration of the Fund.
- To deal with the resolution of pension disputes raised by a member with the press.
- To articulate the Fund's views on wider pensions issues where appropriate.

We will do this by:

- Responding to consultations about regulatory changes and the future of the Fund.
- Publishing press releases or articles on our website.
- Publishing press releases providing statements setting out the Authority's opinion on LGPS matters concerned, e.g. Fund valuation results.
- Responding to Freedom of Information and other requests. Details of our FOI policy can be found on our website.

Publication	Publication frequency	Distribution		
Benefit illustrations	Annual	Yes	No	Yes
P60s	Annual	Yes	No	Yes
Annual Allowance Pensions Savings Statement	Annual	Yes	No	Yes
Newsletter (Actives)	Annual	Yes	Yes	Yes
Newsletter (Pensioners)	Annual	Yes	Yes	Yes
Newsletter (Deferred)	Annual	Yes	Yes	Yes
Report and Accounts	Annual	No	Yes	Yes
Valuation report	Every 3 years	No	Yes	Yes
Newsletter (Employer)	3 times a year	Yes	No	Yes
Investing Responsibly Brochure	Annual	No	No	Yes
Responsible Investment – Progress against policy report	Annual	No	No	Yes
Climate Change – Progress against policy report	Annual	No	No	Yes

6. Annexes continued

vi Communications Policy Statement continued

Social media

Social media has encouraged new ways of communicating, interacting and sharing information. LPFA uses social media to share our own content, and others, to inform members, engage with stakeholders and support industry peers and this is controlled centrally. All social media postings by LPFA are signed off in advance by the Chief Executive Officer.

- Currently this use is limited but is expected to grow over time. LPFA does not prevent employees from using social media for private use. However, if employees are acting in a personal capacity in professional networks like LinkedIn, they should present themselves aligned to LPFA's values, and keep in mind what is posted online will be available for many years to come.
- The views or opinions expressed by an LPFA employee on their personal social media account are theirs alone. They may not reflect our views.
- A follow-back is not an endorsement. The same applies to re-tweeting or sharing messages posted on accounts that we do not own, or marking them as 'favourites', or otherwise sharing information on a different platform.

- All information and postings, and responses to postings should be regarded and written as the official 'voice of London Pensions Fund Authority', they will be positive and professional and should not give individuals' personal opinions.
- LPFA's social media accounts, primarily via Twitter @LPFA1, are managed appropriately to ensure that information is correct and up to date and that postings are regularly monitored, effective and appropriate.

Oversight of our communications

Local Pension Board (LPB)

The Terms of Reference of the LPB include the opportunity for it to "assist with the development and reviewing of scheme member and employer communications as required by regulations". Key policies, reports and minutes of the LPB are available on our website. It is a matter reserved for decision by the LPFA Board to approve all public policies.

Contact Us

Alistair Peck, Head of Communications and Engagement*
London Pensions Fund Authority
169 Union Street, London, SE1 0LL

DL: 0207 369 6112

Email: communications@lpfa.org.uk

Appendix

Notes:

Every Local Government Pension Scheme (LGPS) administering authority must prepare, publish and maintain a new policy statement on communication strategy.

- The policy statement must set out the administering authority's policy concerning communications with members, representatives of members, prospective members and scheme employers. The policy statement must set out:
- The policies on the provision of information and publicity about the Scheme to members, representatives of members, and scheme employers;
- The format, frequency and method of distributing such information or publicity; and
- The promotion of the Scheme to prospective members and their employing authorities.

Since the formation of the Local Pensions Partnership (LPP) in April 2016, many LPFA communications are now issued on its behalf by LPP. LPP adheres to these standards when issuing any communications on behalf of LPFA.

* Change in job title effective November 2020.

