

Annual Report

2013-14



September 2014

Contents

| | | |
|-----------|--------------------------------------|-----------|
| 1. | Introduction | 4 |
| 1.1 | Note from the Chairman | 4 |
| 1.2 | Note from the Chief Executive | 5 |
| 2. | Fund Administration | 6 |
| 2.1 | At a Glance | 6 |
| 2.2 | Membership | 7 |
| 2.3 | Workloads and Targets | 9 |
| 2.4 | Pension Payments | 13 |
| 3. | Investment Review | 14 |
| 3.1 | Investment Performance | 14 |
| 3.2 | Top 20 Pooled Funds | 18 |
| 3.3 | Top 20 Equity Holdings | 19 |
| 3.4 | Fund Management Costs | 20 |
| 3.5 | Liability Management | 20 |
| 3.6 | Risk Management | 21 |
| 3.7 | Responsible Investment | 23 |
| 4. | Governing the Fund | 24 |
| 4.1 | Board, Executive Team and Committees | 24 |
| 4.2 | Governance Highlights | 29 |
| 4.3 | Risk Management | 30 |
| 4.4 | LPFA Advisors and Service Providers | 31 |
| 5. | Pension Fund Accounts | 32 |
| 5.1 | Auditor's Opinion | 32 |
| 5.2 | Pension Fund Accounts | 33 |
| 5.3 | Notes to the Pension Fund Accounts | 35 |
| 5.4 | Actuarial Statement | 66 |
| 6. | Public Policy Statements | 68 |

ANNEXES

| | | |
|-----|--|----|
| i | Reporting and Controls | 71 |
| ii | Employers Contributing to the Fund | 74 |
| iii | Myners' Principles Compliance Statement | 78 |
| iv | Additional requirements from the CIPFA Guide | 79 |

1. Introduction

1.1 Note from the Chairman

I am pleased to present London Pensions Fund Authority's (LPFA) Annual Report for the year ending 31 March 2014.



I always consider the management of liabilities as coming before the management of assets, which in the past led me to found the Pension Insurance Corporation. As a solution and number focused man, I have an eye on the end result. This year I am pleased with our progress.

In my capacity as Chairman of the LPFA, the particular challenge for the Board and the Executive is tackling the liabilities that exist in the fund in order to achieve the desired funding level. The benefit structure is set by central government and therefore there are only a small number of levers we have to pull in order to improve the funding position:

- Understanding our liabilities – by monitoring them in the first instance, understanding longevity, and implementing initiatives to ensure our data is as clean as possible;
- Reducing the risk of our liabilities increasing – by protecting our assets from identified risks such as inflation and interest rates;
- Increasing employer contributions and our security over assets – albeit with an eye to affordability for our employers; and finally
- Achieving appropriate risk adjusted returns from our assets.

I am pleased to report that we are moving in the right direction on all of these fronts.

Our liabilities are increasing but so are our assets, so that during the period 2010-2013 the LPFA reduced its deficit by £387m – the highest reported reduction from all LGPS funds in the country. This trend needs to continue; and in 2013-14 we improved the position by another £171 million.

The focus on liability management does not stop here. We are keen to continue to work in partnership and collaboration with other local authorities to achieve efficiencies for both our fund and the wider public sector.

The fund improved its funding ratio by 11% from 50.3% to 61% on a risk free basis of discounting liabilities. On the triennial valuation basis we are 93% funded. We have reduced the risks from inflation by some £1 billion of hedging. Our assets returned 6.1% over the year, with our infrastructure holdings performing well. We are aiming to continue our preference for internally managed, lower fee based assets and therefore have instigated a review of our strategy to allow a steady stream of realisations. These are being redeployed to boost our allocation to illiquid assets, which continues to grow with the aim of generating returns which better match our risk adjusted target. We have a view of reaching 30% illiquids by 2016, depending on how investment opportunities arise. We aim to be fully funded on a conservative minimum risk basis (swaps) within the next 15 years, which requires a compounded net return of RPI + 3% p.a.

I am supported in this mission by the Board with vast skills and experience. During the year Sarah Smart and Michael Cassidy left the Board having made invaluable contributions; and Robert Vandersluis joined us lending his talents to the Risk Committee.

I thank all my colleagues and the Executive team for delivering this set of results.

