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London Pensions Fund Authority

Pension Fund Annual Report

2020-21

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 £6.9bn as at 31 March 2021 and we are responsible for the pension provision of 91,675 members. Of these, 20,115 are employees working for not-for-profit, charity, private sector and local government employers, 35,963 are pensioners and dependants, 6,700 are undecided leavers and Frozen refunds, and 28,897 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's 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 our strategy is outsourced to LPP.

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Key facts and highlights of 2020-21

As at 31 March 2021

Members

Active employers in the Fund

124

Breakdown of our members

- 20,115 Active contributors
- 28,897 Deferred beneficiaries
- 35,963 Pensioners and dependants
- 6,700 Undecided leavers and Frozen refunds

Balance sheet value

Strategic asset allocation %

- 46.37 Public equity
- 4.05 Fixed income
- 9.44 Private equity
- 8.44 Infrastructure
- 8.13 Credit
- 8.71 Real estate
- 10.74 Diversifying strategies
- 4.12 Cash

LPFA and Climate Change

Only 0.6% of the Fund's investments in listed equities are in traditional energy (compared to 3.2% for the MSCI All Countries World Index benchmark).

Of these companies, 91% (by value) are assessed by the Transition Pathway Initiative as factoring climate change into their operational decision-making.

In the equities part of our portfolio, gross carbon emissions divided by total revenues for companies were 114 tCO_2e/£m at 31 December 2020, down from 162 tCO_2e/£m at the same point in 2019 (a reduction of 29.6%).

LPFA is investing in assets which contribute to a lower carbon future, with 2.7% of the whole portfolio identified as "Green".

1. Overview

1.1 Chair's Statement

Welcome to the LPFA's 2020-21 Annual Report. We hope that you and your loved ones are keeping safe and well after what has been a challenging year for everyone.

➜ "I am pleased to say that the Fund remains in good health. Like most pension funds, we were impacted by market movements related to coronavirus (COVID-19) over the period. However, as a long-term investor, we are positioned well to ride the peaks and troughs".

I am pleased to say that the Fund remains in good health with more than sufficient assets to pay all the pension liabilities our members have earned to date. Like most pension funds, we were impacted by market movements related to coronavirus (COVID-19) over the period. However, as a long-term investor, we are positioned well to ride the peaks and troughs. Indeed, the Fund is now valued at £6.9bn up from £5.9bn in 2019-20.

Administration highlights

COVID-19 put immense pressure and constraints on all organisations as well as the LPFA and our partners. We moved successfully to remote working and our business continuity plans kept disruptions to members and employers to a minimum. More resources have also been allocated to help people through the bereavement process as we have, sadly seen higher than usual numbers of bereavements due to COVID-19. Throughout it all, member satisfaction with our service remains high and member complaints continue to drop, so I am very pleased with the progress that we are making.

It's clear though that personal financial worries caused by the pandemic persist amongst our members. In our inaugural member survey, we found that many members were concerned about the security of their pension and their financial future. I wanted to use this opportunity to reassure members that their LGPS pension with us is secure.

Investment highlights

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

Although the investment return on the Fund was strong in absolute terms last year at around 12%, it was lower than the benchmark that we use to measure our performance against others. However, over three and five years the returns have been largely in line with the benchmark. It is worth reiterating that the LPFA is a long-term investor and our long-term investment objectives continue to be met.

Collaboration continues to be a focus for LPFA. This is evident in our commitment to the London Fund, a collaboration between the LPFA, Local Pensions Partnership Investments Ltd (LPPI) and London Collective Investment Vehicle Ltd (LCIV). We were delighted with the successful launch of the London Fund which will provide the financial returns we require whilst also making a positive contribution to social and environmental issues across London. It will be investing in residential property, affordable housing, community regeneration projects and infrastructure, including clean energy and digital services.

We continue to take action to manage the serious risk from climate change. In 2020, we published our 'Climate change – Progress against policy report' which assessed the progress that had been made since the introduction of our climate change policy in 2017.

We continue to reduce the Fund's exposure to extractive fossil fuel companies while investing to support the transition to a low carbon economy.

Collaborating with our partners

The restructure of LPP into an Administration subsidiary (LPPA) and an Investments subsidiary (LPPI) is delivering results. As joint owners of LPP Group, both the LPFA and Lancashire County Council (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

The majority of LPFA roles have now been filled and the management team continues to work with LPPA and LPPI to strengthen their services, improve governance and help the Fund implement our new ambitions and priorities. We have also recruited four new directors to the LPFA Board primarily to replace planned retirements.

I am pleased with the progress that we have made in 2020-21 and I thank you for your continued support.

John Preston
LPFA Chair

➜ "We continue to reduce the Fund's exposure to extractive fossil fuel companies while investing to support the transition to a low carbon economy".

1.2 CEO's Statement

It has been a testing year, but we continue to provide a high-quality, cost-effective pension to our employers and members. Our Fund, and the LGPS in general, remains a valued benefit for employees and an effective employee retention tool for employers.

➜ "Our relationship with our employers is vital to the LPFA so we have invested in the creation of an employer services management team".

Our focus areas are outlined in our Strategic Policy Statement and highlights in these areas–evolving investment and liability management; working in partnership and collaboration; building stronger operational efficiency; and robust shareholder activity and oversight–are summarised below. These are all underpinned by a commitment to Responsible Investment which I also address later.

Evolving investment and liability management

– Investment performance

The Fund's net assets increased from £5.9bn to £6.9bn (balance sheet value). Although we have seen significant volatility during the initial period of the COVID-19 pandemic, our investment performance remains solid over the long time periods that are important for the delivery of our long-term obligations.

– Investing in our employer relationships

Our relationship with our employers is vital to the LPFA so we have invested in the creation of an employer services management team. This forms part of our risk management approach and allows us to respond more effectively to the needs of these key stakeholders.

Over the period, this team has developed an enhanced covenant process that combines quantitative and qualitative risk elements so that employer risk is appropriately understood and addressed. The team has also negotiated employer covenant agreements which, when executed, would bring the total amount of guarantees implemented in LPFA to £535m[1].

Building stronger operational efficiency

– Building LPFA's management capability

Alongside Lancashire County Council, we continue to enhance governance and oversight of LPPI and LPPA ensuring the delivery of efficient and high-quality pension administration and investment services. Having previously been provided by LPP, our Finance, Communications and Employer teams are now appropriately resourced in-house.

– Being an active shareholder

The LPFA management team has also functioned well over the past year. We were very pleased that LPP Group and LPFA successfully implemented our business continuity plans in response to COVID-19 and the fact that service levels were maintained.

1 Note that this figure is subject to flux as employer liabilities change and as employers leave the Fund.

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.

– Outsourced investment and administration costs

Benefiting from economies of scale and the bargaining power of LPPI with underlying investment managers, the Fund continues to achieve fee savings on managing its investments. Savings made since pooling now total £16,673,000 compared to £14,959,00 in 2019-20. We continue to work with LPP Group to capitalise on cost efficiencies from pooling and more detail is provided in the investment section.

Cost per member has increased in 2020-21 reflecting the increased investment to support the efficient running of the Fund. We remain determined to deliver value-for-money and are pleased to say that this increased investment is leading to a reduction in complaints, improved member satisfaction as well as a consistent meeting of SLAs.

– Evolving our communications

Social distancing requirements meant that no Fund Member Forum was held over this financial period. Instead, the team has been focused on the delivery of a new corporate website (launched in July 2021) and the redesign of all corporate policies.

New forms of Fund-specific member communications have also been introduced including animations, our 'Progress against Policy Climate Change report' and the production of our Annual Report. Work to develop a more strategic approach to member and employer communications based on member and employer surveys continues in partnership with LPPA. We are excited about LPPA's 2022 launch of the new member portal which will further improve the member experience.

Working in partnership and collaboration

On behalf of LPFA I continue to advocate collaboration in our sector be that through GLIL, the London Fund or more widely and our team continues to work in partnership with all our pooling and industry colleagues. I spoke at the Pensions and Lifetime Savings Association (PLSA) on pooling, shared our climate change progress with global colleagues at C40 cities and attend the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel. We have regular meeting with numerous stakeholders and have taken huge steps to improve the flow of information from the Fund.

– Investing responsibly and climate change

Responsible Investment remains a priority for the LPFA. We will continue to be transparent and accountable on our progress to promote responsible investment. As our Chair mentioned, our 2020 report summarising the impact of our climate change policy was received well by members, the media and our wider stakeholders. We will also 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 and other challenges facing the world and our Fund. We will actively seek to share with and learn from other organisations making progress across Environmental, Social & Governance (ESG) issues.

The team have 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. Overview continued

1.3 The roles of LPFA, LPPI and LPPA

The LPFA is responsible for overseeing many of the functions now undertaken by LPPI and LPPA in line with the principle of asset pooling within the LGPS. The LPFA employs 17 staff covering Finance, Governance, Legal & Compliance, Communications, Employer Management Services, Risk and Funding. Administration of the Fund is outsourced to LPPA. More information on their activities can be found in the Administration section.

Day-to-day investment management and implementation continues to be outsourced to LPPI. All investment, administration and governance decisions are made within the investment policies and principles set down by the LPFA.

2. Pension Fund administration

2.1 At a glance

LPPA administers the pensions of over 600,000 members from 1,900 different employers across local government, police officers' and firefighters' pension schemes. LPPA provides a full range of pensions administration to the LPFA. This includes processing and payment of pensions, transfers in and out of the Fund, new starters, a member contact centre, 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 also delivers aspects of employer and member communications through email, their Member Self Service portal, practitioner conferences for employers and scheme member presentations and sessions. LPPA's priorities this year have been to continue to support LPFA in offering members and employers a well-run Fund, to deliver value for money, maintain a good service throughout the pandemic and to continue to improve the member experience and the quality of data.

2.2 Ensuring a well-run fund

SLAs and deliverables are in place between LPFA and LPPA and are reviewed regularly. In 2020-21, the service consistently exceeded Service Level Agreements. The LPPA and LPFA collaborate, sharing constructive dialogue and timely feedback to drive continuous improvement in our services. This is achieved by:

- A clear understanding of client requirements and expectations translated into a well-defined SLA and Key Performance Indicators (KPIs)
- Timely, transparent, and comprehensive client reporting quarterly and monthly
- Strong governance processes to ensure compliance with the Pensions Regulator Code of Practice 14 and public sector pensions legislation.

LPFA's Board, Local Pension Board and Management team are updated on operational performance through various means. These include client forums, quarterly reports, monthly client reports providing visibility of complaints, breaches, risks, and issues. LPFA and LPP Group also work with others in the pool to ensure a joined-up response to relevant Government consultations (McCloud, Exit Cap, GMP indexation), delivered by our Technical and Compliance teams.

Please refer to the Governing the Fund section for more details of how the LPFA monitors deliverables as a client and shareholder and to the employer overview later in this section for how LPFA works with our employers.

2.3 Performance

The table below summarises KPI's and highlights that all SLAs required by the LPFA have been met by LPPA over the period. Regular reporting to the LPFA ensures SLA are met and LPFA member satisfaction is maintained: Complaints dropped from 162 in 2019-20 to 115 in 2020-21.

	Q1	Q2	Q3	Q4	Annual
Overall delivery against SLA	99.7%	99.4%	99.6%	98.4%	99.3%
Complaints received	36	28	27	24	115

2. Pension Fund administration continued

2.3 Performance continued

Charges and ensuring value for money

LPPA charges the Fund on a per member basis. 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. LPP Group is required 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.

Cost per Fund member

LPFA has benefited significantly from pooling pension administration activities. Overall costs have reduced by 40% based on the pre-pooling position in 2015-16. This year the cost per Fund member increased reflecting the increased invest to save initiatives in technology which have led to a reduction in complaints, improved member satisfaction as well as a consistent meeting of SLAs. In the year to 31 March 2021, the annual SLA performance was 99.3% or 28,836 cases completed[2] against 28,162 cases received during the financial year. The data quality TPR scores for the year to 31 March 2021 in respect of Common Data and Conditional Data scores were 96.3% and 95.5% respectively. Cost per Fund member in the table below 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 2021 (£)**	**As at 31 March 2020 (£)**	**As at 31 March 2019 (£)**
Administration	23	20	21
Oversight and Governance	37	32	23
Total	**59**	**52**	**44**

2.4 The impact of COVID-19

All LPFA and LPPA staff have been working remotely since March 2020 and LPPA's administration service has been maintained over the period with no breaks in service. As mentioned, all SLAs were achieved, including the processing of pension and bereavement payments on time. All regulatory deadlines were achieved, and service levels remained high. Strong results were delivered for administration casework.

Managing bereavement cases has been a priority during the last 12 months and specific actions have been taken to help members who have lost loved ones.

LPPA have undertaken the following activities:

- Prioritised bereavement calls to the helpdesk supported by a new call centre solution in July 2020 which cut the Interactive Voice Response length by 20 seconds. This ensured that, when bereavement calls were at their highest, average wait times never exceeded four minutes
- Launched a bereavement survey seeking feedback on the management of the bereavement process and how the service could be improved. Surveys on operational processes in general were expanded to ensure the member experience remained robust
- Developed a guide to bereavement guiding the spouses and next of kin of deceased members through this difficult process in a sympathetic way. It included useful support contacts and government initiatives like Tell Us Once.

2 Cases not completed at the beginning of the previous financial year totalled 4,521 with 3,847 cases carried forward for completion from 1 April 2021.

2.5 Improving the member experience

We want LPFA members to receive excellent customer service and satisfaction. LPPA and LPFA are both working to improve our customer care. Improvements are being driven by three main pillars: responding to member queries, improving the member complaints process, and improving member communications.

Responding to member queries

Across the year, the resolution rate of calls into the LPPA Helpdesk was above target, and member satisfaction scores were consistently high. In parallel, the number of member complaints is falling. For calls made by LPFA members to the LPPA call centre, the LPPA has received the following satisfaction ratings:

- Contact centre call query resolution – Overall satisfaction = 92%
- Responding to and resolving e-mail queries – Overall satisfaction = 88% (Please note that this particular statistic refers to all LPP clients, not LPFA members only)
- Retirement experience survey – Overall satisfaction = 87%
- Bereavement experience survey – Overall satisfaction = 100%
- Estimate experience survey – Overall satisfaction = 88%

The table below lists the top ten LPFA member queries and the approximate or elapsed time it takes to resolve the queries. The member experience is important to the LPFA, so these numbers are monitored as an addition to the SLA's outlined above. It is encouraging to see a reduction in waiting times in almost all areas. Delays may occur while LPPA are waiting on information from employers or the members themselves.

	Average number of days taken to resolve individual member query			
	2020-21 Actual	**2019-20 Actual**	**2018-19 Actual**	**2017-18 Actual**
Admissions	**9**	5	9	14
Transfers in	**83**	98	161	73
Transfers out	**20**	21	38	27
Estimates – individual	**7**	7	17	11
Deferred benefits	**53**	60	54	34
Deaths	**50**	51	66	80
Retirements (immediate)	**46**	51	62	48
Retirements (deferred)	**68**	95	85	66
Refunds	**16**	18	29	17
Estimates – employer	**9**	7	11	13

2. Pension Fund administration continued

2.5 Improving the member experience continued

The LPFA also monitors the number of member cases processed each year by the LPPA and how many are outstanding at the end of the year. These are listed below.

	Completed in 2020-21	Outstanding at 31 March 2021
Admissions	**3,803**	178
Transfer In	**1,033**	386
Transfer Out	**1,723**	206
Estimates (Member)	**1,292**	24
Deferred Benefits	**1,721**	234
Deaths	**3,136**	802
Retirements – (Immediate)	**654**	83
Retirements – (Deferred)	**1,456**	25
Refunds	**2,042**	98
Estimates (Employer)	**753**	31
Correspondence	**3,658**	73
Other	**6,248**	1,193
Total	**27,519**	3,333

Improving the member complaints process

The table below highlights the reduction in complaints over the year, with the number of complaints as a percentage of workload being 0.40%. This compares to 0.46% last year and reflects the overall drop in complaints received. Despite this improvement, we recognise that we need to continue to find ways to ensure all complaints are dealt with in an effective and responsive manner.

A major step forwards in meeting this objective was the LPPA's recruitment of a dedicated Complaints and Appeals Administration Lead. Sitting in the LPPA's Risk and Compliance team, the role is independent of the administration team, but it works with that team to identify service improvements.

Efforts to improve customer services are being measured through six satisfaction surveys, providing members with the opportunity to provide feedback on LPPA's service. Surveys relate to overall helpdesk calls, bereavements, email responses, retirements, transfers and estimates. LPFA will continue to work with LPPA on improving the member and employer experience utilising this feedback.

	2020-21	2019-20	2018-19	2017-18	2016-17	Target / Benchmark
Number of complaints received	**115**	162	194^	61*	35	<25
Number of complaints categorised as Pension Ombudsman cases	**3**	0	0	0	0	0
Number of Internal Dispute Resolution Procedure cases (IDRP**)	**5**	25	12	5	11	<6
Staff fund member ratio – staff engaged on LPFA administration only	**1:3,055**	1:3,184	1:172	1:3,778	1:2,820	–
Average cases per member of staff	**1,507**	1,204	1,409#	1,057	1,811	–

* 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 improved their guidance on Internal Disputes Resolution Procedure. This provides members with a better understanding of their process, promises and further sources of information which might be helpful throughout the complaints process. The guidance is on the LPFA Fund website.

Improving member communications

2020-21 has also seen an increase in proactive member communications as part of a wider member engagement strategy enhanced by input and suggestions on online engagement and remote/interactive training by the Local Pension Board (LPB). Current member engagement activity aims to improve the amount and quality of member contact data and encourage members to use LPPA's digital services. A major step in this process was the launch of a new member website (www.lppapensions.co.uk) which improves accessibility and usability and simpler language when communicating to members.

Together with a refresh of LPPA's wider communications material, a more professional and consistent service has been established with members and employers. Different types of communications are also being used by the LPFA, including animations to ensure information about the Fund is communicated in an easy to understand manner.

As part of this emphasis on digital communications, a new email distribution system is being used leading to a comprehensive programme of member email communications to:

- Increase My Pension Online (MPO) registrations
- Increase member death nominations
- Increase number, accuracy and security of members' personal contact details including the capturing of email, telephone, and post code details.

The table below summarises the progress made in encouraging members to sign up to MPO.

	Q1	Q2	Q3	Q4
Active	40%	42%	42%	44%
Deferred	24%	25%	26%	28%
Pensioner	26%	27%	27%	29%

It is encouraging to note that on average emails sent to LPFA members have an open rate of 53% and a click through rate of 27%. By comparison, according to MailChimp, average open rates and click through rates for the Finance industry are 21% and 2% respectively, indicating that the LPFA has a highly engaged membership.

2.6 Fund membership information

Membership of the Fund dipped marginally in 2020-21 compared to 2019-20.

LPFA scheme membership over five years

	2020-21	2019-20	2018-19	2017-18	2016-17
Active contributors	20,115	20,574	19,489	18,537	17,776
Deferred beneficiaries	28,897	29,120	28,222	26,911	26,370
Pensioners and dependants	35,963	36,095	35,541	34,625	34,321
Undecided leavers and Frozen refunds	6,700	6,551	5,536	4,393	3,596
Total membership	**91,675**	**92,340**	**88,788**	**84,466**	**82,063**

2.6 Fund membership information continued

LPFA scheme membership by recorded gender

	Recorded as female	Recorded as male	Total
Active	12, 243	7,872	20,115
Deferred	18,111	10, 786	28, 897
Pensioner	21,798	14,165	35,963
Undecided and Frozens	4,128	2,572	6,700
Grand total	**56,280**	**35, 395**	**91,675**

Accuracy of member data

This table shows the quality of member data held by LPPA on behalf of LPFA. The Pensions 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%.

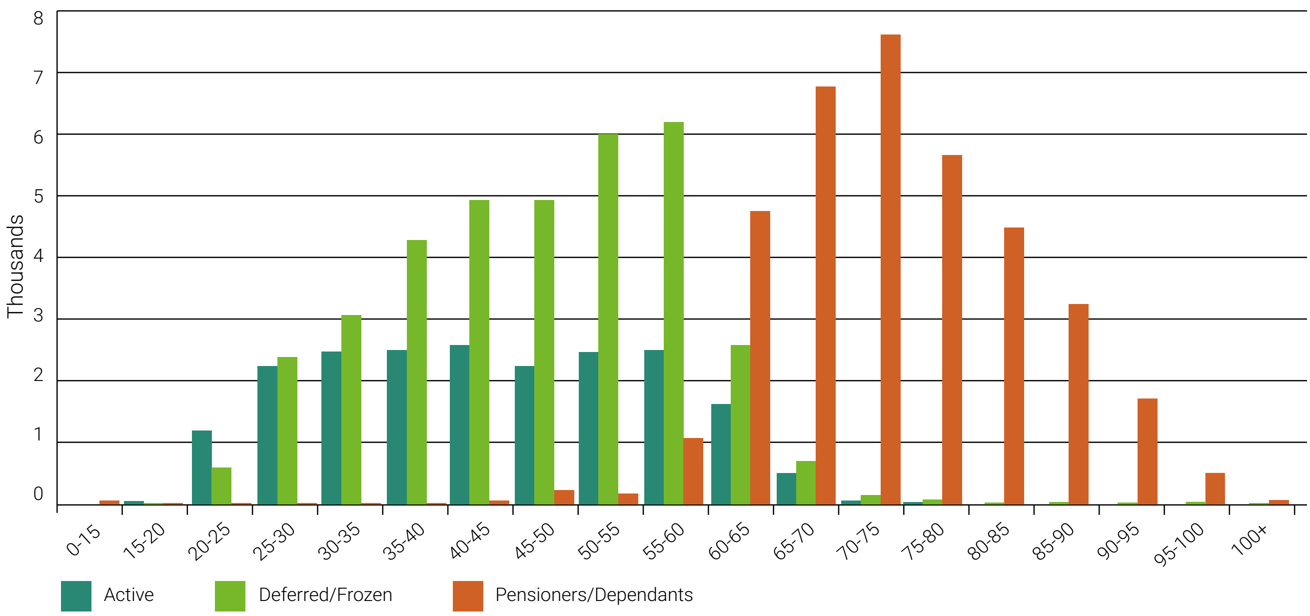
Surname	100.0%	Membership status	100.0%
Initials	100.0%	Last event status	100.0%
Gender	100.0%	NI Number	99.8%
Date of birth	100.0%	Address	96.5%
Date joined fund	100.0%	Post code	96.4%

LPPA is putting actions in place for 2020-21 to further improve data quality scores, including target address tracing, a monthly review of data scores rather than year-end and process automation.