Further information and contacts

General

For any general enquiries relating to this annual report or the Fund, please contact

London Pensions Fund Authority

2nd Floor, 169 Union Street
London SE1 0LL
United Kingdom

E: Communications@lpfa.org.uk

General pension enquiries – benefits and other administrative issues

LPPA – Your Pension Service

PO Box 1381
Preston
PR2 0WP

T: 0300 323 0260

E: AskPensions@localpensionspartnership.org.uk

www.yourpension.org.uk

Investment management

LPPI

First Floor
1 Finsbury Avenue
London EC2M 2PF

T: 020 7369 6000

E: info@localpensionspartnership.org.uk

Going digital

Our preferred method of communication is electronic, and we will now communicate with you either by email or via our member self-service facility, which you can register for at: www.yourpension.org.uk

To opt out of electronic communications, please write to us directly at: LPFA, 169 Union Street, London, SE1 0LL

<http://axise.yourpension.org.uk>

Our member self-service facility which allows members to access information about their pensions securely online.

www.yourpension.org.uk

The site for members. Here your members can find information about the pension scheme including videos, guides and factsheets as well as calculation examples.

www.yourfund.org.uk

e-Secure online portal for employers. Employers can submit online forms, data or carry out data matching facilities.

Internal Dispute Resolution Procedure (IDRP)

If an employer or member has a complaint, they are advised to contact in the first instance LPPA in writing either by post or email to try and resolve the problem.

During the year LPPA has furthered its guidance available regarding the IDRP to provide members with a better understanding of the IDRP process, our promises and further sources of information which might be helpful during or after the complaints process.

The guidance is clearly visible and easily available on the LPFA scheme website (<https://www.yourpension.org.uk/LPFA/In-The-Scheme/Customer-Care-Complaints.aspx>) for ease of access for all users and contains information on all aspects of a dispute, including external sources to assist the member with the complaints if they need further assistance like the Pensions Ombudsman, The Pensions Advisory Service and The Pensions Regulator. There is also a step by step flowchart outlining the process to assist users in fully understanding the process and relevant time scales.

The Pension Advisory Service (TPAS)

TPAS is available to assist members and beneficiaries with any difficulties they cannot resolve with their scheme administrators. TPAS can be contacted at:

11 Belgrave Road
London
SW1V 1RB

T: 0800 011 3797

E: enquiries@pensionsadvisoryservice.org.uk

www.pensionsadvisoryservice.org.uk

The Pensions Ombudsman

T: 0800 917 4487

E: enquiries@pensions-ombudsman.org.uk

www.pensions-ombudsman.org.uk

Glossary

ARC	Audit and Risk Committee	ISS	Investment Strategy Statement
AVC	Additional Voluntary Contribution	KPI's	Key Performance Indicators
CEO	Chief Executive Officer	LAPFF	Local Authority Pension Fund Forum
CIPFA	Chartered Institute of Public Finance and Accountancy	LCC	Lancashire County Council
CIPFA/ LASAAC code	CIPFA and the Local Authority (Scotland) Accounts Advisory Committee	LCIV	London Collective Investment Vehicle Ltd
		LDI	Liability-driven investment
		LGPS	Local Government Pension Scheme
		LPB	Local Pension Board
Code	Local Code of Corporate Governance	LPFA	London Pensions Fund Authority
COP14	The Pension Regulators Code of Practice 14 – Governance and administration of public service pension schemes	LPP (Group)	Local Pensions Partnership Ltd
COP26	26th UN Climate Change Conference of the Parties	LPPA	Local Pensions Partnership Administration Ltd
COVID-19	Coronavirus	LPPI	Local Pensions Partnership Investments Ltd
DB	Defined Benefit	MHCLG	Ministry of Housing, Communities and Local Government
DSF	LPPI Diversifying Strategies Fund		
EU	European Union	MTFP	Medium-Term Financial Plan
ESG	Environmental, Social and Governance	NED	Non-Executive Director
FIF	LPPI Fixed Income Fund	NFI	National Fraud Initiative
FRC	Financial Reporting Council	PAS	Pension Administration Strategy
FSS	Funding Strategy Statement	PLSA	Pensions and Lifetime Savings Association
GCF	LPPI's Global Credit Fund	PRI	Principles for Responsible Investment
GDP	Gross Domestic Product	PSAA	Public Sector Audits Appointments
GEF	LPPI's Global Equity Fund	RCBPF	Royal County of Berkshire Pension Fund
GIF	LPPI's Global Infrastructure Fund	RI	Responsible Investment
GLA	Greater London Authority	SAA	Strategic Asset Allocation
GMP	Guaranteed Minimum Pension	SLA	Service Level Agreement
IAS	International Accounting Standards	SPS	Strategic Policy Statement
IDRP	Internal Dispute Resolution Procedure	TPI	Transition Pathway Initiative
IFRS	International Financial Reporting Standards	UK	United Kingdom
IP	Investment Panel		

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