Member age distribution

Over the period, there were 20,115 Active members of the Fund, 35,597 Deferred or Frozen members and 35,963 Pensioners or Dependants. Membership data is broken down further in the graphs and table below.

Member age distribution as at 31 March 2021



Active	Deferred/frozen	Pensioners/dependants
Average 43.9 years	47.0 years	74.1 years

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
2016-17	15	44	147
2017-18	15	50	158
2018-19	13	37	204
2019-20	10	29	93
2020-21	16	22	58
Total value for 2020-21	**£603,599.72**	**£780,268.02**	**£1,643,681.70**

Analysis of pension overpayments

In some circumstances, the Fund makes payments to members that they are not entitled to. Most of these payments occur when the Fund is not informed that a member has passed away. LPPA attempts to recover these overpayments where possible. The table below summarises the overpayments made by the Fund and the amount recovered.

	2020-21 (£)	2019-20 (£)	2018-19 (£)	2017-18 (£)	2016-17 (£)	2015-16 (£)
Overpayments	**241,137.26**	**250,103.40**	216,782.70	142,820.90	146,756.47	144,900.68
Collected	**(115,649.19)**	**(79,569.22)**	(7,240.53)	(11,558.83)	(13,498.36)	(16,761.46)
Written off	**–**	**–**	–	–	–	–
Outstanding	**125,488.07**	**170,534.18**	**209,542.17**	**131,262.07**	**133,258.11**	**128,139.22**

Note: 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, dependent on the amount and timing of death.

2.7 Ensuring a well-run fund for our employers

At a glance

There are 124 employers in the Fund. The employers in the Fund range from government bodies, higher education institutions, further education corporations, social housing associations, charities and private enterprises. For a list of the active and ceased employers in the Fund, categorised by scheduled and admitted body status, please see the Annex.

LPFA employs three people in the Employer Management Services (EMS) team. The team's aim is to provide a 'best in class' employer service and a professional customer service experience for the Fund's employers. The team is supported by LPPA's employer and member engagement group.

Dealing with our employer bodies

LPFA's Pension Administration Strategy sets out the responsibilities of the LPFA and its employers and the required 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.

The LPFA website also holds policies relating to employer discretions, admissions and outsourcing as well as annual statements of compliance. The website also lists the main LPFA pension contacts and services standards.

2.7 Ensuring a well-run fund for our employers continued

The role of LPFA's EMS

As an Administering Authority of the LGPS, LPFA ensures that all employer engagement is carried out in accordance with the LGPS Regulations. LPFA's EMS team acts as the first point of contact for employers and represents LPFA in any discussion concerning an employer's participating status in the Fund. In this role, the EMS team delivers a range of services to the Fund's employers in a cost-effective manner and to a high standard. EMS activity includes addressing legal, actuarial, and risk-related matters across operations, covenant, and employer engagement. Examples of the work that EMS performs for LPFA includes:

Operations

- Admissions – executing admission agreements, arranging contribution reports, and implementing security
- Cessations – processing employer exits and negotiating funding agreements
- Bulk transfers – managing legal and actuarial issues that relate to bulk transfers
- FRS/IAS reports – ensuring data is provided to the Fund actuary for employers' year-end accounts.

Covenant

- Covenant assessments – reviewing an employer's covenant strength and assigning an appropriate covenant grade
- Contribution reviews – reviewing employer contribution proposal(s) and/or instigating a contribution review as LPFA deems appropriate
- Security agreements – negotiating/executing security agreements on behalf of LPFA which protects the Fund from the risk of employer insolvency.

Engagement

- Transactional activity – communicating with employers on transactional activity (for example: mergers, de-mergers, acquisitions) that will have an impact on their LGPS obligations
- Triennial valuation – distributing the results of the Triennial Valuation to employers and managing any conversations concerning affordability
- Engagement with employers on covenant and other risk issues – reviewing any employer proposal that impacts the employer covenant and/or which presents a risk to the LPFA Fund.

LPFA's EMS team is supported by LPPA's Employer Engagement team which provides administration and data-related services to LPFA's employers. LPPA's activities are outlined in the following pages.

What has been achieved over the period

Significant achievements for LPFA's EMS team over the period include:

- Negotiating security agreements which, when executed, will bring the total amount of security implemented in LPFA to £535m[3]
- Developing an advanced covenant service that combines quantitative and qualitative risk elements so that employer risk is appropriately understood and addressed
- Preparing Fund policies on the recent changes to the LGPS 2013 Regulations
- Project management of a large multi-academy trust (MAT) consolidation proposal.

3 Note that this figure is subject to flux as employer liabilities change and as employers leave the Fund.

LPPA's employer strategy

LPPA supports the LPFA by providing practical help to the Fund's employers on payroll and HR related matters to ensure the smooth administration of the LPFA Fund. LPPA provides support and training to employers in the areas outlined below.

LPPA Employer Engagement

Employer Engagement has replaced face-to-face events with video conferencing for specific training events and regular events like the Practitioners Conference. This has resulted in increased efficiency with LPPA being able to deliver more training sessions to more employers. LPPA has also put particular emphasis on working with employers to improve the Fund's administration by working with employers and members to improve member data. This includes capturing more member email addresses and driving more members towards the use of My Pension Online.

Across the year, over 90 LPFA employers attended the 11 training sessions. The sessions covered issues as diverse as year-end data submission, improving data quality, through to 'Leaver Essentials: Managing the Leaver' process and 'Ill Health Retirement' training.

Twenty-nine remote meetings were carried out with LPFA employers who had been identified as needing one-to-one support. This activity is underpinned by LPFA's employer specific data, reported quarterly, which looks at measures including process elapsed times (the amount of time it takes for LPFA employers to provide the administration teams with the required member information, completed forms and data), and the timescales associated with member payments (compared to the 30-day target from retirement date). In relation to this last point, the LPPA Employer Engagement team is increasingly focused on working with all employers who are late in providing notifications to LPPA for active members intending to retire.

Sessions with a focus on supporting LPFA employers with the outstanding leaver process have resulted in a reduction in volumes. There were 120 outstanding leaver requests at the end of Q4, compared to 301 at the end of Q2.

Data improvement for year-end error rates

As part of a 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.

One of the key activities to improve on year-end data accuracy are LPPA's employer training sessions. This year, 49 LPFA employers attended a year-end data training session providing a clear overview of the annual year end process.

In addition, a series of email campaigns were issued to support the employers with the year-end data submission process which contained information on:

- Clearing outstanding queries and leavers before the end of the fiscal year
- The format which the information needed to be submitted including a sample template
- Invitations to training sessions
- Copies of training session recordings.

Individual LPFA employers showing signs of potential issues in advance of the year-end submission exercise were also contacted with an offer of one-to-one support.

2. Pension Fund administration continued

2.7 Ensuring a well-run fund for our employers continued

Amounts due from employer at the year end	
Employer contributions	£6,451,736
Employee contributions	£3,153,414
Cessation values	£4,996,075

Employer contributions

Employer contributions and investment returns ensure the future financial sustainability of the Fund, so the swift and accurate collection of employer contributions remains a priority. Contributions are actively monitored by LPFA's EMS 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:

Instances of late payment	No. of employers	Average days delayed	Maximum days delayed	Average value of delayed payment £'000
1	11	8	28	36
2	4	12	41	84
3	0	0	0	0
4	1	3	4	14
5	0	0	0	0
6	0	0	0	0
7	1	13	46	7

Note: The Fund collected normal pension contributions from 124 employers in the year, totalling £131.4m.
Seventeen employers were late in paying contributions at least once.

3. Investment review

3.1 At a glance

Day-to-day investment management and implementation has been outsourced to LPPI. All investment, administration and governance decisions are made within the investment policies and principles set down by the LPFA. LPFA's investment administration and custody suppliers are listed in the Annex.

3.2 Asset pooling disclosures

The table below shows the costs to the LPFA of setting up both the pooling company, LPPI, as well as the individual pooling vehicles.

Pool set up costs

	Current year		Since inception of the pool	
	Direct £'000	Indirect £'000	Total £'000	Cumulative £'000
Set up costs:				
Legal	–	–	–	957
Professional fees	–	–	–	441
Other support costs	–	–	–	185
Other costs	–	–	–	218
Total set up costs	**–**	**265**	**265**	**1,801**
Transition costs:				
Transition fees		–	–	739
Total transition costs	**–**	**–**	**–**	**739**

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 in accordance with the revised CIPFA guidance in 2016, whereas in previous years fees may have been lower as they would 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**	**2020-21 £'000**
Set up costs	(76)	**(225)**	(449)	(430)	(356)	(265)	**–**
Transition costs	–	–	(439)	(281)	(19)	–	**–**
Fee savings	–	–	(624)	7,400	10,181	14,959	**16,673**
Net savings realised	**(76)**	**(225)**	**(1,512)**	**6,689**	**9,806**	**14,694**	**16,673**

3. Investment review continued

3.3 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 2020-21. It has been compiled from cost transparency templates completed by each of the Fund's investment managers. 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			
	Direct £'000	Indirect £'000	Total £'000	Direct £'000	Indirect £'000	Total £'000	**Fund Total** £'000
Management fees	43,201	–	43,201	5,303	–	5,303	48,504
Performance fees	38,523	–	38,523	(502)	–	(502)	38,021
Transaction costs	7,329	–	7,329	478	760	478	7,807
Custody costs	–	–	–	55	–	55	55
Administration	–	4,543	4,543	–	53	53	4,596
Borrowing and arrangement fees	–	1,766	1,766	–	–	–	1,766
Distribution, comms and client service	–	1	1	–	–	–	1
Governance, regulation and compliance	–	6,323	6,323	–	75	75	6,398
Property expenses	–	2,765	2,765	–	–	–	2,765
Total	**89,053**	**15,398**	**104,451**	**5,334**	**128**	**5,462**	**109,913**

The Fund's assets have increased in value during the year and the benefits of asset pooling have contributed to further savings in investment management fees. Direct costs across both LPPI pooled and non-pooled assets, which includes performance fees and transaction costs, are higher compared to the previous year, with an increase in performance fees of £15.3m, triggered by investment outperformance.

3.4 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 and seeks 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. The latest review can be found on the LPFA website.

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.

3.5 The year in review

This fiscal year was marked by a sharp contrast between a smooth financial markets recovery and regional disparity in economic growth. Gross domestic product (GDP) growth and inflation (as well as real rates) are key macroeconomic variables that influence LPPI's market outlook. GDP contracted across major economies in Q1 2020, even though most government measures to stem the COVID-19 pandemic took place over the period. Q2 2020 marked the worst quarter for activity in developed markets with notable disparities – GDP falling less in the US compared to the UK and Europe. Since Q3 2020, GDP growth found firmer footing, although further lockdown measures implemented in certain regions at the end of 2020 and the start of 2021 weighed heavily on activity in affected economies.

After the initial sell-off between February and March 2020, investors quickly reacted to the 'upside', anticipating that the economic impact from COVID-19 would be relatively short-lived. Riskier asset prices, such as those for Equities and High Yield bonds, have trended upwards since April 2020, bolstered by ample fiscal and monetary support globally. During the initial months of the pandemic there was an acceleration of long-term ongoing structural trends, namely increased demand for work-from-home systems and e-commerce. This led to gains in technology share prices with the US tech-heavy large cap market benefiting the most. However, as most economies started scaling back their emergency measures in June 2020, cyclical stocks and 'value' shares (assumed to be more sensitive to a cyclical rebound), such as Energy and Financials, outperformed.

In Fixed Income markets, developed market government bond prices rose during the worst of the pandemic and continued to perform strongly through July 2020. Since then, rising inflation expectations fuelled by pent-up demand and the reopening of economies has hampered their performance. Long-term US sovereign yields got a further boost from the 2020 US Presidential election results amid market anticipation of additional fiscal spending under the Biden administration. Global developed market sovereign yields followed US yields higher in Q1 2021.

The Fund entered the COVID-19 crisis positioned without significant overweight positions in risk assets, including Public Equities, which saw the most pronounced drawdowns. After a significant part of the Equities drawdown had materialised in Q1 2020, LPPI added to the Fund's Public Equities allocation in March 2020 with further additions made in March 2021 on the back of continued optimism. With the economic recovery tentatively emerging in June 2020, LPPI added to the Fund's Credit allocation, partly reducing an existing underweight position versus the Fund's target allocation.

The Fund's portfolio continues to be well diversified across different asset classes, regions and sectors. This diversification is paramount in building robust portfolios, as is a good balance between public and private market assets exposure. Predicting ongoing economic scenarios is exceedingly difficult, if not impossible. A well-diversified portfolio is the best preparation for the future.

3. Investment review continued

3.6 Asset allocation

The Fund's strategic asset allocation (SAA) was last updated in the first quarter of 2018. This involved a 2.5% reduction in the target weightings for Public Equities and Private Equity, as the Fund focused on reducing its equity risk and diversifying exposures, while increasing its allocation to income-yielding asset classes.

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 LPFA's current asset allocation versus strategic target at the end of March 2021.

	March 2021		March 2020			
Asset class	**Exposure (£m)**	**Exposure (%)**	**Exposure (£m)**	**Exposure (%)**	**Strategic AA (%)**	**Range**
Public Equity	3,183	46.37%	2,606	44.30%	45.00%	35%-55%
Fixed Income	278	4.05%	297	5.00%	2.50%	0%-15%
Private Equity	648	9.44%	572	9.70%	7.50%	5%-15%
Infrastructure	579	8.44%	429	7.30%	10.00%	5%-15%
Credit	558	8.13%	458	7.80%	9.00%	0%-12.5%
Real Estate	598	8.71%	584	9.90%	10.00%	5%-15%
Diversifying Strategies	737	10.74%	762	12.90%	15.00%	0%-20%
Cash	283	4.12%	180	3.10%	1.00%	0%-5%
Total	**6,864**	**100%**	**5,887**	**100%**	**100%**	

The allocation of the Fund's assets for the previous financial year has been included for comparison purposes.

LPFA also maintains a Liability Driven Investment programme, with the intention of mitigating changes in funding level resulting from movements in index-linked gilt yields. This programme is managed by Insight Investments. The purpose of this programme is as a hedge rather than a generator of returns.

3.7 Performance

LPFA has a long-term investment horizon. LPFA's investment strategy is based on the Fund's objectives set out in its Investment Strategy Statement. LPFA invests the Fund's 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 2021.

Over the year, the Fund delivered a +16.6% investment return. This return was lower than the policy portfolio benchmark (the benchmark for each asset class combined in proportion to the Fund's strategic asset allocation) but exceeded the actuarial discount rate (UK CPI + 2.7%). The value of the Fund's investment assets at 31 March 2021 was £6.8bn compared to £5.9bn at 31 March 2020, an increase just under £1bn.

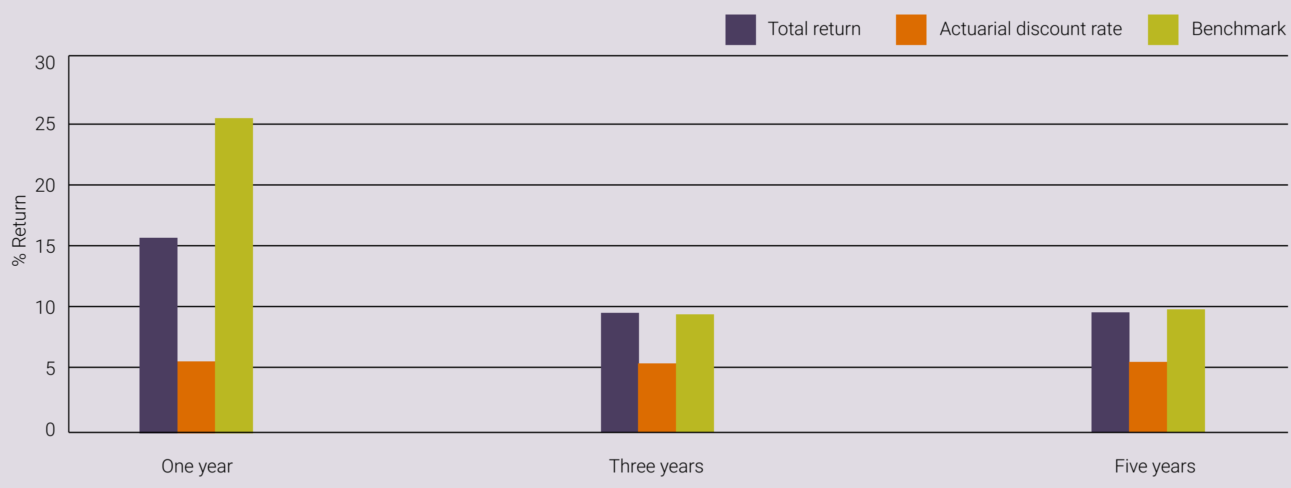
There were gains made across almost the entire portfolio. Public Equities were the standout performer in absolute terms with returns in excess of +30%. Both Fixed Income and Private Equity returned c.10% over the year while the Fund's Infrastructure and Credit portfolio returned +5.9% and +3.2% respectively. Ongoing pandemic-related challenges alongside investment costs led to lower returns for the Fund's Real Estate portfolio. Real Estate was the only asset class that posted negative returns albeit it was ahead of its benchmark over the same period.

Strong asset performance has led the Fund's overall portfolio to outstrip its actuarial benchmark over all time horizons. The Fund underperformed against its policy portfolio benchmark over the one-year period and has modestly lagged its policy portfolio benchmark over longer horizons. Underperformance relative to the Fund's policy portfolio benchmark over the one-year period can be attributed to the shape of the recovery in equity markets (LPPI's Global Equity Fund, although providing double-digit returns, lagged its benchmark) to the performance of the Diversifying Strategies Fund, as well as the impact of valuation lags on performance (Private Equity and Credit).

Annualised return (% pa)	**1 Year**	**3 Year**	**5 Year**
Total return	16.6%	8.0%	9.3%
Actuarial Discount Rate*	5.3%	5.4%	5.7%
Benchmark	25.2%	8.4%	9.5%

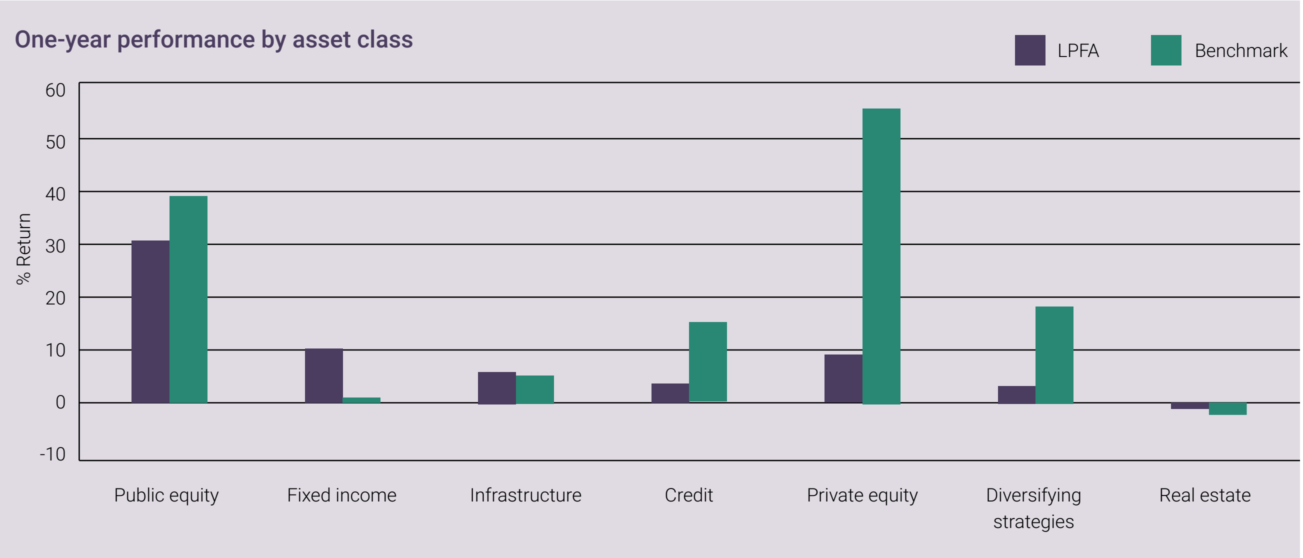
* A blend of 5.3% (equivalent to CPI + 2.7% p.a. at March 2019) and RPI + 3% prior to this date. Note: Returns over one year are annualised.

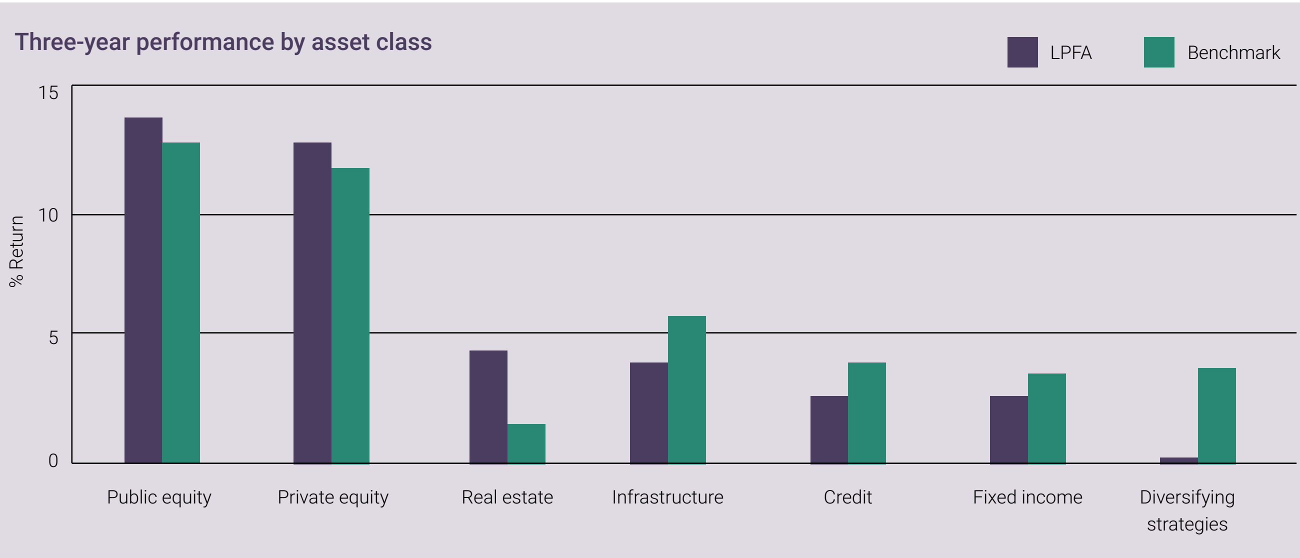
Total fund return March 2021



3. Investment review continued

3.7 Performance continued





3.8 Asset classes

Public equities

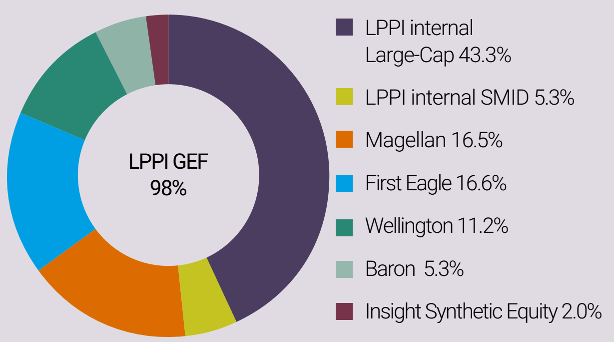
Public equities are viewed as one of the highest-returning liquid asset classes and represent the largest asset class exposure for the Fund. Within the Fund's Public Equities allocation, the majority resides with LPPI's Global Equity Fund (GEF) which combines an internally managed portfolio (c.50% of GEF) with a variety of external equity managers (c.50% of GEF) – operating with complementary styles of investment selection. The GEF maintains an overall bias to high-quality companies (Quality Factor Investing), however other styles are included to provide diversification. In addition to the Fund's investment in GEF, additional equity exposure is achieved through MSCI World and MSCI Emerging Markets futures, managed by Insight Investments.

Following the market drawdown in March 2020, the MSCI World Index rallied by 50% and as of 31 March 2021 it was 10% above the previous market peak prior to the onset of COVID-19.

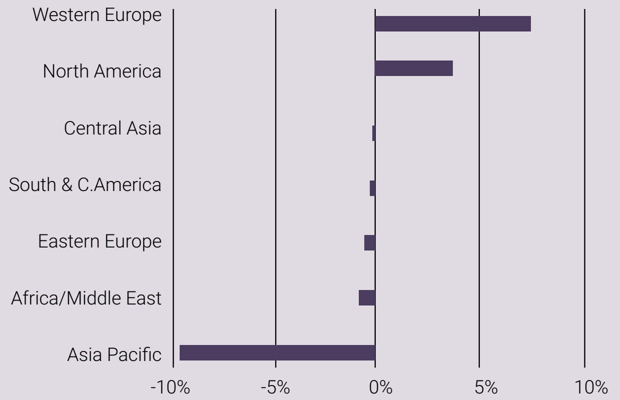
The Fund's Public Equities portfolio generated positive absolute returns in both periods and delivered a gain of +30.5% over the year. The GEF returned +26.2% but lagged the wider equity market due to its quality bias and more defensive style managers. This approach resulted in the GEF being less affected by the falling market during Q1 2020 than the benchmark was. When markets rose again during the 2020-21 financial year, the GEF had less far to recover than the benchmark, and therefore underperformed. Over longer horizons, the Fund's Public Equities portfolio has outstripped its benchmark, with three- and five-year returns of +13.8% p.a. and +15.9% p.a. respectively (relative returns of +1.0% p.a. and +1.5% p.a.).

The GEF continues to exhibit a low turnover of holdings and a stable roster of external managers, reflecting a long-term investment philosophy. However, there were two significant developments over the reporting period. Firstly, the internally managed small/mid cap mandate was increased in size to a target weight of 5% of the GEF. Secondly, the mandate with external manager Robeco was replaced in favour of alternative allocations where LPPI's conviction was higher. The capital with Robeco was distributed amongst the remaining manager roster.

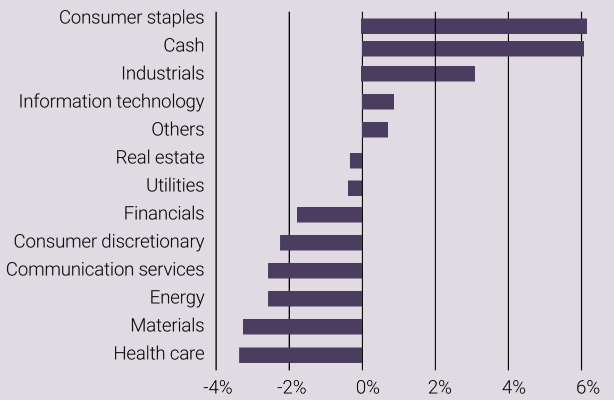
LPFA public equities manager composition



LPFA public equities:
Regional weights versus MSCI World



LPFA Public Equities:
Sector weights versus MSCI World



3. Investment review continued

3.8 Asset classes continued

Fixed income

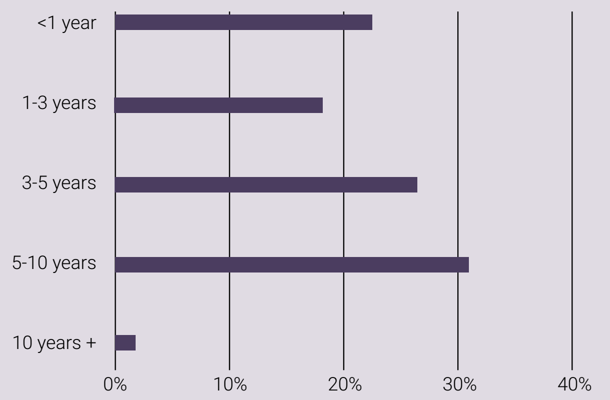
LPPI's Fixed Income Fund (FIF) was launched in February 2018 and LPFA was a seed investor. The investment strategy consists of two complementary managers: one with a 'top-down' investment philosophy and the other with a 'bottom-up' perspective. Both managers are credit-focused with a bias towards higher-quality investment grade credits.

The 12 months to 31 March 2021 were dominated by the theme of recovery from the pandemic.

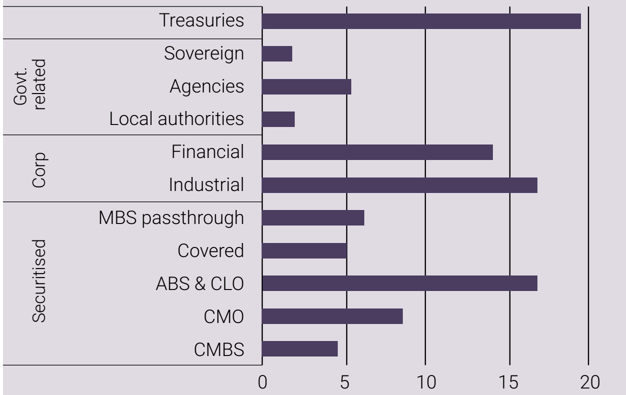
Corporate bonds performed well as spreads (the difference in yields between government bonds and corporate bonds) declined back towards levels prior to the onset of the pandemic (yields and prices move in opposite directions). The FIF benefited from the credit market recovery due to its exposure to corporate bonds across both the investment grade and high yield debt markets.

Over the reporting period, the FIF returned +10.0% against the benchmark return of +1.1%. Both managers generated strong returns with performance led by the +11.4% return of Wellington Management. The trend of falling interest rates in recent years to record low levels formed doubt regarding the ability to profit from further falls and this has been reflected in the FIF's positioning. The FIF's low duration / interest rate risk exposure was advantageous as yields moved sharply higher over 2021, which would have otherwise detracted from performance.

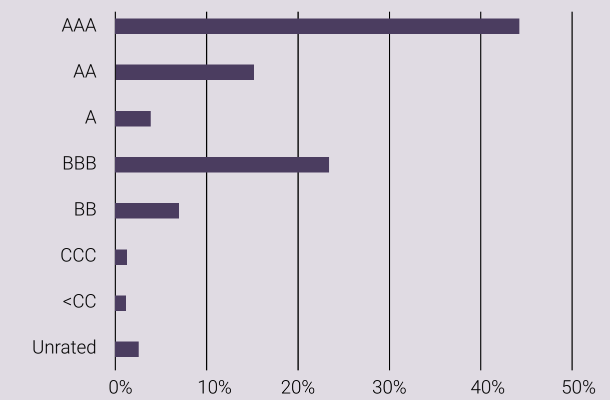
LPPI Fixed Income Fund:
Holdings maturity breakdown



LPFA Fixed Income:
Holdings diversification %



LPFA Fixed Income:
Holdings by credit rating



Private equity

Compared to public equity, private equity offers a higher return and risk profile, coming through investment in unlisted companies with higher leverage and hence higher growth expectations. Private equity also has lower liquidity – a 10-year fund life is common – which may be compensated through higher returns. Private equity investments are held through a variety of closed-ended limited partnerships. They span a wide range of vintages and are managed by a diverse collection of managers who, in turn, cover a variety of strategies and geographic areas. The Fund's exposure to Private Equity is being gradually reduced in line with the Fund's strategic asset allocation.

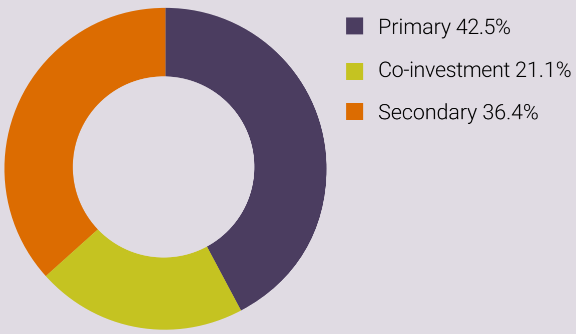
With long-term investment periods, performance is generally best viewed over equally long horizons. Supported by a well-diversified allocation to many top quartile performing managers, the Fund's Private Equity portfolio has generated double-digit returns since inception and exceeded its benchmark return.

Over the shorter one-year horizon, the Fund's private equity portfolio delivered strong performance in absolute terms (+9.4%) with several underlying managers posting returns in excess of 30%. Performance, however, lagged the public equity benchmark. Due to the reporting lag that is common with private market investments, the effect of COVID-19 on private equity valuations was only realised in this financial reporting period despite the market drawdown occurring in February-March 2020. Estimating the impact of this reporting lag on relative performance during the reporting period is challenging due to managers submitting their valuations at different times.

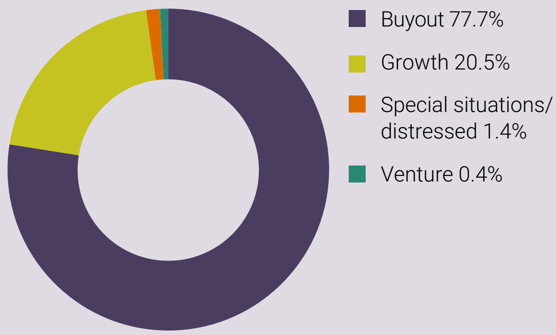
Unlike their public equity counterparts, there was not a pronounced selling of private equity holdings which led to a more modest impact on private equity valuations. Yet, in a similar vein, valuations did not keep pace with public equities during the following market rebound.

While COVID-19's impact on private equity valuations was muted, the same could not be said for completed transactions, which shrank considerably relative to prior years. Meanwhile, dry powder (the committed capital yet to be deployed) continues to increase and has grown by 22% since December 2019 in North America and Europe, reflecting a very competitive market environment with elevated pricing and scarcer opportunities. Against this backdrop, the Fund's capital continues to be prudently deployed while also reducing the overall rate of commitment to new private equity funds in line with the Fund's strategic asset allocation. This has been gradually achieved in a carefully managed approach that ensures vintage diversification and manager relationships are maintained.

LPFA Private Equity:
Investment strategy



LPFA Private Equity:
Investment type



3. Investment review continued

3.8 Asset classes continued

Real Estate

Real estate plays a strategically important role within the Fund's overall investment portfolio. It helps diversify the fund and the rental income generated is used to fund member benefits without the need to liquidate other investments.

The majority of the Fund's Real Estate portfolio is invested in the LPPI Real Estate Fund (REF) which launched in October 2019. The REF consists of a portfolio of directly held properties managed by Knight Frank Investment Management and a collection of external managers.

For reporting purposes, the recently launched London Fund Limited Partnership sits within the Fund's Real Estate classification although its investment universe also covers Infrastructure and Growth Capital assets. Part of the Fund's Real Estate allocation was successfully transferred into The London Fund at the end of the reporting period.

Given the long-term nature of real estate investments, performance is best assessed over longer time horizons. Over three-year and five-year periods, the Fund's real estate portfolio has produced strong absolute and relative performance. Against a challenging market environment due to lockdowns and lower rents received, the Fund's overall portfolio returned -1.1% in the 12 months to 31 March 2021 (outperforming the benchmark return of -2.0%). The REF returned -0.6% over the same period.

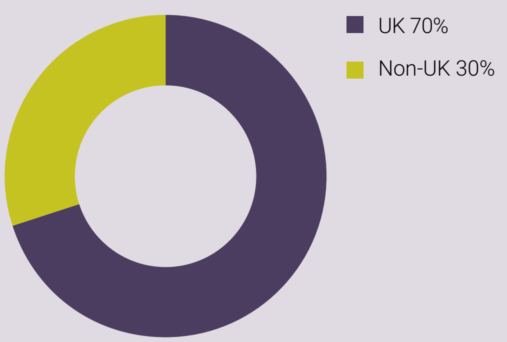
At a sector level, the REF has a positive bias to the Office and Industrial sectors and relative underweight positioning to Retail properties, which has helped to protect the portfolio against capital loss over the year. Areas within the Retail sector such as high street stores and shopping centres have underperformed as online shopping grows, which has been exacerbated by the effects of the pandemic. In contrast, Industrial and Residential assets continue to perform well, benefiting from ongoing shifts in consumer habits to online shopping and favourable demographic trends.

Uncertainty around post pandemic working patterns and corporate office space requirements is causing some instability in the offices market, acting as a drag on rental growth. Although, we are unlikely to see the deep fundamental changes that were envisaged at the start of the pandemic, occupiers are grappling with space planning and how offices will be used once employees return. It is expected that prime offices in good locations particularly those with high ESG credentials will continue to be in demand and considered that despite an increase in flexible working, the overall footprint required within offices may remain steady given additional space requirements driven by expected demand for additional collaboration and amenity space.

As at 31 March 2021, the REF was underweight in offices overall versus the MSCI UK Quarterly Property Index holding 23% in the sector versus 28% in the benchmark. The REF's office exposure is strongly weighted towards the direct UK property portfolio managed by KFIM and which holds 26% of its overall AUM within the office sector. This exposure comes from 13 assets, albeit with one being progressed for imminent sale. The direct UK office assets returned (0.92)% over the one-year period to 31 March 2021 slightly underperforming the benchmark assets (0.64)%. However, it is notable is that within this total return figure the REF's direct UK office assets generated a strong income yield at 4.9% outperforming the benchmark income return of 3.7%.

Global rent and service charge collection rates continue to be suppressed due to the pandemic's impact and particularly in the UK where a moratorium on pursuing commercial rent arrears was implemented by the UK Government. Despite the challenges, the direct UK portfolio within the REF saw rent collection rates outperform the wider market demonstrating the quality of assets and supportive asset management initiatives, i.e. reducing rents in exchange for a longer lease.

LPFA Real Estate:
Geographical exposure



LPFA Real Estate:
Sector exposure %

Infrastructure

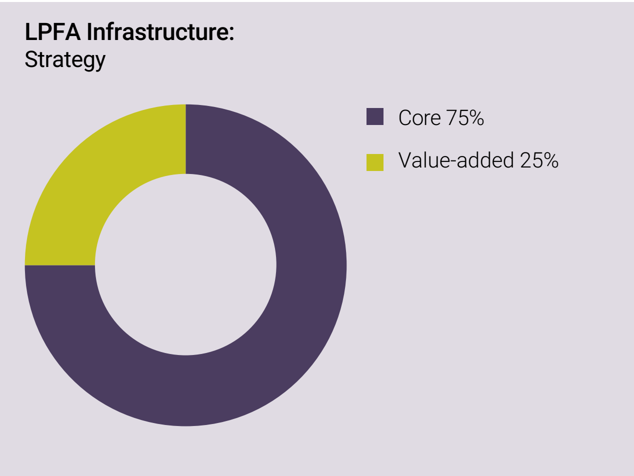
Infrastructure as an asset class typically offers long-term returns that are aligned to the Fund's investment objectives whilst also providing portfolio diversification and broadly resilient cash flows with a degree of inflation linkage. Most of the Fund's infrastructure exposure is through LPPI's Global Infrastructure Fund (GIF). This comprises allocations to a variety of global infrastructure funds, and direct investment projects.

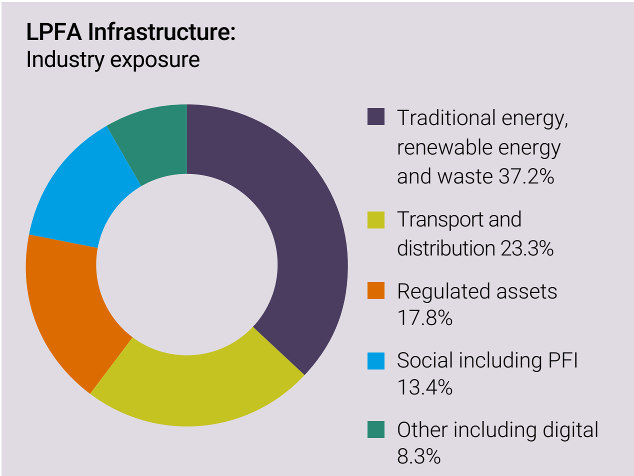
A key component of the GIF is GLIL Infrastructure (LPPI is the appointed Alternative Investment Fund Manager of GLIL) which invests in core infrastructure assets predominantly in the UK, including investments in wind-powered electricity generation, water assets, rail rolling stock and ports.

The Fund's infrastructure portfolio delivered a positive return (+5.9%) over the 12-month period, broadly in line with its performance since its inception (+6.0% p.a.). The GIF returned +6.2% over the year with the defensive nature of many of the assets held more than compensating for losses caused by the economic impact of COVID-19 and regulatory headwinds.

Capital continued to be deployed by the GIF over the year. Most recently there have been co-investments alongside one of the GIF's fund managers, as well as the addition of holdings in UK rail transport through an investment in the Intercity Express Programme East. The latter was established to replace the UK's ageing fleet of intercity trains, providing a new generation of highly reliable and efficient trains for the East Coast Main Line.

Through its investment in the GIF, the Fund has contributed to generating energy through renewable sources (wind and solar energy assets) that would be sufficient to power over a million UK households for a year.





3. Investment review continued

3.8 Asset classes continued

Credit

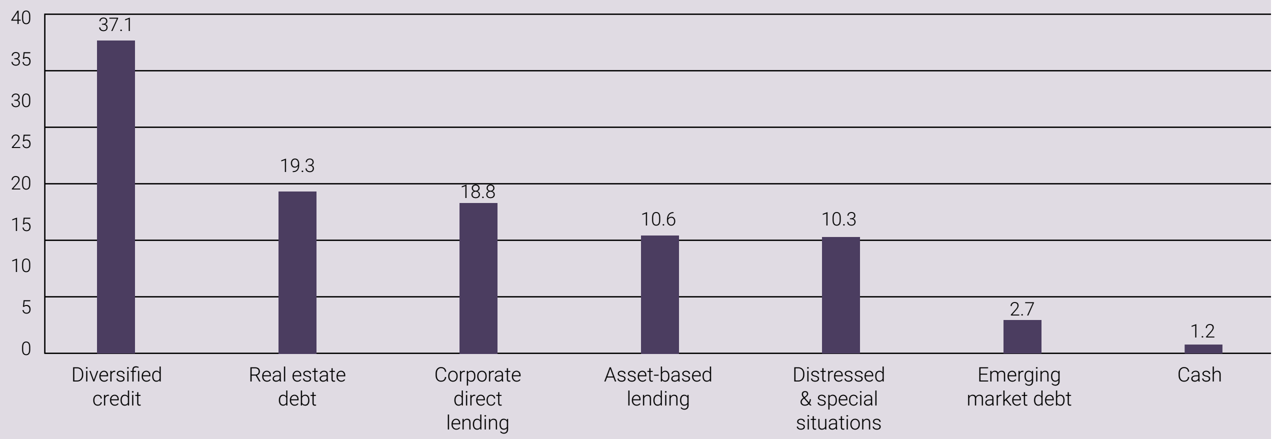
The entirety of the Fund's credit exposure is through LPPI's Global Credit Fund (GCF). The GCF invests in a range of credit-linked assets globally across the spectrum of credit qualities. Credit exposure is predominantly in illiquid investments which are typically held to maturity. The income generated 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.

As a result of last year's market drawdown caused by the COVID crisis, there were an abundance of opportunities at attractive pricing. The GCF took advantage of the market dislocation with faster deployment of capital alongside investments made at depressed prices. In the 12 months to 31 March 2021 the GCF returned 3.2% but lagged benchmark performance, principally due to the lag in quarterly valuations for the portfolio when compared to a more recently valued benchmark.

Among the underlying strategies within the GCF, the allocation to Diversified Credit strategies outperformed. Dorchester Capital and Napier Park, which were both added to the portfolio towards the beginning of the reporting period, were standout performers. Albacore – a direct lending manager – was able to source opportunities at attractive pricing and made strong gains over the period. However, the GCF's exposure to Distressed and Special Situations managers detracted from returns. The Distressed Strategies allocation was previously one of the larger components of the GCF but has reduced in size since 2019 due to the GCF's reorientation towards higher quality credits as well as debt that is secured against assets – both of which have performed well.

Aside from individual manager performance, Sterling's appreciation against the US Dollar slightly offset gains made by the GCF. Over the year, LPPI approved plans to partially remove the impact of currency fluctuations through a hedging programme which will be completed by mid-2021. On a related note, the GCF reduced its exposure to interest rate risk amid government bond yields reaching near historic low levels. The GCF transferred its liquid diversified credit strategy to an equivalent zero-duration fund, thereby reducing interest rate risk for the portfolio. Moreover, the GCF is also positioned to benefit from potentially higher interest rates through its exposure to floating rate debt.

LPFA credit:
Allocation by investment type %



Diversifying Strategies

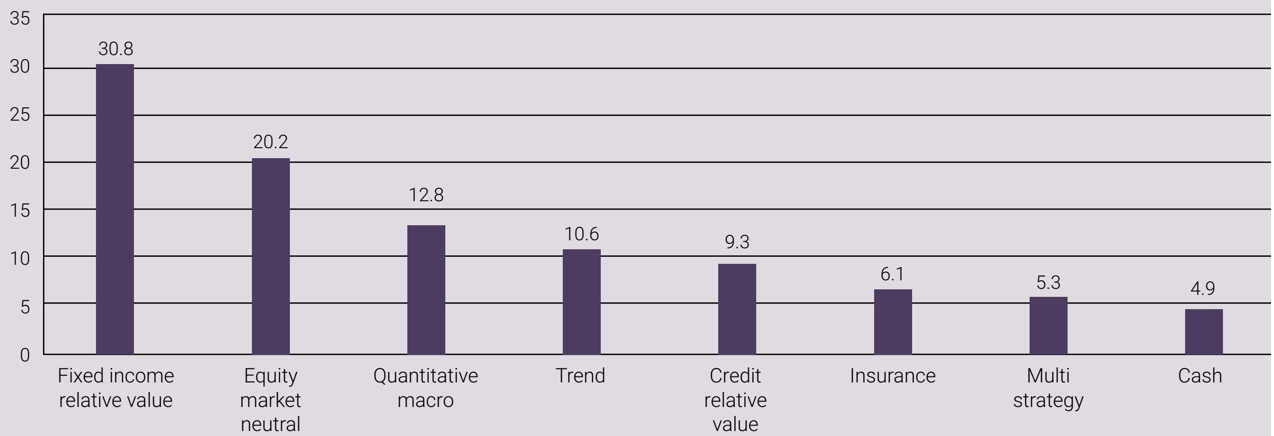
The majority of the Fund's diversifying strategies exposure is through the LPPI Diversifying Strategies Fund (DSF), which was implemented in the fourth quarter of 2019. A small allocation remains with Aeolus, a legacy insurance-based fund manager. The DSF seeks to generate a diversifying source of return to complement the Fund's funding objective, whilst maintaining a low correlation to Public Equities (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 2021, LPFA's diversifying strategies portfolio returned 1.2%, lagging the benchmark return of 18.2%. The DSF also returned 1.2% while the Fund's exposure to Aeolus strategies, which aims to take advantage of opportunities in insurance markets, provided a return of -2.8%.

With a mandate to deliver a complementary source of return, the DSF has a lower exposure to equity markets generally but also relative to its benchmark. As public equity markets rallied strongly over the year the DSF did not participate in the market recovery to a great extent, although it did post a modest positive return. Over the year, the DSF's allocation to Relative Value managers contributed most to performance with particularly strong returns from the Credit Relative Value manager which was also added to over the period. One of the Fund's macro-based managers particularly underperformed with outsized losses dragging on performance.

There were no significant changes to the DSF over the year.

LPPI diversifying strategies:
Allocation by strategy type %



3. Investment review continued

3.9 Responsible Investment

Our Responsible Investment vision

"As a pension fund, we are stewards of the future. Primarily stewards of our members' financial future, ensuring robust pension provision. Furthermore, how our members' funds are invested also impacts the future of our economy, our environment, our society and therefore our members' future. We take this broader responsibility seriously, as a commitment to future and to the shape of today's world. Consequently, we regularly look at the urgent major environmental and social issues facing the world and work to ensure we are positively influencing them. Our ongoing major focus is on the climate emergency and how we can invest member funds to mitigate the financial risk from climate change, influencing the broader economy via our engagement opportunities and clearly communicating both our approach and our progress. As a responsible investor, it is important that the LPFA plays its part in tackling these ethical, financial and moral issues."

LPFA Board vision, 9 September 2020

How we implement the Board's vision

The Fund and LPPI, to implement the Fund's responsible investment policies, remain committed to sustainable investment and active ownership. Guided by our policies, in 2020-21 we continued efforts to bring more transparency around our responsible investment approach and activities.

As outlined earlier, the Fund's assets are managed under pooled investment arrangements. This means that the Fund owns units in co-mingled funds managed by LPPI rather than shares or a direct stake in individual companies. As well as day-to-day decision-making on the selection of investments, the appointment of asset managers and the exercise of ownership responsibilities being delegated to LPPI, shareholder voting and related stewardship activities are also overseen centrally by LPPI.

The Fund's officers monitor and hold LPPI to account for delivering and reporting on the implementation of our investment strategy and Responsible Investment policy commitments. LPFA colleagues are also focused on developing collaborations with other pension funds, regulators, and responsible investment interest groups.

LPFA's responsible investment and climate change policies

LPFA's approach to ESG issues is summarised in our Investment Strategy Statement. In addition, our specific policies reflect the Fund's commitment to fulfilling the responsibilities we hold as an institutional asset owner and a steward of the retirement savings of our Fund members and their beneficiaries.

Our Responsible Investment policy, refreshed in October 2019, recognises that our Fund's sustainability depends on informed and diligent investment selection and active asset ownership over the long term. The standards that are set for all the Fund's investment managers require them to routinely integrate ESG considerations within their investment decision-making. This in turn helps ensure a thorough approach to assessing investment risks and opportunities.

Our Climate Change policy places specific focus on an issue that poses a long-term and material financial risk to the Fund. The policy, refreshed in 2020, sets out how we work with LPPI to address exposure to sectors and companies impacted by climate change risk. The policy confirms that we are seeking to increase exposure to green sectors and companies and to support the transition to a lower-carbon future by advocating for change by using our influence with companies and asset managers. We aim to report on our progress clearly and transparently to our members, stakeholders, and wider society.

More information about our policies as well as data outlining the impact that they have had on the Fund can be found on our website.

Holding ourselves to account

We use two main external benchmarks to ensure that we are applying best practice.

The UK Stewardship Code sets clear standards for effective stewardship by asset owners as part of promoting the long-term success of companies for the benefit of investors and the wider economy. LPPI are signatories to the UK Stewardship Code 2012 and ranked Tier 1 (highest) by the Financial Reporting Council (FRC) for arrangements ensuring the effective stewardship of our investment portfolio. LPPI's Statement of Compliance, hosted on their website, explains how their asset management practices are fulfilling the Stewardship Code's best practice principles.

The Principles for Responsible Investment (PRI) are a global standard for responsible investment. Our portfolio is managed under arrangements which comply with the six PRI principles, to which LPPI is a signatory. Transparency Reports accessible from the PRI website present detailed information from LPPI's annual reporting against the principles. LPP's website provides further information on investment arrangements in place and gives detailed examples of stewardship activities and good practice.

Internally, the LPFA Board receives quarterly Responsible Investment reporting from LPPI which covers the range of stewardship and engagement activities undertaken on behalf of the Fund. This enables us to monitor responsible investment and active ownership practices.

Our Responsible Investment activity – Highlights

The three sections below highlight how the LPFA invests responsibly.

Being an active owner – Engagement and stewardship

Engagement

Engagement incorporates a range of activities focused on encouraging good corporate governance and practice. This happens routinely across our portfolio through the combined activities of LPPI, delegate asset managers and through the investor collaborations that LPFA and our investment providers participate in and support.

LPPI engages directly with investee companies where assets are internally managed, but where investments are under external management, engagement is by delegate asset managers who are monitored and overseen by LPPI.

In early 2020, LPPI selected the Robeco Active Ownership Team as an engagement partner to support and expand engagement capabilities for public market assets. This arrangement has secured additional engagement resources backed by extensive experience in sustainable asset management, established processes and relationships, and global reach.

LPFA's most direct route when seeking to influence companies comes through the LPPI Global Equities Fund (GEF). The right of shareholders to vote at annual general meetings is a direct route for communicating views and urging companies to make changes or improvements.

Engagement and voting for the GEF are overseen by LPPI and reported to us quarterly. Please see the LPPI (localpensionspartnership.org.uk) website for further information on engagement activity.

3. Investment review continued

3.9 Responsible Investment continued

Shareholder voting

On LPFA's behalf, LPPI votes on holdings in the GEF directly and, on their website, publishes information on meetings voted, the individual resolutions tabled and whether voting supported or opposed proposals. In reaching voting decisions LPPI consider analysis and recommendations from a proxy voting provider whose Sustainability Voting Guidelines are focused on material ESG considerations. They also liaise with asset managers and seek broader insights as needed to reach final decisions.

Headline information on voting and engagement activity for the GEF in 2020-21 is provided below. Fuller details of shareholder voting and engagement by LPPI are publicly available from the LPP website.

In the 12 months from April 2020 to March 2021, LPPI voted at over 500 company meetings and on over 6,000 separate resolutions as follows:

Against	Theme	For
249	Election of Directors (and related proposals)	3,584
112	Non-salary compensation	594
1	Anti-takeover (and related proposals)	52
9	Mergers, acquisitions and reorganisations	124
66	Capitalisation	476
65	Routine business	1,227
70	Shareholder proposals	133
572	Total	6,190

On LPFA's behalf, LPPI voted:

- Against 15% of management resolutions and in support on 44% of shareholder proposals on remuneration
- In support of 89% of shareholder proposals on human rights issues
- In support of 50% of shareholder proposals related to gender and/or racial diversity (proposals were supported where they requested clear targets or specific information to be reported)
- In support of 100% of shareholder proposals on the health impact of products (e.g. sugar, antibiotics)
- In support of 100% of shareholder proposals on climate change where the majority of proposals sought greater information on how companies are managing risk.

Collaboration with others

Collaboration is important to the LPFA. As a Fund, we work with several different forums and groups including the Pensions and Lifetime Savings Association (PLSA), the Local Authority Pensions Fund Forum (LAPFF), CDP, the Institutional Investor Group on Climate Change, Climate Action 100+ and C40 Cities. We're in regular contact with lobby groups including Share Action and Make My Money Matter to ensure our wider stakeholders are aware of the progress that the LPFA are making on responsible investment. We have also supported letters from the IIGCC and the Corporate Leaders Group calling for a sustainable and inclusive post-pandemic recovery in the UK and Europe.

LPPI, on behalf of the LPFA and other clients has also signed:

– An Investor Statement on COVID-19

– A Sustainable Capital Markets Asset-Owner statement on sustainable value creation

– An open letter to EU leaders from investors on a sustainable recovery from COVID-19

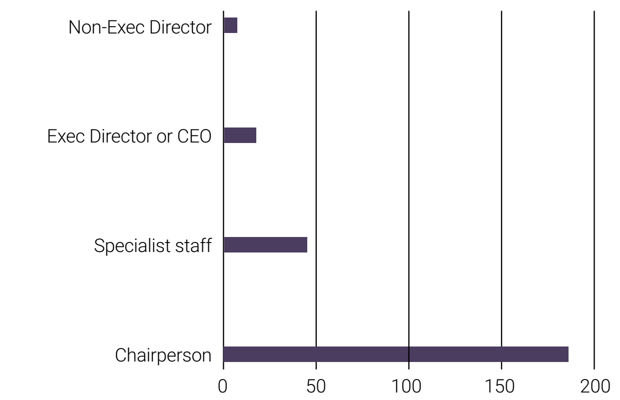
– A letter to the Prime Minister, requesting a meeting to discuss how the financial sector can contribute to the UK's decarbonisation effort.

We also collaborate with others in the LGPS through our membership of the Local Authority Pension Fund Forum (LAPFF).

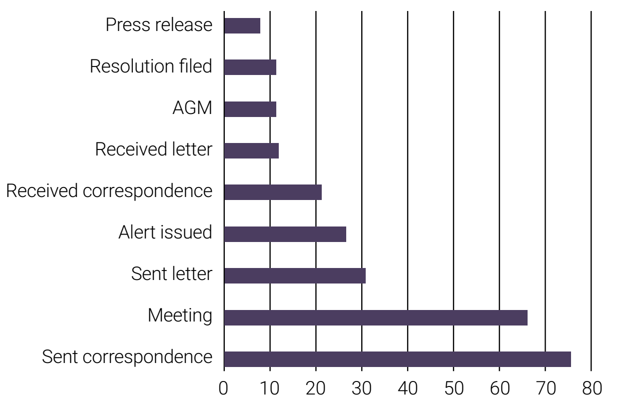
LAPFF's mission is to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds. LAPFF engage directly with company chairs and boards to affect change on the collective behalf of their 80 collaborating LGPS members. LPFA is an active LAPFF member and we communicate material issues on specific companies and themes to LPPI where these align with our policies and priorities. The tables below detail the engagements, types of engagements and activities made through the LAPFF.

Details of the engagements undertaken by LAPFF in 2020-21 are available on its website https://lapfforum.org/publications/category/annual-reports/ and outlined below:

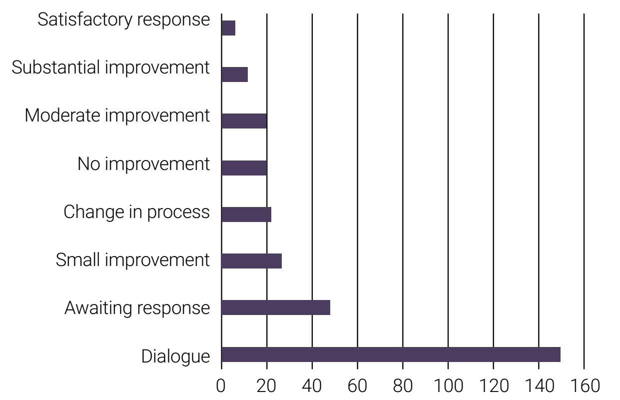
Positions



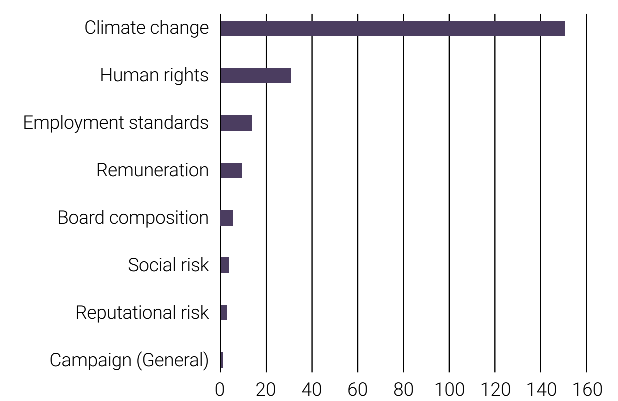
Activity



Meeting engagement outcomes

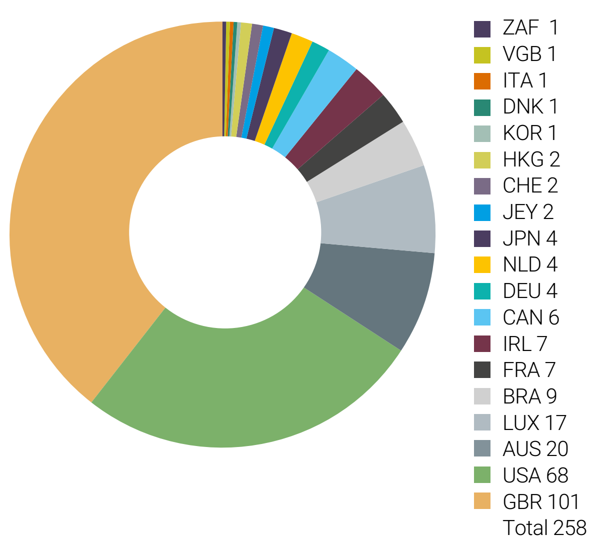


Topic



Company	Number of Engagements	Number of Members Holding
Exxon Mobil Corporation	8	27
Southern Company	7	22
Arcelor Mittal SA	7	21
General Electric Company	7	24
Royal Dutch Shell plc	6	53
General Motors Company	6	17
Rio Tinto Group	5	44
Chevron Corporation	5	26
Amazon.com Inc.	5	27
Glencore plc	5	28

Domicile



Supporting London's growth – The London Fund

In December 2020, Local Pensions Partnership Investments (LPPI), London LGPS CIV (London CIV) and the LPFA formed The London Fund, an investment partnership which aims to help solve some of the housing and infrastructure problems facing the capital. The LPFA seeded the fund with £100m in capital. LPPI is the Investment Manager and London CIV is the Alternative Investment Fund Manager.

The London Fund is designed to help address the anticipated population growth challenges facing the city through large scale real estate investment and infrastructure projects in the Greater London area, whilst providing appropriate risk adjusted investment returns that support the ongoing growth in pension scheme assets. The Fund aims to invest in opportunities that generate a social benefit in Greater London through job creation, regeneration and providing positive environmental impact.

The London Fund's portfolio is focused on investments in Greater London and its immediate surrounds. Assets will include residential property – private rented sector and affordable housing – regeneration schemes and specialist accommodation such as senior living and co-living.

This collaboration between LGPS pools and investors brings increased scale, allowing all partners to benefit from broader access to resources and a much wider investment pipeline than would be available to any individual entity acting alone.

Climate Change – Supporting the transition to a low carbon economy

Our Climate Change policy sets clear conditions for investments in extractive fossil fuel companies, requiring them to be demonstrably planning for the transition to a low carbon economy. Only 0.6% of the Fund's investments in listed equities are in traditional energy (compared to 3.2% for the MSCI All Countries World Index benchmark). We monitor our portfolio's exposure to conventional energy – "brown" companies – and we support and advocate for corporate planning and emissions reduction targets that support global decarbonisation in line with the Paris Agreement.

We review the listed oil and gas companies the Fund continues to hold using management quality assessments produced by the Transition Pathway Initiative (TPI). TPI scores confirm how the world's highest-emitting listed companies are positioned against a series of benchmarks which help asset owners like LPFA judge if they are demonstrating appropriate planning for a low carbon future. Since oil and gas companies are not the only sector facing climate risk, we monitor both the both the proportion of our listed equities portfolio covered by TPI assessment (where a low percentage is good) and the TPI management quality scores these companies are achieving (where TPI3 and TPI4 are good).

At 31 March 2021 (by value) only 13% of listed companies were within TPI coverage (signifying a low exposure to global high emitters). Of these companies, 91% (by value) are assessed as demonstrably integrating climate change into their operational decision-making (rated TPI3) or into their strategic planning (rated TPI4). See graphic below for more information.

The carbon footprint of the LPPI GEF is measured annually to monitor the trend in total emissions intensity. The results are encouraging. The GEF's low exposure to traditional energy translates into an emissions intensity (scope 1 and 2 emissions) lower than the benchmark and there is a decline in scope 1 and scope 2 emissions across time. Gross carbon

Transition Pathway Initiative – Management quality headlines

emissions divided by total revenues for companies held by the GEF were 114 tCO_2e/£m at 31 December 2020, down from 162 tCO_2e/£m at the same point in 2019 (a reduction of 29.6%). One form of analysis suggests our listed equity emissions are below the trajectory for achieving 1.5°C by 2050, but we recognise that the methodologies for evaluating alignment are at a very early stage. LPPI and LPFA continue to seek tools and metrics that improve understanding of the investment risks posed by climate change and assist its evaluation and management.

As our exposure to brown investments reduces, so our exposure to 'green' investments is expected to increase over time. LPFA is already investing in assets which contribute to a lower carbon future with 2.7% of the portfolio identified as 'green". These investments are directly involved with renewable energy generation or otherwise supporting decarbonisation as part of the global transition. The previously mentioned London Fund is also anticipated to deliver additional sustainable investments.

Looking towards net zero carbon emissions

In September 2021, the LPFA committed to being a 'net zero' fund following the IIGCC framework. For the planet, net zero means a rapid global decarbonisation by 2050 to limit global warming to well below 2°C and ideally to 1.5°C. It means lowering human-related greenhouse gases (GHG) emissions quickly and permanently towards zero. For our Fund it means – beyond the management of climate change risk – that we continue to deliver the necessary performance, cost savings, diversification in capital, income and liquidity while also planning for, and tracking our progress, in achieving net zero carbon emissions in our Fund by 2050.

This is a challenge, but we are a committed responsible investor and, as required by the IIGCC framework, we have 12 months in which to publish our Action Plan.

The Fund also seeks to expand our RI activities beyond climate change and we have recently appointed new members of the LPFA Board with specific ESG and RI knowledge.

3. Investment review continued

3.9 Responsible Investment continued

Our priorities for the year ahead are determined by a combination of LPFA policies and strategy, regulation and best practice as well as reflecting the evolution of LPPI's role and remit. Four areas of priority have been identified:

1. Improving transparency
   Regulatory expectations will translate into requirements for LGPS pension funds to disclose their Responsible Investment beliefs and report in detail on their approach and actions. The LPFA will be more transparent on our progress.
2. Increased focus on 'Social' factors within ESG
   As a systemic threat, climate change has been a dominant Responsible Investment priority with social issues largely subordinate. However, COVID-19 has underlined the visible impact of a human health crisis on the global economy underlining that sustainability is more than just the environment. The LPFA is committed to helping "build back better" and putting a focus on social issues.
3. Climate Change and long-term sustainability
   A world aiming for radical industrial/economic change within 30 years (net zero by 2050) poses significant investment challenges. Universally agreed metrics for measuring climate risk and asset/portfolio data for performing risk evaluation are needed. LPFA will continue to support our partners in advocating for change and engaging with companies.
4. Systematic ESG integration
   Support LPPI in the development of resources, frameworks and tools to support integration of ESG processes throughout all stages in the investment process.

We will continue to seek opportunities to collaborate with others, including C40 Cities, Make My Money Matter, Share Action, and other ESG-focused organisations.

4. Governance

This section provides details on the LPFA: governance highlights for 2020-21; governance framework; executive team; risk management; LPFA Advisors and service providers; and annual report from the Local Pension Board (LPB).

4.1 Governance executive summary

The year has been one of resilience, adaptation, virtual collaboration and preparation. The LPFA management team were able to put arrangements in place that enabled all employees to work remotely and to switch to virtual meetings throughout the pandemic. Consequently, the LPFA has been able to continue to deliver against their strategic objectives over virtual video and audio conference meetings. The LPFA has been able to recruit new employees and members to both the LPB and LPFA Board, establishing a solid foundation to meet future challenges.

Business continuity protocols were initiated in mid-March 2020 and the LPFA has been able to function effectively with the implementation of flexible remote home working practices.

The LPFA Constitutional Document ('the Constitution') permits electronic participation and decision-making by the Board and its Committees. All formal decision-making forums continued to meet virtually during COVID-19 and the Board met monthly between April and October 2020, (with a brief hiatus during the holiday month of August).

In April 2020, the LPFA Board discussed and agreed to suspend the LPFA Seal of Authority, required to execute documents by Deed, and implemented a means to manage electronic agreements, with Board oversight. This has allowed the LPFA to remain responsive to the needs of its employers and continue to operate safe business practices.

4.2 Governance highlights

The Governance highlights during 2020-21 were:

- **Effective oversight:** Following the appointment of the Chief Legal and Compliance Officer in July 2020 – which included taking on the role of Monitoring Office in October 2020, the recruitment of the LPFA's Senior Leadership Team (SLT) was completed. The SLT have been able to drive the Fund's strategic business priorities, ensure business controls 'best in class', ensure appropriate oversight of LPPI and LPPA and compliance with statutory guidance.
- **Refinement of internal control best practice:** The SLT have taken the time to develop and review systems and processes. Internal audits have supported the refinement of best practice within the LPFA. There has been continuous improvement including a clarification of the Risk Management Principles, the consolidated articulation of the LPFA Compliance framework and the development of an assurance map.
- **Futureproofing the LPFA Board and Local Pension Board:** Supporting the Mayor's Office, the LPFA recruited new members of the LPFA Board. The Mayor of London appointed four new LPFA Board members with effect from 18 May 2021. Recruitment for three new Local Pension Board members also took place leading to the appointment of two employer and one member representatives. The LPB's independent Chair and an LPB employer representative were also re-appointed for a further term.

4. Governance continued

4.5 The LPFA Board, Committees and Executive Team

LPFA Operations and Constitutional Framework

The LPFA has a unique status in the UK with specific legal rights and responsibilities. It is an Administering Authority without a connected local authority and operates in accordance with its own legal constitution. It is also a corporation formed by statute which established it as a 'body corporate'.

The LPFA's corporate governance framework is modelled on guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). LPFA's governance framework outlines the systems, processes, culture, and values, by which it is directed and controlled, and the activities for which it is accountable. The corporate structure, set out in the image below, shows how the LPFA is governed. Terms of reference can be found on the LPFA website.

Details of the annual review that the LPFA has to ensure a sound system of internal control, required by regulation[4], is published within the LPFA Annual Governance Statement on the LPFA website. The LPFA's governance compliance statement outlines how it delegates its function under regulation[5].

Conflicts of interest

All senior managers, LPFA Board members and LPB members are requested to complete conflicts of interest declarations, upon joining the LPFA and at the start of every financial year. At every meeting, all members are asked to declare any new conflicts, with agreement on standing declarations reported to Board. The Conflicts Register is regularly updated and presented to the Audit and Risk Committee (ARC) for consideration.

The LPFA Board

The LPFA Board's appointment process and size is defined by statute[6]. The Constitution details the specific matters reserved for decision by the Board and outlines the Standing Orders adopted by the LPFA under their authority to regulate their own proceedings[7].

All Board members have voting rights and decisions are by the majority of the Board members present at a meeting. In addition to regular Board meetings, two additional strategic sessions were held over the financial period to finalise the LPFA's strategic priorities and discuss the challenges posed by COVID-19. An annual Board Away Day was held in September 2020 to discuss Shareholder Responsibilities, LPFA's Strategic Performance, Communications and Engagement and Board Effectiveness.

Please refer to the LPFA Board Public papers on the LPFA website for the details of decisions made by the Board throughout 2020-21.

Appointments

The new Board members appointed over the period enhance the Board's capabilities and expertise. The new appointees bring investment management experience, RI, ESG and climate change expertise; pension fund knowledge; and public service governance experience. The diverse background of the Board is an asset and informs effective decision-making.

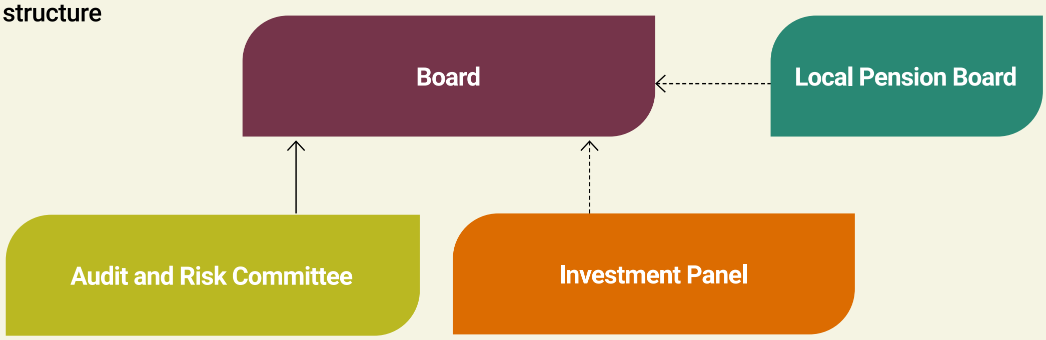
Board changes

During the year, former Cllr. Tony Newman resigned as a member of the Board. The LPFA would like to thank Tony for his assistance and support during his term.

Dermot 'Skip' McMullan also retired as LPFA Board Deputy Chair and Shareholder Non-Executive Director on the LPP Group Board. The Chair, John Preston, on behalf of the Board thanked Skip for the contribution he had made during his eight-year tenure on the LPFA Board, the LPFA Investment Panel and LPP Group Board.

With the support of the LPFA Board, Terence Jagger was selected as the LPFA Shareholder Non-Executive Director on the LPP Group Board, effective from 1 January 2020, and sits on the LPP Group Remuneration and Nomination Committee. The LPFA Board retain the approval of shareholder reserved matters related to LPP Group.

LPFA's corporate structure



4 The Accounts and Audit Regulations 2015, specifically Regulation 3 and Regulation 6.
5 The Local Government Pension Scheme Regulations 2013, Regulation 55.
6 The London Government Reorganisation (Pensions etc.) Order 1989, as amended by the Greater London Authority Act 1999 Section 402 and 403.
7 Local Government 1985, Schedule 13, paragraph 5 (1).

Board composition

The current Board members are set out below*:
Full biographies are available on the www.lpfa.org.uk website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1. John Preston
   Chair
2. Rita Bajaj
   Investment Panel Member
3. Cllr. Ruth Dombey
4. Belinda Howell
   Investment Panel Member
5. Terence Jagger
   LPFA Shareholder Non-Executive Director on the LPP Group Board
6. Tamlyn Nall
   Chair of the Investment Panel
   Member of the Audit and Risk Committee
7. Debbie Rees
   Audit and Risk Committee Member
8. Clare Scott
   Investment Panel and Audit and Risk Committee Member
9. Christina Thompson
   Chair of the Audit and Risk Committee

* Dr Barbara Weber has stepped down from the LPFA Board on 31 July 2021, following the conclusion of her term of appointment.

4. Governance continued

4.5 The LPFA Board, Committees and Executive Team continued

The table below shows the Board members' appointment period, experience, who appointed by, their Board attendance, committee membership and committee attendance in order of Chair and then tenure.

Board member	Appointment period	Experience	Appointed as part of a London Council	Board attendance*	Committee Membership 2019-20	Attendance at Committee meetings
John Preston Chair from 1 January 2020	1 January 2020 to 31 December 2023	Finance General management UK and international Business Pensions Administration	No	5 out of 5	n/a	
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	5 out of 5
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	5 out of 5 4 out of 4
Dr Barbara Weber	30 June 2017 to 31 July 2021	Investment Management	No	5 out of 5	Audit and Risk Investment Panel (interim member)	4 out of 5 4 out of 4
Ruth Dombey	19 October 2018 to 31 December 2022	Local Government Administration Finance	Yes	5 out of 5	n/a	n/a
Christina Thompson Chair of the Audit and Risk Committee	1 January 2019 to 31 December 2022	Finance in Local Government	Yes	5 out of 5	Audit and Risk	5 out of 5
Rita Bajaj	18 May 2021 to 30 April 2025	Investment Management and Risk	No	n/a	n/a	n/a
Belinda Howell	18 May 2021 to 30 April 2025	Stewardship and Responsible Investment	Yes	n/a	n/a	n/a
Clare Scott	18 May 2021 to 30 April 2025	Local Authority, Public Sector and LGPS	No	n/a	n/a	n/a
Debbie Rees	18 May 2021 to 30 April 2025	Investment management, Risk management and Stewardship	No	n/a	n/a	n/a
Tony Newman**	19 October 2018 to 31 October 2020	Local Government Investments	No	2 out of 3	n/a	n/a
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	4 out of 4

* Excludes attendance at the LPFA Board Strategy Away Day.
** Tony Newman resigned from the LPFA Board.

Remuneration and nomination matters

Matters related to remuneration and nomination reside with the Board including the appointment of statutory Principal Officers and the CEO's performance appraised objectives.

The Board members' remuneration is published on the LPFA's website.

Board development

The LPFA follows the CIPFA pensions finance knowledge and skills framework. Board member performance reviews are conducted annually by the LPFA Chair to ensure that members contribute effectively and demonstrate commitment to their role. The review provides Board members with the opportunity to consider their previous skills assessment and highlight opportunities for future training sessions. Board members are personally responsible for identifying gaps in their knowledge which could prevent them performing their duties effectively. All new members to the Board and LPB are provided with an induction plan which assesses their skills and allows for tailored sessions to be arranged.

The LPFA Board training calendar is revised after the completion of the performance reviews, or as required, and discussed at the next Board meeting. In 2020-21, the June training sessions were cancelled due to COVID-19 but resumed from July 2020. The following training sessions were provided, and external virtual events attended by members of the Board or Principal Officers:

- PLSA Local Authority Conference on 18 to 22 May 2020
- LPPI Investment Strategy Overview on 22 July 2020
- LPPI Operational Due Diligence – An Overview on 13 October 2020
- PLSA Annual Conference on 16 to 18 October 2020
- PLSA Local Authority Update on 11 November 2020
- LPPI Cyber Security on 10 December 2020
- LPFA Employer Management Services Strategy on 9 March 2021

Board evaluation

In 2018, an externally facilitated evaluation judged that the LPFA Board was operating effectively. A subsequent Board effectiveness review was postponed in 2020, along with a committee effectiveness review, to allow time for the new Board members to familiarise themselves with the organisation.

Audit and Risk Committee (ARC)

The ARC is tasked with monitoring the operation of the LPFA's internal control, financial management, governance, compliance and risk arrangements and to make appropriate recommendations to the Board. All members of ARC have voting rights. The ARC reviewed their terms of reference and they were approved by the Board in December 2020.

Due to COVID-19, the regulatory public inspection period and publication date of the audited 2019-20 Statement of Accounts was extended. ARC was kept up to date with the status of the external audit process. The 2019-20 Pension Fund Annual Report and Statement of Accounts were published on 30 November 2020, as required by regulation. However, there was a short delay for the operational and residual liabilities accounts which were published on 22 December 2020.

The LPFA's external auditor is Grant Thornton. Their Annual Audit Letter ('the Letter') has been published on the LPFA website. It summarises the key findings from audits carried out over this period. The Letter confirms proper arrangements for economy, efficiency and effectiveness in the use of LPFA resources.

A full annual report from ARC for 2020-21 has been published on the LPFA website.

4. Governance continued

4.6 LPFA Principal Officers and Senior Leadership Team

Investment Panel

LPFA also operates an informal Investment Panel ('IP' or 'Panel'). The panel receives updates on the investment decisions made on behalf of the LPFA by LPPI. IP's role is to review the performance of the Fund's assets and whether these are compliant with the ISS, prior to discussion by the LPFA Board. 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.

IP is comprised of LPFA Board members all with voting rights and is attended by representatives from LPPI. The panel meets four times a year typically prior to a Board meeting.

Local Pension Board (LPB)

The LPB is formed of both member and employer representatives. Its role is to assist the LPFA Board with the oversight and the efficient management of the Fund. The independent Chair's annual report provided later in this document provides a detailed summary of LPB business.

LPB Members are encouraged to attend suitable external training events to support their continued professional and understanding of LPB agenda items. To encourage collaboration, joint training was undertaken with the LPFA Board and LPB members have also been involved in some of the Fund's engagement activities, such as the Employer Forums and the Practitioners Conference.

LPFA Principal Officers and Senior Leadership Team

Principal Officers

The LPFA's Principal Officers are the CEO, the Section 151 Officer and the Monitoring Officer. The Principal Officers ensure that appropriate advice is given to the Board on financial and legal items and that resources are used efficiently and effectively. The LPFA's Officers and their roles can be found on the LPFA website.

Senior Leadership Team

The LPFA retains a small, experienced management team to manage the priorities of the Authority and the Fund. The roles and responsibilities of each of members of the management team were as follows:

- **Commercial and Finance Director: Morenike Ajayi** (succeeded by Michelle King as Finance Director on 25 June 2021) ensures an effective Finance function by monitoring the financial benefits of the partnership. The role is responsible for the development, implementation and regular review of the Fund's financial strategy. The role holder is LPFA's relationship manager for both internal and external audit ensuring the delivery of good value for money.
- **Head of Communications and Engagement: 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 and traditional 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.

LPP's corporate structure*

* 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.

- **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.
- **Chief Legal and Compliance 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.

Asset Pooling, Governance and Oversight

The LPFA is both a shareholder and a client of the LPP Group. As a client the service provided by LPP Group is governed by legal and service level agreements (SLA), based on an expectation of the levels of quantitative and qualitative service provided.

Ensuring operational efficiency, through the governance and oversight of LPP Group is a standing item for the LPFA Board. The highlights of the shareholder activities undertaken are as follows:

- As one of two shareholders of LPP Group, the LPFA has entered into a Shareholder Agreement (with co-equal shareholder LCC). The LPFA, along with LCC, are required to approve specific matters regarding LPP Group including aspects of LPP remuneration, strategic planning and budgeting.
- The LPFA has a shareholder appointed Non-Executive Director (NED) on the LPP Group Board. The NED has a standing item on the LPFA Board only meeting to share his thoughts on his recent attendance at LPP Group meetings and shareholder forums.

The LPFA's CEO is also an observer to the LPP Board. The LPFA nominated the LPFA CEO to join the LPPA Board in July 2020 as a NED.

Quarterly formal shareholder meetings are held between LPFA, LCC and LPP Group to discuss achievements and strategic plans. In addition, 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 on a quarterly basis, with updates on the progress made against KPI's by LPPA and LPPI representatives.

4. Governance continued

4.7 Risk management

Risk management

The management of the Fund is based on the objectives outlined in our ISS and FSS. The Fund's primary objective is to ensure that over the long term the Fund will meet all liabilities as they fall due. The Fund is exposed to a large number of risks, the three most significant of which are:

- **Funding risk** – the risk that the value of assets and/or the value of liabilities change in such a way that contributions are required from employers at an unaffordable level. This risk is managed in several ways, including:
  - The use of a funding risk management framework to set metrics intended to identify and manage emerging funding risks at an early stage.
  - Regular funding valuations to assess the Fund's financial position.
  - The cost control mechanism included within the benefit structure of the LGPS provides a limit on the potential increase in contributions.
- **Operational failure** – the risk of failing to have adequate structures in place to ensure LPFA meets its obligations to members and employers. The operational delivery of the Fund is carried out by LPP on LPFA's behalf. The ongoing management of operational risk therefore lies with LPP. LPFA carries out oversight of LPP's risk management by:
  - Monthly reporting from LPP identifying issues and potential risks, which is considered by the Audit and Risk Committee.
  - Monthly meetings between LPFA's Funding and Risk Director and the head of LPPA's risk management team.
  - Oversight of LPP Group through LPFA's role as a 50% shareholder.
- **External influences** – the risk that issues outside LPFA's control affect the ability to deliver obligations. For example, this would include the risk of additional liabilities (such as created by the McCloud judgement) or issues that affect the ability of employers to make contributions to the Fund (such as climate change, the COVID-19 pandemic or challenges relating to the UK's exit from the EU). This risk is addressed by:
  - Adopting an employer risk management framework setting out how LPFA measures and manages employer-related risks.
  - Regular contact with external stakeholders and industry bodies to identify upcoming issues and influence them to the extent possible.

LPFA's broader risk management activity can be considered in three main areas:

1. LPFA has adopted a funding risk management framework to measure and monitor the risks of failing to meet its primary objective.
2. We also maintain a comprehensive risk register and risk management principles to monitor and manage all the major risks facing the Fund. During 2020, we reviewed our risk management principles and the structure of our risk register.
3. LPFA's internal auditors provide assurance around the risks identified in the risk register and the robustness of the risk controls we put in place.

The ARC seeks to provide the LPFA Board with assurance about the robustness of the Fund's risk management framework. 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 Board's risk appetite.

Funding risk management framework

LPFA's funding risk management framework specifies metrics and tolerances intended to monitor the risk of failing to meet the Fund's primary objective. The framework specifies four metrics as shown below.

The LPFA Board has specified "amber" and "red" tolerances for each of these metrics and actions to be taken if the tolerances are breached.

Metric	Rationale
Extent of deviations from the Strategic Asset Allocation (SAA)	Identifies potential situations in which the Fund's asset allocation could have an inappropriate risk profile.
The period of time that the Fund's current cash and cash-equivalent instruments could continue to pay benefits in the absence of investment income	Identifies potential situations in which the Fund could be forced to liquidate its assets at inopportune times.
Current funding level and projected funding level	Identifies potential situations in which the Fund could have insufficient assets to meet liabilities as they fall due, requiring additional employer contributions.
Projected average total contribution rate	Identifies potential situations in which employer contributions could need to increase significantly from current levels.

LPPI carries out asset and liability modelling each quarter to assess these metrics. The results of these calculations are reported to ARC for review.

More detailed reporting of the Fund's investment risk profile is considered through LPFA's IP meetings with LPPI representatives. IP reports any issues identified to the Board.

Risk management principles and Risk Register

LPFA 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 identification and monitoring of risks. The risk categories and principal controls are set out in the table below.

The Risk Register is reviewed monthly by the LPFA management team to ensure that any new risks are identified and the correct controls are in place to manage these risks effectively. The CEO is responsible for ensuring that new risks are identified and captured and that controls remain appropriate.

Risks relating to employers are included in the risk register as funding risks. These risks are managed by LPFA's Employer Management Services team. More information can be found in the Administration section.

The Risk Register is also scrutinised by the ARC. The ARC issues recommendations to the Board where appropriate, providing an additional layer of assurance to the risk oversight. 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 2020-21 financial year.

The roles, responsibilities and reporting requirements of the different groups within the LPFA are listed on the next page.

Assurance provided by internal audit

From 1 April 2020, the LPFA has used the internal audit services of PwC to provide assurance on the internal controls, governance, operational activity and oversight of the Fund.

PwC report the findings from their internal audits to ARC and agree actions to be taken by the LPFA management team to mitigate any risks identified.

During the year, LPFA's internal audit work progressed well providing assurance that most governance arrangements are largely established and embedded while identifying additional areas for improvement.

LPP Group has its own internal audit arrangements to provide assurance over LPP's administration and investment activities, and ARC receives an annual partnership compliance report to provide assurance that LPP has suitable controls in place and that they are adhered to. Additionally, LPP Group provides regular reports to LPFA on compliance matters.

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.

Risk Areas Identified	Principal Controls
Governance Risks associated with the policies, principles, processes and resources used to govern LPFA.	• Formal Governance structure in place • Internal audits • Formal risk management process • Regular training for Board, Local Pension Board and Officers
Funding Risks associated with LPFA's ownership of LPP Group.	• Diversified investment strategy, with focus on long-term returns • Actuarial valuations • Security over employer assets • Liquidity management process
Operational Risks of LPFA having insufficient financial resources (assets) to pay its liabilities as they fall due.	• Oversight of LPP operations by LPFA Management team • Business continuity plan • Robust data collection policies
Pensions administration Risks associated with operational processes of LPFA to achieve its operational objectives and desired operational results.	• Oversight of LPP operations by LPFA • Regular data cleansing work • Well documented processes and procedures
Shareholder Risks associated with LPFA's interactions with members and employers, including record keeping.	• Quarterly shareholder meetings • LPFA representation on the LPP Board
Transitional Risks associated with short-term projects, likely to last for less than one year.	• Robust project management for large one-off change projects • Regular horizon scanning

4. Governance continued

4.8 Statement from the Local Pension Board

Group	Roles and Responsibilities	Reporting
Risk Owner	• Responsibility for management of assigned risk • Escalate urgent issues or emerging risk events to the Funding and Risk Director as necessary	• Risk Owners to escalate issues or incidents as they occur. • Initial escalation is to the Funding and Risk Director and LPFA CEO.
Control Owner	• Responsibility for management of control of assigned risk • Providing assurance to Risk Owner that the control is operating effectively	
LPFA Management Team	• Monthly horizon scanning for new risks • Approving changes to risk scores proposed by Risk Owners	• Monthly review of Risk Register.
Funding and Risk Director	• Operational responsibility of maintaining the Risk Register • Together with Risk Owners, consider possible controls • Facilitate monthly reviews of risk register by the LPFA Management Team • Escalate urgent issues or emerging risk events to the CEO as necessary	
LPFA CEO	• Ensuring progress on actions in the register • Reporting to Board, ARC and LPB • Authorising risk controls where the time or monetary costs of a control are significantly lower than the benefits derived in terms of reduced risk • Authorise action to address urgent issues or emerging risk events • Inform LPFA Board and/or ARC of actions taken to address urgent issues or emerging risk events	
Audit and Risk Committee	• Defining and ultimate responsibility of monitoring the Risk Management process • Monitoring the Risk Register and the effectiveness of Risk Controls • Recommending Risk Appetite to LPFA Board • Using the Risk Register to inform audits and Committee decision-making • Authorising risk controls where requested by the LPFA CEO	• Quarterly reporting to ARC by LPFA Funding and Risk Director. • Current version of Risk Register. • Summary of changes since previous version of Risk Register.
LPFA Board	• Overall responsibility for the Risk Management process • Overall responsibility for Risk Appetite • Using the Risk Register to inform Board decision-making	• Six-monthly reporting by CEO to Board, and LPB. • Any existing and new risks/update on 'High' ('Red') risks. • Any changes to risk Impact and Likelihood scores. • Any overdue actions. • Review of risk appetite and full Risk Register by ARC and subsequently by Board and LPB.
Local Pension Board	Annual review of the Risk Register as it relates to Fund risks Liaise with the LPFA CEO on the effectiveness of the Risk Controls	• Six-monthly reporting by CEO to Board, and LPB. • Any existing and new risks/update on 'High' ('Red') risks. • Any changes to risk Impact and Likelihood scores. • Any overdue actions. • Review of risk appetite and full Risk Register by ARC and subsequently by Board and LPB.
Local Pensions Partnership (LPPI and LPPA)	Provide LPFA with regular updates on risks LPP is managing on LPFA's behalf Inform LPFA of any new or emerging risk relating to LPFA	

Statement from the Local Pension Board

The LPFA's Local Pension Board (the LPB) has been up and running for nearly six years. As a reminder to readers, our legal duty is to assist the Executive Board (the Board) with oversight and the effective running of the Fund; the LPB has no executive functions. Because LPB members explicitly represent either employers or members, we also have a representative role within the governance structure.

We work from a Work Plan, which is approved by the Board each year, to ensure that we cover all our duties and work in tandem with their activities. Our core function is one of oversight: we 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 to the Board, which requires a response. In this year we have not had to take this step.

Our role is to assist the Board and a good relationship between the two bodies is absolutely essential. Over the year our meetings have all been attended by at least one member of the Board, which has been helpful in ensuring that our activities are aligned. I also have regular conversations with the LPFA Chief Executive Officer (CEO) and the Chair of the Board between meetings.

This year has been extraordinary because of the various restrictions imposed as a result of the COVID-19 pandemic. At an operational level LPFA, and to a large extent Local Pensions Partnership (LPP) staff who provide the bulk of services to the Fund, have worked from home. Our focus has therefore been on monitoring the maintenance of service levels to employers and members. I discuss this in more depth later.

The restrictions meant that the LPB itself held all four meetings during the year by video and audio conference. Like many other organisations, we have found that virtual meetings are not as satisfactory as face to face but it has been possible for us to fulfil our duties in full. They have, however, made it easier for Officers and service providers to attend our meetings to support the reports on the agenda.

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 concentrate on in the next year.

Membership of the Local Pension Board

The LPB has nine members – four Employer representatives, four Scheme Member representatives and I act as the Independent Chair. Apart from the Chair, none are remunerated other than for expenses incurred in attending meetings or training.

The LPB meets four times a year and two members, Sean Brosnan and Omolayo Sokoya, separately act as a Working Party to provide an informal sounding board for the LPP administration team who provide services to the Fund. As the independent Chair I report to the Board formally on the LPB's activities once a year. I also oversee an annual effectiveness appraisal to make recommendations on improvements and a report on this goes separately to the Board.

Information about the LPB, including minutes and agendas, are available on the Fund's website, as part of the Board Public session. There is no internal budget, but costs are approved by the Authority and paid by the Fund. In this year, due to COVID-19, the LPB did not incur any costs. However, to support the onboarding of new LPB members, participation in external training will form part of their induction programme and this will incur a nominal cost to the Fund.

During the year, Adrian Bloomfield's first four-year term as an employer representative came to an end and he has chosen not to continue for a second term. There were no other retirements during the year but the terms of two original members, Frank Smith (employer representative) and Peter Scales (member representative), will come to an end in June 2021. I would like to thank Adrian, Frank and Peter for their service over the past years. The latter two were appointed at the LPB's original establishment in 2015, and all three have been instrumental in developing its purpose and operation so that it has become an effective part of the Fund's governance structure.

We have advertised and interviewed to replace these three vacancies, and I am pleased to welcome Stephen Boon and Jasbir Sandhu as employer representatives and Mike Allen as a member representative. Stephen brings with him a local government

4. Governance continued

4.8 Statement from the Local Pension Board continued

2020-21 Training attended by LPB members and independent Chair

LPB Members		Total attendance
24/06/2020	External	LGPS Local Pension Board's Annual Full Day Event (Independent Chair attended)
15/09/2020	Internal	LPFA Investment Strategy Review and Responsible Investment Reporting by the LPFA Funding and Risk Director
01/12/2020	External	LPP Governance Charter and the new LPP Group structure by the LPP Director of Strategy
10/12/2020	External	Cyber Security (Training with the LPFA Board – 2 members attended) by the LPPI Chief Information and Technology Officer
02/03/2021	External	LPPA Risk and Compliance Assurance by LPPA Head of Risk and Compliance
09/03/2021	Internal	LPFA Employer Management Services (EMS) by LPFA Head of EMS (Training with the LPFA Board – three members attended)

and London Borough expertise. Jasbir has a strong financial background and board level experience in the public sector. Mike retired as Managing Director of the LPFA in 2018 and brings a wealth of experience on the LGPS and pensions administration. Due to the open vacancy on the LPB following Adrian's retirement in January 2021, Stephen's appointment commenced in April 2021. Mike and Jasbir attended the May 2021 meeting as observers and will be formally appointed thereafter. Amy Selmon has been reappointed for a second term after completing her first four years. There were no other changes to the LPB's composition during the year.

LPP was reorganised during the year into two separate parts, one focusing on investments and one on administration. As a result, more functions are being transferred back to the Fund, and the Fund Executive management team has accordingly been expanded.

The following table shows the LPB's membership and their attendance at meetings.

Training

The LPB is under a legal obligation to maintain its levels of knowledge and understanding through regular training. External training opportunities were limited by the lockdown restrictions, but during the year we held online training sessions before three of our meetings and LPB members also joined the Board for joint training on two occasions. Subjects covered included Responsible Investment, the assurance framework, fraud control, cyber security and employer risk monitoring.

Activities during the year

The year was dominated by two issues: the challenges presented by the national lockdowns in the first half and the structural changes to LPP during the second half.

You will read elsewhere that LPP responded admirably to the national

LPB Board Membership and Attendance 2020-21

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	4 out of 4
	Frank Smith	4 out of 4
	Adrian Bloomfield (Retired 25 January 2021)	1 out of 3
	Amy Selmon	4 out of 4

imposition of working from home. While there was some impact in the initial months as processes were re-organised, the administration team was quick to adapt to the new working environment. We had regular updates at LPB meetings as well as more frequent ones between them in the early days. During the year, LPP also developed more detailed Key Performance Indicators which have significantly improved the data we monitor and comment on.

The separation of LPP's administration and investment functions into two independent units, LPPA and LPPI, led to a number of new challenges. The LPB is supportive of the decision to move to two more focused entities but needs to assure itself that there will be cost and efficiency savings from returning some of the shared functions, such as marketing and facilities management, back onto the Fund. For example, the LPFA will now have to support its own website rather than relying on LPP resources.

It also presents some governance questions for the LPB. We will now have to monitor two entities instead of one and the company secretarial resources we have previously relied on will also move back to the LPFA. We have spent some time putting in place a process to assure ourselves of the quality control frameworks at both parts of LPP, as that is at the core of the assurance statements provided by them which we rely on.

One consequence of this has been the expansion of the team under the LPFA CEO. In the future the LPB will value their additional validation of the assurances given by LPPA and LPPI, which in my view creates better governance alignment. We are conscious of the extra cost involved but have been assured it is offset by a larger reduction in the charges made by LPP.

Outside these two areas, the core of the LPB's activities during the year remained its formal duties of scrutiny and assistance to the Board in running the Fund efficiently and effectively. At all meetings our agenda includes updates on breaches, Key Performance Indicators, and risk and compliance. Twice a year we review the risk register.

During this year, we also reviewed a range of reports. Examples include the triennial valuation report, employer compliance with the Pension Regulator's Code of Practice 14 (COP14), cyber fraud, data quality, the Business Continuity Plan, employer discretions, the internal whistleblowing code, fraud control, investment costs and responsible investment. We also reviewed the plan to procure a new website, which is due to be implemented in 2021.

Looking forward to next year

Looking forward to 2021-22, we hope to be able to resume meeting in person in September. We will continue to fulfil our core functions of assisting with Fund oversight. As part of our role to assist with the effective running of the Fund, we expect to spend time on member and employer communications as the Fund's website comes on stream and LPPA develops their offering to clients such as the LPFA.

Separately, there are a number of other regulatory requirements coming down the track. The Pensions Regulator is reviewing the COP14, which the Local Government Pension Scheme falls under. It has recently launched a consultation on its proposal to combine COP14 with nine other codes covering pension funds. The Ministry for Housing, Communities and Local Government is expected to publish new guidance on investment strategy, including further requirements on pooling in 2021. The recommendations made in the Scheme Advisory Board's Good Governance project are likely to be implemented in separate new statutory guidance as well. Finally, new legislation is expected to increase the requirements to disclose pension funds' exposure to climate change risks.

I believe the LPFA is in most ways well placed to be compliant with these in principle but the LPB will continue to act as a second pair of eyes to assist the Board in ensuring full compliance with them as the details of the requirements are made publicly available.

With the support of the LPFA's officers and LPPA and LPPI staff, we expect to play our part in assisting the Board to ensure that your fund continues to be well managed and to pay your 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

25 May 2021

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 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 2021 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 2020/21 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 30 September 2021.

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 20120/21.

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

29 October 2021

5.2 Pension fund accounts

Pension Fund actual results compared to budget

Pension Fund	Actual 2020-21 £'000	Budget 2020-21 £'000	Variance 2020-21 £'000
Dealings with members and employers			
Contributions	**166,474**	**150,300**	**16,474**
Transfers in	**21,296**	**11,800**	**9,496**
Benefits payable	**(271,871)**	**(285,100)**	**13,229**
Transfers out	**(14,817)**	**(11,800)**	**(3,017)**
Net dealings with members and employers	**(98,918)**	**(134,800)**	**35,882**
Management expenses			
Investment management	**(93,687)**	**(46,900)**	**(46,787)**
Administration	**(2,082)**	**(2,082)**	**–**
Oversight & governance	**(3,349)**	**(3,394)**	**45**
Investment services fee LPPI	**(700)**	**(2,300)**	**1,600**
Total management expenses	**(99,818)**	**(54,676)**	**(45,142)**
Returns on Investments			
Net investment income	**145,903**	**145,700**	**203**
Taxes on income	**178**	**–**	**178**
Change in market value	**1,081,379**	**377,700**	**703,679**
Total return on investments	**1,227,460**	**523,400**	**704,060**
Net inflow/(outflow) to the Fund	**1,028,724**	**333,924**	**694,800**

Overview of the year

The net inflow to the Fund for the year was £1,028.7m compared to a budgeted inflow of £333.9m. The favourable variance of £694.8m was due to the change in market value of investments being an increase of £1,081.4m, £703.7m above the budgeted increase of £377.7m.

Dealings with members and employers

The net loss from dealings with members and employers was a favourable variance of 26.6% mainly due to a 10.8% favourable variance in contributions income and an underspend of 4.64% in benefits payable. In addition, transfers in were 25.6% above budget. The contribution income increased due to an increase in the average employer contribution rate from 15.8% to 16.9%. Three of the top four contributors increased their contribution rate by an average of 2.7%. Cessation valuation income also increased from £1.0m to £6.0m. Therefore, contribution income increased despite the fact that the number of active members declined by 2%.

Pension benefits were virtually the same as last year and lump sum payments reduced by £4m. Pension membership reduced by 0.4% during the year.

5. Pension fund accounts continued

5.2 Pension fund accounts continued

Management expenses

Management expenses were 82.6%, £45.1m, above budget predominantly due to the fact that Investment fees were 100%, £46.8m above the budget. This was mainly due to a significant increase in performance investment fees, which had increased by 67.4% compared to last year, to £38m due to a significant increase in performance compared to the budget, being a favourable variance of £621m, 165%.

The investment advisory fees have also increased by 14.1%. These have increased as they are based on the value of assets under management which increased by 16%. The increase in fees was lower due to the economies achieved by the pooling of the real estate assets.

LPPI investment fees billed directly to the fund for assets that have not been pooled are £1.6m below budget. This is due to the fact that value of this category of asset fell significantly due to the pooling of real estate assets during 2019-20.

Returns on investments

Investment income was £145m, virtually in line with the budget. This was predominantly income from LPPI private equity, LPPI infrastructure and LPPI global equity. Income from LPPI private equity and infrastructure fell during the year. This would have been caused by the delay caused by COVID-19 on the completion of projects and hence the generation of distributable returns.

The change in market value of £1,081.4m was mainly comprised of the gains in the global equity pool of £592.3m, gains in the private equity pool of £121.3m and the gains in the non-pooled equity of £104.4m.

Investment assets

The value of investment assets increased by £966.2m from £5.733bn to £6.781bn (2019-20 fall of £87m). This was due to the fact that the change in market value was an increase of £1,081.4m compared to a budget of £377.7m. This is compared to a decline of £183m in 2019-20 mainly as a result of the COVID pandemic.

The cash held by fund managers increased from £0.5m to £35.1m. The £35.1m was held by Record Currency Management (RCM) at the year-end for currency transactions.

Movement in non-investment assets

Cash balances held directly by LPFA was virtually unchanged reducing from £100.3m to £100.2m.

Current assets have reduced by £18.6m mainly due to that fact that we had accrued bulk transfer income of £37m in 2019-20 that was received during the year but there are no bulk transfers for the current year. This reduction was partially offset by an increase in accrued investment income and £4.7m due for cessation valuations.

Current liabilities have increased by £1.0m due an increase in death grants payable.

Fund account

	Notes	**2020-21 £'000**	2019-20 £'000
Dealing with members, employers and others directly involved in the Fund			
Contributions	7	**166,474**	156,966
Transfer in from other pension funds	8	**21,296**	66,018
		187,770	222,984
Benefits	9	**(271,871)**	(274,215)
Payments to and on account of leavers	10	**(14,817)**	(17,440)
		(286,688)	(291,655)
Net withdrawals from dealings with members		**(98,918)**	(68,971)
Management expenses	11a	**(99,818)**	(73,025)
Net withdrawals including fund management expenses		**(198,736)**	(141,696)
Returns on investments			
Investment income	12a	**145,903**	155,316
Taxes on income		**178**	(793)
Profit and loss on disposal and change in value of investments	14a	**1,081,379**	(183,038)
Net returns on investments		**1,227,460**	(28,515)
Net increase/(decrease) in net assets available for benefits during the year		**1,028,724**	(170,211)
Opening net assets of the scheme		**5,883,043**	6,053,254
Closing net assets of the scheme		**6,911,767**	5,883,043

5. Pension fund accounts continued

5.2 Pension fund accounts continued

Net assets statement for the year ended 31 March 2021

	Notes	31 March 2021 £'000	31 March 2020 £'000
Investment assets	14	**6,787,334**	5,881,870
Investment liabilities*			
Derivatives	15	**(6,267)**	(49,305)
Total net investments		**6,781,067**	5,732,565
Cash balances	19	**100,219**	100,303
Current assets	21	**37,803**	56,423
Current liabilities	22	**(7,322)**	(6,248)
Net assets of the Fund available to fund benefits at the year end		**6,911,767**	5,883,043

* 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 26.

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 Funding Strategy Statement (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 2021 was 124 (2020: 135). 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 2021, are set out in Annex ii.

The Fund membership was as follows:

Fund membership	**2020-21 Numbers**	2019-20 Numbers
Active members	**20,115**	20,574
Deferred beneficiaries	**28,897**	29,120
Pensioner/Dependents	**35,963**	36,095
Undecided leavers and Frozen refunds	**6,700**	6,551
Total number of members in Pension Scheme	**91,675**	92,340

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 2021. Employers' contributions are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently employer contributions range from 0% to 34.6%.

d) Benefits payable

Pension and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities, providing the payment has been approved.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

2. Basis of preparation

The Statement of Accounts summarises the funds transactions for the 2020-21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 (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 26 to these accounts.

The funding level of the whole fund at the last triennial valuation as at 31 March 2019 was 109%, meaning that the assets value were 9% above the value of the pension obligations.

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.

Real estate income consists primarily of rental income.

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 Pension 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 contracts are measured at fair value.

Derivative contract assets are measured at bid prices and liabilities are measured at offer prices. 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 assets 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 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 26).

4. Critical accounting estimates and judgement

Actuarial present value of promised retirement benefits

The calculation of the present value of promised actuarial benefits by the actuary involves judgements in relation to various factors that play a part in the calculation such as scheme member mortality rates, expected returns on the scheme assets, inflation and expected pay increases.

Unquoted private equity, infrastructure investments and credit funds

The valuations 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 (2015). The value of unquoted private equities, infrastructure and credit at 31 March 2021 was £1,798m (£1,448m at 31 March 2020). 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

Real estate fund

The real estate property values within the real estate fund are generally a matter of a valuer's opinion rather than fact and may go down as well as up. There is also a risk that the price at which a property is valued may not be realisable in the event of a sale. This could be due to a mis-estimation of the asset's value or due to a lack of liquidity in the relevant market. Real estate assets were valued at £598m at 31 March 2021 (31 March 2020: £587m).

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 £189m. The rates have gone down over the past 3 years, currently being 2.00%, 2.35% for 2020, and 2.4% for 2019. b) A 0.1% increase in long-term salary increase would increase the obligation by £13m. c) A 0.1% change in the long-term pension increase would increase the present value of the obligation by £178m. More details on the assumptions are shown in note 26.
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 (2015). 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 £1,798m. The value at 31 March has recovered the loss 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%.

Property valuation within the LPPI Real Estate Fund

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

There is still a level of uncertainty regarding the impact of the COVID-19 pandemic due to the new Delta variant that has caused the delay to the planned full removal of restrictions. The uncertainty is significantly less than last year due to the development of vaccines during the year. This presented the valuers of Level 3 investments with a more secure basis to make judgments about the valuations, although the uncertainties remain. 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).

There were no adjusting or non-adjusting post balance sheet events.

7. Contributions

By category

	2020-21 £'000	2019-20 £'000
Employers – normal	**88,887**	79,650
Employers – additional	**27,816**	34,488
Employers – one-off deficit payment	**1,250**	250
Members – normal	**42,513**	41,567
Cessation valuations	**6,008**	1,011
	166,474	156,966

By type of employer

	2020-21 £'000	2019-20 £'000
Scheduled bodies	**65,774**	63,476
Admitted bodies	**98,959**	92,497
Community admission body	**633**	659
Transferee admission body	**1,198**	334
	166,474	156,966

Additional deficit contribution

Employers in the Fund continue to approach LPFA regarding additional one-off contributions to the Fund 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

	2020-21 £'000	2019-20 £'000
Group transfers	**4,161**	52,612
Individual transfers	**17,135**	13,406
	21,296	66,018

9. Benefits

By category

	2020-21 £'000	2019-20 £'000
Pensions	**238,955**	238,252
Commutation and lump sum retirement benefits	**24,969**	28,679
Lump sum death benefits	**6,297**	4,083
AVC payments	**777**	1,299
Tax on exceeding lifetime or annual allowance	**873**	1,902
	271,871	274,215

By type of employer

	2020-21 £'000	2019-20 £'000
Scheduled bodies	**168,473**	169,367
Admitted bodies	**101,169**	102,997
Community admission body	**506**	372
Transferee admission body	**1,679**	1,434
Resolution body	**44**	45
	271,871	274,215

10. Payments to and on account of leavers

	2020-21 £'000	2019-20 £'000
Refunds to members leaving service	**738**	1,036
Payments for members joining state scheme	**–**	9
Group transfers	**–**	1,309
Individual transfers	**14,079**	15,086
	14,817	17,440

11a. Management expenses

	2020-21 £'000	2019-20 £'000
Investment management	**94,387**	68,179
Administration	**2,082**	1,860
Oversight and governance	**3,349**	2,986
	99,818	73,025

11b. Investment expenses

	2020-21 £'000	2019-20 £'000
Management fees	**48,504**	42,493
Performance related fees	**38,021**	22,712
Custody fees	**55**	65
Transaction fees	**7,807**	2,899
Other fees	**–**	10
	94,387	68,179

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.

12a. Investment income

	2020-21 £'000	2019-20 £'000
Pooled Investments – Private equity and Infrastructure	**70,429**	93,685
Pooled Investments – Unit trusts and other managed funds	**50,337**	47,904
Rents from property	**24,133**	8,230
Interest on cash deposits	**(24)**	4,679
Other	**1,028**	818
	145,903	155,316

13. External audit fee

The audit fee for the Pension Fund is included within the oversight and governance charged by LPFA Operations. The amount payable to the external auditors for the audit of the Fund for 2020-21 was £77k and £44k for other audit costs (2019-20: £54k and £19k other audit costs).

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

14. Investments

	Market value at 31 March 2021 £'000	Restated market value at 31 March 2020 £'000
Pooled Investments:		
– Fixed income	**278,239**	297,011
– Equities	**2,843,729**	2,338,396
– Credit	**557,997**	443,719
– Private equity	**648,916**	551,276
– Infrastructure	**576,536**	432,999
– Real estate	**597,989**	586,543
– Diversified strategy	**724,597**	681,855
	6,228,003	5,331,799
Non-pooled investments:		
– Equities	**55,563**	75,851
– Private equity	**12,500**	12,500
– Infrastructure	**2,532**	7,405
– LDI*	**415,516**	302,378
– Diversified strategy	**11,972**	45,539
– Derivatives – Forward exchange contracts	**25,995**	5,844
– Cash at investment managers	**35,094**	523
– Amounts receivable on sales	**132**	–
– Investment income due	**27**	31
Total investment assets	**6,781,067**	5,781,870
Investment liabilities		
Derivatives – Forward exchange contracts*	**(6,267)**	**(49,305)**
Net investment assets	**6,781,066**	**5,732,565**

* The LDI 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.

14a. Reconciliation of movements in investments and derivatives

	Market value at 31 March 2021 £'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 2020 £'000
Pooled investments:					
– Fixed income	**278,239**	**20,665**	**(313,507)**	**274,070**	297,011
– Equities	**2,843,729**	**592,325**	**(100,000)**	**13,008**	2,338,396
– Credit	**557,997**	**58,207**	**–**	**56,071**	443,719
– Private equity	**648,916**	**121,338**	**(34,709)**	**11,011**	551,276
– Infrastructure	**576,536**	**4,620**	**(8,124)**	**147,041**	432,999
– Real estate	**597,989**	**(22,190)**	**(5,594)**	**39,231**	586,543
– Diversified strategy	**724,597**	**64,670**	**–**	**(21,928)**	681,855
	6,228,003	**839,635**	**(461,934)**	**518,504**	5,331,799
Non-pooled investments:					
– Equities	**55,563**	**104,362**	**(124,000)**	**(649)**	75,581
– Private equity	**12,500**	**–**	**–**	**–**	12,500
– Infrastructure	**2,532**	**(4,186)**	**(1,034)**	**397**	7,405
– Managed funds – cash	**415,516**	**32,740**	**(42,931)**	**123,329**	302,378
– Diversified strategy	**11,972**	**(200)**	**(54,569)**	**21,203**	45,539
	6,726,086	**972,350**	**(684,519)**	**662,783**	5,775,472
Derivative contracts:					
– Forward exchange contracts	**19,728**	**109,029**	**–**	**–**	(43,461)
	6,745,814	**1,081,379**			5,732,011
Cash at investment managers	**35,094**	**–**	**–**	**–**	523
Amounts receivable for sale of investments	**132**	**–**	**–**	**–**	–
Investment income due	**27**	**–**	**–**	**–**	31
Net investment assets	**6,781,067**	**1,081,379**			5,732,565

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

14a. Reconciliation of movements in investments and derivatives (continued)

Net Investment Assets (Prior year comparative) Period 2019-20	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**	**(35,541)**	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**	**(35,541)**	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**	**(35,541)**	288,757
– Managed funds	**302,378**	**15,355**	**(84,796)**	**28,139**	**–**	343,680
– Diversified strategy	**45,539**	**6,946**	**(99,903)**	**138,496**	**–**	–
– Direct property	**–**	**7,612**	**(292,202)**	**15,810**	**–**	268,780
	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.

14b. Analysis of investments

	31 March 2021 £'000	31 March 2020 £'000
Overseas equities		
– Quoted	**55,563**	75,851
Pooled Funds – additional analysis		
UK		
– Fixed income – quoted	**278,239**	297,011
– Credit – unquoted	**557,997**	448,719
– Private equity – unquoted	**648,916**	551,276
– Infrastructure – unquoted	**576,536**	432,999
– Diversified strategy – unquoted	**724,597**	681,855
– Real estate – unquoted	**597,989**	586,543
Overseas		
– Global equities – quoted	**2,843,729**	2,338,396
	6,228,003	5,331,799
Private equity		
UK		
– Unquoted	**12,500**	12,500
Infrastructure		
UK		
– Unquoted	**2,532**	7,267
Overseas		
– Quoted	**–**	138
	2,532	7,405

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

14b. Analysis of investments (continued)

	31 March 2021 £'000	31 March 2020 £'000
Real estate		
Overseas		
– Unquoted	**11,972**	45,539
Managed funds – cash instruments unquoted		
Overseas		
– Unquoted	**415,516**	302,378
Derivatives – Forward exchange contracts	**25,995**	5,844
Cash at investment managers	**35,094**	523
Receivable for investments sold	**132**	–
Investment income due	**27**	31
Investment assets	**6,787,334**	5,781,870
Investment liabilities		
Derivatives – Forward exchange contracts	**(6,267)**	(49,305)
	6,781,067	5,732,565

14c. Investments analysed by fund manager

	Market value at 31 March 2021 £'000	% of market value at 31 March 2021 %	Market value at 31 March 2020 £'000	% of market value at 31 March 2020 %
Investment managed within LPPI asset pools				
LPPI Global Equities	**2,843,729**	**42.28%**	2,338,396	40.49%
LPPI Diversified Strategy	**724,597**	**10.77%**	681,855	11.81%
LPPI Real Estate	**579,663**	**8.62%**	586,543	10.60%
LPPI London Fund	**18,326**	**0.27%**	–	–
LPPI Private Equity	**648,916**	**9.65%**	551,276	9.55%
LPPI Credit	**557,997**	**8.30%**	443,719	7.68%
LPPI Infrastructure	**576,536**	**8.57%**	432,999	7.50%
LPPI Fixed Income	**278,239**	**4.14%**	297,011	5.14%
	6,228,003	**92.59%**	5,331,799	92.32%
Investments managed outside asset pools				
Insight Investment Management (Global)	**470,626**	**7.00%**	377,756	6.54%
Aeolus Property	**11,973**	**0.18%**	45,539	0.79%
LPP Group	**12,500**	**0.19%**	12,500	0.22%
InfraRed Capital Partners	**445**	**0.01%**	5,776	0.10%
Foresight Group	**513**	**0.01%**	1,162	0.02%
Impax Asset Management	**1,574**	**0.02%**	329	0.01%
BlackRock Management	**453**	**0.01%**	472	0.01%
Standard Chartered	**–**	**0.00%**	139	0.00%
	498,084	**7.41%**	443,673	7.68%
	6,726,087	**100%**	5,775,472	100%
Forward exchange contracts	**19,728**		(43,461)	
Cash with investment managers	**35,094**		523	
Amounts receivable for sales	**131**		–	
Investment income due	**27**		31	
	6,781,067		5,732,565	

5.3 Notes to the pension fund accounts continued

14c. 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 2021 £'000**	**% of total Fund**	Market value at 31 March 2020 £'000	% of total Fund
LPPI Global Equity Fund	**2,843,729**	**41.14%**	2,338,396	39.75%
LPPI Diversified Strategy	**724,597**	**10.48%**	681,855	11.59%
LPPI Real Estate	**579,663**	**8.39%**	586,543	9.97%
LPPI PE Investments (No.1) LP	**648,916**	**9.39%**	551,276	9.37%
LPPI Credit	**557,997**	**8.07%**	443,719	7.54%
LPPI Infrastructure	**576,536**	**8.34%**	432,999	7.36%
Insight Liability Driven Investment (LDI) solutions plus LDI active '1' FD	**470,626**	**6.81%**	377,756	6.42%
LPPI Fixed Income	**276,239**	**4.03%**	297,011	5.05%
Total	**6,680,303**	**96.65%**	5,709,556	97.05%

15. 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 2021 (31 March 2020: £nil).

15. Analysis of derivatives (continued)

Open Forward Foreign Currency contracts

The net position on open forward currency contracts at 31 March 2021 amounts to a gain of £19.728m (2020: loss of £43.461m). 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 £'000	Currency sold amount £'000	Asset value £'000	Liability value £'000
1 month						
	EUR	1.8	GBP	1	–	–
	GBP	1,149.2	DKK	10,037	–	(1)
	GBP	17,617.7	EUR	19,393	1,090	–
	GBP	20,135.3	USD	26,148	1,185	–
	GBP	143,738.3	USD	186,661	8,460	–
	EUR	1,445.0	GBP	1,306	–	(74)
	USD	2,757.0	GBP	2,117	–	(119)
	USD	20,859.0	GBP	15,626	–	(509)
	GBP	2.424.6	EUR	2,679	141	–
	GBP	10,606.7	USD	14,201	315	–
	GBP	198.2	EUR	219	12	–
	GBP	4,840.3	USD	6,574	76	–
	GBP	20,510.0	CHF	24,924	1,303	–
	GBP	11,318.6	JPY	1,613,000	736	–
	JPY	30,300.0	GBP	211	–	(12)
	CHF	870.0	GBP	711	–	(40)
	EUR	40,40.0	GBP	3,568	–	(125)
	USD	5,558.0	GBP	4,061	–	(33)
	JPY	51,600.0	GBP	348	–	(10)
	GBP	593.7	EUR	685	10	–
1 to 6 months	CHF	961	GBP	754	–	(14)
	GBP	3,657	USD	5,088	–	(31)
	GBP	128	NZD	253	–	(1)
	GBP	828	SGD	1,542	–	(4)
	GBP	4,197	AUD	7,592	6	–
	GBP	1,183	NOK	14,044	–	(9)

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

15. 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	26,350	CAD	45,921	–	(130)
	GBP	18.950	SEK	227,463	32	–
	GBP	38,064	HKD	409,284	–	(92)
	GBP	19,570	USD	26,148	621	–
	GBP	137,637	USD	183,904	4,367	–
	USD	20,859	GBP	15,624	–	(508)
	GBP	16,060	EUR	17,948	755	–
	GBP	2,425	EUR	2,679	141	–
	GBP	10,606	USD	14,201	315	–
	GBP	198	EUR	219	12	–
	GBP	4,845	USD	6,574	81	–
	EUR	4,040	GBP	3,571	–	(126)
	USD	5,558	GBP	4,062	–	(34)
	GBP	18,818	CHF	24,054	268	–
	GBP	10,576	JPY	1,582,700	191	–
	JPY	51,600	GBP	348	–	(10)
	GBP	594	EUR	685	10	–
	CHF	961	GBP	755	–	(14)
	GBP	3,653	USD	5,088	–	(34)
	GBP	3,913	USD	5,289	81	–
	GBP	18,787	EUR	20,627	1,187	–
	GBP	146,574	USD	198,105	3,029	–
	GBP	198	EUR	219	12	–
	GBP	4,844	USD	6,574	80	–
	EUR	4,040	GBP	3,572	–	(125)
	USD	5,558	GBP	4,061	–	(34)
	GBP	594	EUR	685	10	
	GBP	3,653	USD	5,088	–	(34)
	GBP	17,805	CHF	23,093	–	(18)
	GBP	10,105	JPY	1,531,100	57	–
	GBP	3,846	USD	5,289	14	–
	GBP	18,473	EUR	20,846	677	–
	GBP	148,835	USD	204,679	538	–
	EUR	4,040	GBP	3,574	–	(125)
	USD	5,558	GBP	4,061	–	(34)

15. 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	594	EUR	685		
	GBP	3,653	USD	5,088		
	GBP	3,738	USD	5,289		
	GBP	14,521	EUR	16,806		
	GBP	140,694	USD	199,121		
	EUR	595	EUR	685		
	USD	3,652	USD	5,088		
	GBP	3,826	USD	5,289		
	GBP	14,939	EUR	17,491		
	GBP	147,707	USD	204,289		
				Open forward contracts at 31 March 2021	**25,995**	**(6,267)**
				Net forward contracts at 31 March 2021		**19,728**
				Open forward contracts at 31 March 2020	**5,844**	**(49,305)**
				Net forward contracts at 31 March 2020		**(43,461)**

16. 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 2021 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 on the next page. 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.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

16. 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 2015 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 2021.

16. Fair values – basis of valuation (continued)

Sensitivity of assets valued at Level 3

Assets	Assessed valuation range (+/-)	Value at 31 March 2021 £'000	Value increase £'000	Value decrease £'000
Private equity	5.1%	648,916	682,011	615,822
Infrastructure	5.1%	576,536	605,939	547,132
Credit	5.1%	557,997	586,455	529,539
		1,783,449	1,874,405	1,692,493

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	421,139
		1,447,899	1,521,630	1,374,192

16a. Fair value hierarchy

	Quoted market prices	Using observable inputs	With significant unobservable inputs	Total
Market value at 31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial assets at fair value through profit or loss	3,177,532	1,764,096	1,810,453	6,752,081
Financial liabilities at fair value through profit or loss	–	(6,267)	–	(6,267)
Net investment assets	3,177,532	1,757,829	1,810,453	6,745,814

Reconciliation of Level 3 assets

	Market value at 31 March 2021 £'000	Change in market value during the year £'000	Sales during the year £'000	Purchases during the year £'000	Market Value 1 April 2020 £'000
Private equity	661,416	121,338	(34,709)	11,011	563,776
Infrastructure	579,067	434	(9,208)	147,438	440,404
Credit	557,997	58,206	–	56,071	443,719
Diversified strategy	11,973	(219)	(54,569)	21,222	45,539
Total	1,810,453	179,759	(98,486)	235,742	1,493,438

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

16a. Fair value hierarchy (continued)

	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

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.

17. Classification of financial instruments

Category

Financial assets – fair value through profit and loss	Market value at 31 March 2021 £'000	Market value at 31 March 2020 £'000
Pooled investments:		
– Equities	**2,843,729**	2,338,396
– Fixed interest	**278,239**	297,011
– Credit	**557,997**	443,719
– Private equity	**648,916**	551,276
– Infrastructure	**576,536**	432,999
– Real estate	**597,989**	586,543
– Diversified strategy	**724,597**	681,855
	6,228,003	5,331,799
Equities	**55,563**	75,851
Private equity	**12,500**	12,500
Infrastructure	**2,532**	7,405
Diversified strategy	**11,972**	45,539
Managed	**415,516**	302,378
Forward exchange contracts	**25,995**	5,844
Total financial assets at fair value through profit and loss	**6,752,081**	5,781,316
Assets at amortised cost		
Cash at investment managers	**35,094**	523
Amounts receivable for sales	**132**	–
Investment income due	**27**	31
Cash balances	**100,219**	100,303
Current assets – Note 21	**37,803**	56,423
Total – Financial assets at amortised cost	**173,275**	157,280
Finance liabilities – fair value through profit and loss		
Forward exchange contracts	**(6,268)**	(49,305)
Finance liabilities – at amortised cost		
Current liabilities – Note 22	**(7,322)**	(6,248)
Total – Liabilities	**(13,390)**	(55,553)
Grand Total	**6,911,766**	5,883,043

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

18. 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. LPPI uses economic scenario generation (ESG) to model future returns. Ortec Finance's ("Ortec") ALM software (GLASS) is used to generate 2,000 future economic scenarios and analyse future investment returns stochastically. Assumptions around future economic conditions and asset class risk and return are primarily Ortec's, however LPPI specifies the weights of Ortec's sub-asset class building blocks for each asset class to best reflect the asset classes which LPPI manages.

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 one-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.

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

Asset class	2021 1 year expected volatility (%)	2020 % of Fund	2020 1 year expected volatility (%)	2019 % of Fund
Global Equities	**22.0**	**46.9**	24.1	44.3
Private Equity	**31.3**	**8.6**	32.0	9.7
Property	**17.0**	**8.8**	19.6	9.9
Fixed Income	**5.1**	**4.1**	5.6	5.0
Infrastructure	**21.1**	**8.5**	23.8	7.3
Credit	**11.7**	**8.0**	13.9	7.8
Total Return	**4.9**	**10.9**	6.7	12.9
Cash & LDI	**0.0**	**4.2**	0.0	3.1
Total Fund	**14.9**	**100.0**	16.3	100.0

The value of the Fund as at 31 March 2021 was £6,912m (2020: £5,883m) and the expected volatility was 14.9% (2020: 16.30%). Given these figures, we would expect that in roughly 2/3rds of outcomes the value of the Fund would lie between £7,894m (2020: £6,842m) and £5,882m (2020: £4,924m) 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.

18. 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 2021. The following table summarise the Fund's currency exposure and expected 12-month volatility by currency as at 31 March 2021 and as at the previous period end:

Value at 31 March 2021 (£m)	Implied volatility %	Currency	Value at 31 March 2020 (£m)	Implied volatility %
1,934	8.1	USD	1,593	14.1
39	8.9	JPY	33	16.1
605	6.8	EUR	495	12.6
84	7.5	CHF	95	13.4

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 2021 was £89.4m (2020: £76.9m).

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 2021, the value of illiquid assets (private equity, infrastructure, credit and real estate) was £2,384m, which represented 34.5% of the total LPFA assets (31 March 2020: £2,035m which represented 34.4% of the total LPFA assets).

All financial liabilities at 31 March 2021 are due within one year.

19. Cash balances

	31 March 2021 £'000	31 March 2020 £'000
Short-term deposits	**100,219**	100,303
Cash at investment managers	**35,094**	523
	135,313	100,826

20. AVC investments

	31 March 2021 £'000	31 March 2020 £'000
Prudential	**12,209**	12,209

AVC contributions of £0.8m (2020: £1.57m) were paid directly to Prudential in the year.

21. Current assets

	31 March 2021 £'000	31 March 2020 £'000
Contributions due – employees	**1,723**	3,063
Contributions due – employers	**3,203**	5,798
Transfer value receivable	**–**	37,137
VAT	**1,998**	2,124
Sundry debtors and prepayments	**30,379**	8,301
	37,083	56,423

22. Current liabilities

	31 March 2021 £'000	31 March 2020 £'000
Other current liabilities	**632**	1,075
Other taxes	**2,996**	2,813
Benefits payable	**3,724**	2,360
	7,322	6,248

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

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

23. 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. The Board members receive no financial benefit from these payments.

Ruth Dombey is one of the three Vice Chairs of London Councils. London Councils paid employer contributions of £833k (£2020: £688k) and it is noted that she has no pecuniary interest in financial matters. Christina Thompson is the Director of Finance and Property at the London Borough of Lambeth. The London Borough of Lambeth paid employer contributions of £151k (2020: £42k). The London Councils are Admitted bodies in the Fund, whereas Lambeth is a Scheduled body in the Fund.

The Mayor of London is issued with a draft of the LPFA Medium Term Financial Plan by 30 December and has the opportunity to provide feedback. As the Mayor of London 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 £6,842k (2020: £6,413k) during the year.

The LPFA Operational Account and Residual Liabilities accounts are deemed to be related parties and transactions relating to such are reflected in their accounts. LPFA entered into a joint venture with Lancashire County Council and incorporated Local Pensions Partnership Ltd (LPP) and its subsidiaries (Local Pensions Partnership Investments Ltd (LPPI) and Local Pensions Partnership Administration Ltd (LPPA)) on 8 April 2016. LPP is a related party of LPFA. In addition, in 2020 the LPFA acquired a £12.5m direct investment in LPP, being £12.5m non-voting £1 ordinary shares. This is included as private equity within investment assets. LPPI invoiced the scheme £700k (2020: £1.075m) for investment fees and the administration service costing £2,082m was provided by LPPA (£1,860m).

24. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2021 totalled £457.9m (2020: £646.2m) based on:

Currency	Commitment	Exchange rate	£
US$	188,127,641	1.379	136,423,235
CHF	7,029,000	1.299	5,411,085
EUR	107,125,066	1.174	91,247,927
GBP	224,795,716	1.000	224,795,716
Total			**457,877,963**

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.

25. Post balance sheet

There were no material events after the balance sheet date.

26. 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 2021 for the Fund was £10,143m (2020: £8,063m). The net liability for the Fund at 31 March 2021 was £3,360m (2020: £2,212m).

Life expectancy from age 65 (years)	31 March 2021	31 March 2020
Retiring today		
Males	**21.70**	21.30
Females	**24.10**	23.90
Retiring in 20 years		
Males	**23.00**	22.70
Females	**25.80**	25.50

- 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 2021 % p.a.	31 March 2020 % p.a.
RPI increases	**3.20**	2.70
CPI increases	**2.80**	1.90
Salary increases	**3.80**	2.90
Pension increases	**2.80**	1.90
Discount rate	**2.00**	2.35

These assumptions are set with reference to market conditions at 31 March 2021.

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

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were slightly more than where they were projected to be based on the previous valuation.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

We have updated the derivation of the CPI inflation assumption to be 0.55% p.a. below the 20-year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20-year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level; however, the impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Overall position

On balance, we estimate that the funding position has weakened slightly on the 'Fund-level' basis when compared on a consistent basis to 31 March 2019 (but allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate. Deficit contributions would also be slightly higher as a result of the worsening in the funding position.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equites due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

The Fund can continue to monitor the funding level using LGPS Monitor on a regular basis.

Graeme Muir FFA
Associate, Barnett Waddingham LLP

5. Pension fund Accounts continued

5.5 Employers participating in the Fund
Based on any employer with whom the LPFA has had an economic transfer in 2020-21

Employer body	Contribution rate %*
Alleyns School	23.80
Apleona HSG	25.40
Archbishop Tenison's Church of England GMS	17.40
Association of Colleges	15.60
Babcock Critical Services Ltd	15.30
Babcock Training Limited	11.80
Bishop Thomas Grant School	15.80
Bouygues E&S Ltd	16.50
British Film Institute	15.40
Broadacres Housing Association Limited	23.40
Brunel University	17.00
Capital City College Group	13.80
Caterlink Ltd	32.70
Charlotte Sharman Foundation Primary School	15.20
Chartered Institute of Environmental Health	17.50
City - University of London	13.60
City Literary Institute	12.90
Comm for Local Administration in England	15.70
Compass Contract Services (UK) Ltd	26.90
Computacenter	18.10
Coram's Fields	25.30
Corpus Christi School	15.10
Dulwich College	19.20
Dunraven School	13.20
East London Waste Authority	12.90
Education Development Trust	0.00
Food Standards Agency	19.40
Food Standards Scotland	19.60
Freedom Leisure	21.90
Friars School	17.70
Geffrye Museum Trust Ltd.	12.90
Genesis Housing Group	20.80
Goldsmith College	17.30
Greater London Authority	12.00
Guinness Partnership Limited	18.80
Hammersmith and West London College	15.00
Horniman Museum & Gardens	15.70
Ibstock Place School	21.80
Immanuel & St Andrew C of E Primary School	15.90
Julian's Primary School	11.20

Employer body	Contribution rate %*
L.B. of Camden	22.60
L.B. of Greenwich	22.20
L.B. of Hackney	20.70
L.B. of Hammersmith & Fulham	24.50
L.B. of Islington	22.10
L.B. of Lambeth	22.30
L.B. of Lewisham	23.60
L.B. of Southwark	22.10
L.B. of Tower Hamlets	19.70
L.B. of Wandsworth	22.40
La Retraite RC Girl's School	14.90
La Sainte Union Convent School	20.10
Learning on Screen - the British Universities and Colleges Film and Video Council	20.90
Lee Valley Regional Park Authority	15.60
Lionheart (RICS Benevolent Fund)	25.70
Local Pensions Partnership	12.00
Local Pensions Partnership Administration	12.00
Local Pensions Partnership Investments	12.00
London Councils	13.60
London Fire & Emergency Planning Authority	15.30
London Legacy Development Corporation	12.00
London Metropolitan University	16.20
London Nautical School	16.60
London Pensions Fund Authority	12.00
London South East Colleges	17.80
London Treasury Limited	12.00
Mary Ward Settlement	16.60
Morley College	15.10
N.I.A.C.E.	22.80
New City College	14.40
Newable Ltd	13.50
Newcastle College Group	17.90
Nexus Community	23.80
Notre Dame School	17.70
NSL Limited	22.20
Old Oak and Park Royal Development Corporation (OPDC)	12.00
Open College Network London Region	20.50
Orchard Hill College Academies Trust	14.00
Poplar Harca	19.50
R.B. of Kensington & Chelsea	27.50
Roehampton University	15.40

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

Employer body	Contribution rate %*
Sacred Heart School	16.20
SITA UK Ltd	20.10
South Bank Colleges	16.30
South Bank University	15.40
South Thames College Group	18.50
Sport and Recreation Alliance Limited	12.40
Sport England	16.00
SSAFA	19.70
St Andrews RC Primary School	16.70
St Anne's RC Primary School	18.50
St Anthony's School	17.50
St Bede's GM Infant & Nursery School	18.00
St Bernadette's School	21.20
St Francesca Cabrini Primary School	17.80
St Francis Xavier 6th Form College	17.50
St Joseph RC Infant School	20.20
St Joseph RC Junior School	18.30
St Martin in the Field High School	20.90
St Mary's RC Primary School	17.80
St Michael's RC School	12.75
St Thomas the Apostle College	13.30
Surrey Square Primary School	15.90
The English Institute of Sport	12.00
The Froebel Trust	20.50
The Pioneer Group	16.00
The Royal Central School of Speech & Drama	14.80
Transport for London	15.60
Trinity Laban	21.30
Turney School	15.50
Turnham Primary GMS School	16.00
UAL Short Courses Ltd	15.00
UK Anti Doping	12.00
United Colleges Group	23.40
United Kingdom Sport	12.00
University of Arts London	15.00
University of Greenwich	16.30
University of St Mark & St John	16.50
University of Westminster	15.10
Valuation Office Agency	21.00
Valuation Tribunal Service	16.30
Van Gogh Primary School	15.60
West London Waste Authority	13.50
West Riverside Waste Authority	13.80

* 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 2020-21.

Internal review and control

PricewaterhouseCoopers (PwC) was appointed as the LPFA internal auditor in April 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 in accordance with the CIPFA guidance – *Preparing the annual report: Guidance for LGPS Funds (2019 Edition).* The timelines for the preparation of the 2020-21 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 2021. 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/

The 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 2021. The exercise proved successful and identified overpayments totalling £48,670.82. The results have been reported to the Audit and Risk Committee and to the Board.

Mortality screening and overseas pensioners verification

Monthly mortality screening is carried out 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. Overseas pensioners are verified where a member's email address is known. For any non-responders or for those where an email address is not held, an annual screen is carried out to identify any new deaths. This exercise ensures that pension records are up to date as well as acting as an anti-fraud measure and safeguards members' pensions. In addition to mortality screening, LPFA has adopted the Tell Us Once (TUO) service which provides another method of being notified of deaths to help reduce the risk of pension overpayments.

Overseas pensioners verification

A life certification exercise is undertaken monthly for members. LPPA undertake a certification process for overseas members on a monthly basis where LPPA hold the members email address. For any non-responders to these exercises, and for any overseas members for whom an overseas email address is not held, annual screening is undertaken. The exercise ensures that pension records are up to date as well as acting as an anti-fraud measure and safeguards members' pensions.

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 LPPA, as the outsourced pensions administrator, 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 Code of Practice 14 also 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 on the LPFA website.

Equalities objectives

LPFA operates an equality and diversity policy which was updated in October 2020 as part of the policy framework review. LPFA is committed to providing equality of opportunity and access in both its employment and service arrangements and aims to promote diversity within its workforce and ensure that services meet the different needs of LPFA's members and employers.

Health and safety

LPFA acts in accordance with the requirements of the Health and Safety at Work etc Act 1974 and any other related health and safety legislation. Officers monitor performance regarding health and safety and in normal circumstances report such matters to the Board on an annual basis. Due to the COVID-19 pandemic with employees working remotely there were no matters to report to the Board. The Health & Safety Policy was updated and approved in December 2020 by the Board.

ii) Employers active and ceased in the Fund by scheduled and active bodies (as at 31 March 2021)

Number of employers in the Fund

Status	Admitted	Scheduled	Grand Total
Ceased	25	8	**33**
Current	65	59	**124**
Grand total	**90**	**67**	**157**

Category and employer name	Admitted £	Scheduled £
Shenley Leisure Centre Trust Ltd	359,250	
Milton Keynes Council	25,300	
Lambeth College		7,194
LESOCO		1,398
Serco Woolwich Ferry	-9,448	
Serco Community Payback	-37,857	
Briggs Marine Contractors Ltd	663,197	
Radius Trust	24,571	
Gallions Housing Association	100	
Trust Thamesmead	3,058	
L.B. of Enfield		108,113
City of Westminster		4,448
Lee Valley Leisure Trust	31,762	
Haberdasher A H CT	78,654	
University of Surrey	-68,000	
Alleyns/ Dulwhich College	7,194	
Association of Education Committees		14,412
S London Church Fund & Swk Diocesan	26,836	
Mountain Training limited	4,043	
Peabody Trust	21,128	
Chartered Institute of Housing	465,749	
Rathbone Training	-107,456	
SENSE	1,975,125	
N.L. Hospice Group	842,000	
The English & Media Centre	-181,770	
Capital City College group		87,121
Prospects Services Ltd	1,166,402	
Raine's Foundation School		51,963
CfBT Advice and Guidance Ltd	281,806	
S.E.N.S.E Scotland	90,833	
SDP Regeneration Services 2 Ltd	4,305,219	
Kingston University Service Company Ltd	310,000	
London Borough of Sutton		29,509
Ceased employers total	**10,277,696**	**304,157**

Category and employer name	Admitted £	Scheduled £
Alleyn's School	329,562	
Apleona HSG	180,552	
Archbishop Tenison's Church of England GMS		104,631
Association of Colleges	861,820	
Babcock Critical Services Ltd	214,607	
Babcock Training Limited	85,199	
Bishop Thomas Grant School		217,747
Bouygues E&S Ltd		37,898
British Film Institute	3,379,019	
Broadacres Housing Association Limited	76,675	
Brunel University	5,166,920	
Capital City College Group		3,969,165
Caterlink Ltd	17,360	
Charlotte Sharman Foundation Primary School		155,659
Chartered Institute of Environmental Health	369,368	
City – University of London	3,273,946	
City Literary Institute	778,132	
Comm for Local Administration in England	1,830,851	
Compass Contract Services (UK) Ltd	39,133	
Computacenter	9,301	
Coram's Fields	73,723	
Corpus Christi School		99,560
Dulwich College	920,637	
Dunraven School		497,071
East London Waste Authority		137,993
Education Development Trust	12,202	
Food Standards Agency	3,716,524	
Food Standards Scotland	519,211	
Freedom Leisure	82,981	
Friars School		55,491
Geffrye Museum Trust Ltd.	155,608	
Genesis Housing Group	85,344	
Goldsmith College	3,318,371	
Greater London Authority		11,534,829
Guinness Partnership Limited	177,689	
Hammersmith and West London College	1,032,092	
Horniman Museum & Gardens		394,646
Ibstock Place School		489,064
Immanuel & St Andrew C of E Primary School	156,834	
Julian's Primary School		192,101
L.B. of Camden		218,081
L.B. of Greenwich		262,630
L.B. of Hackney		65,086
L.B. of Hammersmith & Fulham		130,426
L.B. of Islington		91,202
L.B. of Lambeth		177,907
L.B. of Lewisham		109,158

6. Annexes continued

ii) Employers active and ceased in the Fund by scheduled and active bodies (as at 31 March 2021) continued

Category and employer name	Admitted £	Scheduled £
L.B. of Southwark		199,887
L.B. of Tower Hamlets		144,062
L.B. of Wandsworth		236,291
La Retraite RC Girl's School		311,399
La Sainte Union Convent School		211,285
Learning on Screen - the British Universities and Colleges Film and Video Council	115,450	
Lee Valley Regional Park Authority		2,109,344
Lionheart (RICS Benevolent Fund)	34,089	
Local Pensions Partnership	256,593	
Local Pensions Partnership Administration	282,168	
Local Pensions Partnership Investments	1,368,872	
London Councils	1,313,931	
London Fire & Emergency Planning Authority		12,638,776
London Legacy Development Corporation		2,043,716
London Metropolitan University	3,992,535	
London Nautical School		196,242
London Pensions Fund Authority		483,310
London South East Colleges	1,875,153	
London Treasury Limited	49,276	
Mary Ward Settlement	131,351	
Morley College		637,140
N.I.A.C.E.	530,980	
New City College		3,318,313
Newable Ltd	64,814	
Newcastle College Group	1,058,923	
Nexus Community	300,359	
Notre Dame School		222,753
NSL Limited	12,330	
Old Oak and Park Royal Development Corporation (OPDC)	497,604	
Open College Network London Region	81,954	
Orchard Hill College Academies Trust		531,420
Poplar Harca	93,918	
R.B. of Kensington & Chelsea		88,396
Roehampton University	4,190,225	
Sacred Heart School		153,170
SITA UK Ltd	180,196	
South Bank Colleges	929,240	
South Bank University	7,167,880	
South Thames College Group	2,756,677	
Sport and Recreation Alliance Limited	79,848	
Sport England	687,035	

Category and employer name	Admitted £	Scheduled £
SSAFA	10,657,636	
St Andrews RC Primary School		118,134
St Anne's RC Primary School		86,233
St Anthony's School		130,603
St Bede's GM Infant & Nursery School		70,344
St Bernadette's School		83,770
St Francesca Cabrini Primary School		103,340
St Francis Xavier 6th Form College		311,763
St Joseph RC Infant School		98,660
St Joseph RC Junior School		97,200
St Martin in the Field High School		155,369
St Mary's RC Primary School		71,923
St Michael's RC School		173,713
St Thomas the Apostle College		132,871
Surrey Square Primary School		213,007
The English Institute of Sport	2,884,254	
The Froebel Trust	44,778	
The Pioneer Group	11,571	
The Royal Central School of Speech & Drama	799,679	
Transport for London		1,721,603
Trinity Laban	47,370	
Turney School	187,018	
Turnham Primary GMS School		90,693
UAL Short Courses Ltd	541,692	
UK Anti Doping	632,674	
United Colleges Group		1,823,102
United Kingdom Sport	1,947,461	
University of Arts London		15,314,375
University of Greenwich	8,455,056	
University of St Mark & St John	1,200,647	
University of Westminster	8,589,814	
Valuation Office Agency		710,546
Valuation Tribunal Service		615,018
Van Gogh Primary School		7,462
West London Waste Authority		290,532
West Riverside Waste Authority		91,322
Current	**90,914,712**	**64,977,437**
Grand total	**101,192,408**	**65,281,594**

6. Annexes continued

Supplier and contacts list

EVERSHEDS SUTHERLAND
Legal Advisors

pwc
Internal Auditor

Grant Thornton
External Auditor

Barnett Waddingham
a true partnership approach
Fund Actuary

PRUDENTIAL
AVC Provider

LLOYDS BANK
Bank

BNY MELLON
Custodian

LPP
Local Pensions Partnership Investments
Investment Manager

Insight INVESTMENT
Investment Manager

AEOLUS CAPITAL MANAGEMENT
Investment Manager

RECORD
Investment Manager

THE LONDON FUND
The London Fund (LPPI & LCIV) Investment Managers

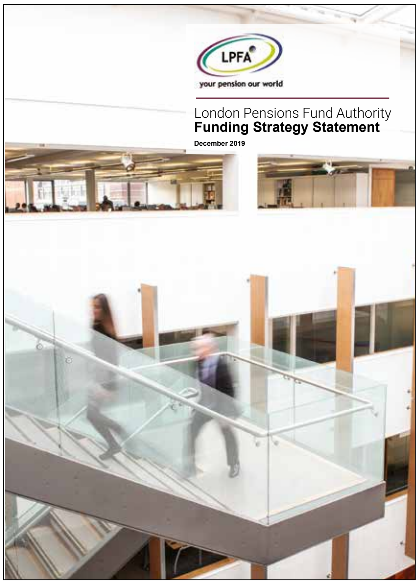
GREATER LONDON AUTHORITY
Cash management

LPPA
Local Pensions Partnership Administration
Pensions Administration

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 31 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.

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.

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)

Public policy statements: 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.

Public policy statements: 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 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

Public policy statements: 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

*Sensitivities shown are to positive shocks, i.e., if growth and inflation surprise on the upside

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.

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

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.

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)

Public policy statements: 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 and advisory committees and participation in partnerships and collaborations with other investors. In the case of listed equites 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 31 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 (AA) of the local government pension scheme (LGPS) and is responsible for maintaining, administering, as well as investing its own fund within the LGPS. However, while the majority of AA's are local authorities and operate in accordance with local government law, the LPFA is distinct in that it is not associated with a particular local authority and operates in accordance with its own legal constitution. This Governance 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). The Code captures the full range of LPFA's statutory responsibilities and governance activities. It can be accessed from the LPFA website 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 Group remains accountable and provides the necessary assurance to the LPFA in its capacity as an Authority that services are being delivered. The LPFA Board (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 Board's strategy and policies are largely carried out by LPP Group.

Appointments to the 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 Chair, are to be appointed following consultation with representatives of local government in London. The Mayor of London appoints a Chair and may appoint a deputy Chair of the LPFA.

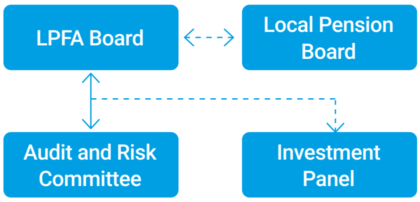
The appointment process is operated by the Greater London Authority (GLA) and is by open advertisement and subject to independent scrutiny. The terms and conditions of appointment are set out in a formal letter from the GLA which includes the length of appointment, remuneration, and details of the role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

As a key stakeholder, a GLA nominated observer attends the Corporate and Strategic Session of the LPFA Board meetings but has no voting rights. Members of the public are invited to observe Public Sessions of the Board and details are advertised on the LPFA corporate website.

The 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 in England and Wales, and prescribe all activities relating to the conduct of LPFA Board business including voting. These SO's form a section of LPFA's Constitutional document and represents a key aspect of the LPFA's corporate governance framework; they may only be amended by unanimous formal approval of the Board. The LPFA Constitutional document is published on the LPFA website.

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

LPFA Board and Committee Structure



The ARC, as a Standing Committee, operates under the delegated powers of the Board and is 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 Investment Panel is an informal forum established to review and challenge early drafts of Board papers relating to the investment of the funds assets. The IP remit is to provide an additional governance layer of investment oversight and is comprised of four Board members. It has no decision making powers.

The Public Service Pensions Act 2013, established the role of the LPB and is separate to the LPFA as the AA. The Local Government Pension Scheme Regulations 2013, as amended by The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015, required the establishment of a local pension board. The LPB assists the LPFA with securing compliance with the LGPS regulations but is not a decision-making body. Appointed by the LPFA, the LPB is comprised of four member representatives, four employer representatives and an independent Chair. The representatives have voting rights; are selected from within the Fund membership and from participating employers.

The LPB provide an additional layer of compliance and governance to the administration of the LPFA. The LPB has a first core function to assist the LPFA with compliance relating to governance of the Fund.

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' within the constitutional document. This sets out the parameters within which the officers can exercise the powers delegated under the scheme and operate the day-to-day business of 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 observe 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.

Public policy statements: v) LGPS Governance Compliance Statement continued

Governance Compliance Statement

Guiding principles	LPFA position
1. Structure a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Compliant**. The Board receives regular updates at their meetings, at least on a quarterly basis, on the performance of pensions administrations and investment management against agreed service level standards.
b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**Not fully compliant (see below)*** Appointed representatives of the employers and fund members are members of the Local Pension Board, rather than members of the Board.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**Compliant** All minutes from the ARC, IP, and the LPB are presented at the public session of the Board. The Board Corporate and Strategic meeting minutes are 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.	**Compliant** The LPFA ARC and IP are comprised of and for Board members. The LPFA LPB meets the regulatory requirements. In addition, 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.
2. 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).	**Compliant** Members of the LPB do not have a seat on the Board however there is representation via feedback and recommendations provided to the Board and the LPB Chair attends the Board on an annual basis to observe and present an annual review of LPB activity. i) Employer representatives on the LPB 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.	**Compliant** 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.
3. 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.	**Compliant** This is covered in the LPFAs 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.	**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.

* 1b – The LPFA has a separate legal status and its own constitutional framework which ensures that items 1, 1a and 1b are complied with and ensures representation of major employers. It is not practical for the many employers whose activities are broad to be separately represented. The LPB as required by regulation functions alongside the formal LPFA governance structure to assist the fund.

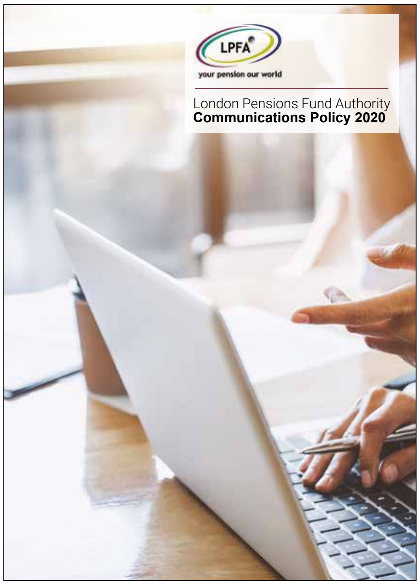
For more information, please contact: corporate@lpfa.org.uk

Governance Compliance Statement continued

Guiding principles	LPFA position
4. 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.	**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.
5. 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.	**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 ARC.
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.	**Compliant** All public policy statements are published on the LPFA website and apply to all staff.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**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.	**Compliant** LPB meets on a quarterly basis, ARC meets four times a year and the LPFA Board formally meeting five times a year. Board dates and the times of the public session of the Board are published on the LPFA Corporate website
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.	**Compliant** 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.	**Compliant** Engagement with employer and member representatives is achieved via the LPFA LPB, the annual Fund Member Forum and the annual Employer Forum.
6. 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.	**Compliant** All members of LPB are encouraged to attend and have access to the public session of LPFA .
7. Scope a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Compliant** Updates are considered by the ARC and LPB.
8. 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.	**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 members' 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 conform 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 or 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

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 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.

Additional contacts

LPFA 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

Regional Pool (Administration and Investments)

LPFA's administrators (Inquiries for members, benefits and other administrative issues)

LPPA
PO Box 1381
Preston
PR2 0WP

T: 0300 323 0260
E: www.lppapensions.co.uk/contact/

www.lppapensions.co.uk

LPFA's Investment Managers

LPPI
First Floor
1 Finsbury Avenue
London EC2M 2PF

T: 020 7369 6000
E: info@localpensionspartnership.org.uk

Going digital

Members
Our preferred method of communication is electronic. We communicate with members via email or via our member self-service facility, which members can register for at: www.lppapensions.co.uk

To opt out of electronic communications, please write to LPPA at the address above.

Employers
Employers can submit online forms, data or carry out data matching facilities via a secure online portal for employers: www.yourfund.org.uk

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Making a complaint

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 LPPA website (www.lppapensions.co.uk/customer-care/internal-dispute-resolution-procedure/) 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

* Change in job title effective November 2020.

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
Code	Local Code of Corporate Governance	LPB	Local Pension Board
COP14	The Pension Regulators Code of Practice 14 – Governance and administration of public service pension schemes	LPFA	London Pensions Fund Authority
		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	RCM	Record Currency Management
GMP	Guaranteed Minimum Pension	SAA	Strategic Asset Allocation
IAS	International Accounting Standards	SLA	Service Level Agreement
IDRP	Internal Dispute Resolution Procedure	SPS	Strategic Policy Statement
IFRS	International Financial Reporting Standards	TPI	Transition Pathway Initiative
IP	Investment Panel	UK	United Kingdom

Front cover: The Centre for Ageing Better

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United Kingdom

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