1.2 Note from the Chief Executive



Welcome to the Annual Report and Accounts for 2013-14. I am especially pleased to be introducing this report, my first as Chief Executive of the LPFA, and relish highlighting some of our excellent performance statistics to you.

Our mission statement is ***"to provide an excellent, cost effective pensions service to meet the needs of our stakeholders"***. Looking at this year's results I believe we are living up to this statement, although there are always improvements to make. It is vital that we manage both our assets and liabilities and continue to have funds to pay existing and future pensions.

HIGHLIGHTS FOR 2013-14

► **Funds merged and grown** – This is the first Annual Report which includes reports at a single fund level. We merged the historical sub-funds in early 2013 as we felt that a larger fund with a single investment strategy would give us the best chance of closing any funding deficits. Our fund grew during the year by £196m to £4.9bn, which was an excellent return.

► **Valuation results** – Every three years a formal valuation on the fund is completed. LPFA had a funding level of 93% at the end of March 2014 and was recently reported as top of the Local Government Chronicle performance table for LGPS deficit reduction. The valuation process included securing c£300m in additional assets. This means that LPFA is working with your employers to ensure that employers who have greater credit risk close their funding gap more quickly by paying higher contributions.

► **New LGPS 2014 implemented** – For many of you already receiving your pension this will not impact you at all. But for all active members at 1st April 2014 there has been a reform within the

Local Government Pension Scheme. You can find out more on our website; www.yourpension.org.uk. The good news is that the scheme continues to offer excellent and secure benefits. The scheme is now more flexible and offers more choice.

Our staff implemented the changes and were able to maintain continuity of service during this transition – no mean feat. Performance levels remain very high with 99% of your enquiries being answered on time.

► **Looking ahead: the LGPS structure** – A debate is on-going as to how LGPS funds will be organised nationwide. LPFA has been an active contributor and is encouraging greater voluntary collaboration between LGPS funds. We feel this will harness centres of excellence and reduce costs and we are encouraging the Government to embrace this opportunity.

Moving forward, we hope to reduce operational costs further and increase efficiencies through improved processes.

2. Fund Administration

2.1 At a glance

LPFA is a leader in the provision of pension administration for the Local Government Pension Scheme (LGPS). This Scheme provides an occupational pension for many local authority employees and employees of other public bodies and organisations which have entered into the fund. A list of participating employers is shown in Annex ii on page 74.

LPFA has its own pension fund with assets of £4.9bn and also assists other local authorities with all aspects of LGPS administration. Dedicated teams also deliver the Firefighters Pension Scheme.

The management of the LPFA fund is largely carried out by external fund managers, but an in-house expertise of asset and liability management has been developed.

LPFA has accreditations in Information Technology (ISO 27001) and Environmental Management (ISO 14001) as well as holding bronze standard for Investors in People (IIP) and being an accredited member of the Institute of Customer Service.

Value of the Fund

£4.9bn

Employers in the Fund

355

Total Scheme Membership

81,408



2.2 Membership

LPFA SCHEME MEMBERSHIP OVER 5 YEARS

There has been a gradual change in the profile of the Fund in recent years with the number of pensioner members increasing whilst the active membership decreases. The introduction of Automatic Enrolment legislation by the Government, requiring all eligible new employees to be automatically enrolled into the LGPS has seen an increase in active contributors during 2013-14.

Summaries of the Fund membership and the age profile are shown below and overleaf.

| | At 31 Mar 2010 | At 31 Mar 2011 | At 31 Mar 2012 | At 31 Mar 2013 | At 31 Mar 2014 |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Active Contributor | 19,648 | 18,698 | 17,115 | 16,459 | 18,314 |
| Deferred Beneficiaries | 23,775 | 24,601 | 25,017 | 25,501 | 25,859 |
| Pensioners and Dependants | 33,911 | 34,265 | 34,650 | 35,071 | 35,359 |
| Undecided Leavers and Frozen Refunds | 0* | 2,802 | 2,667 | 2,611 | 1,876 |
| TOTAL MEMBERSHIP | 77,344 | 80,366 | 79,449 | 79,642 | 81,408 |

* Undecided leavers and frozen refunds were not reported in this year

Membership statistics as at 31 March 2014

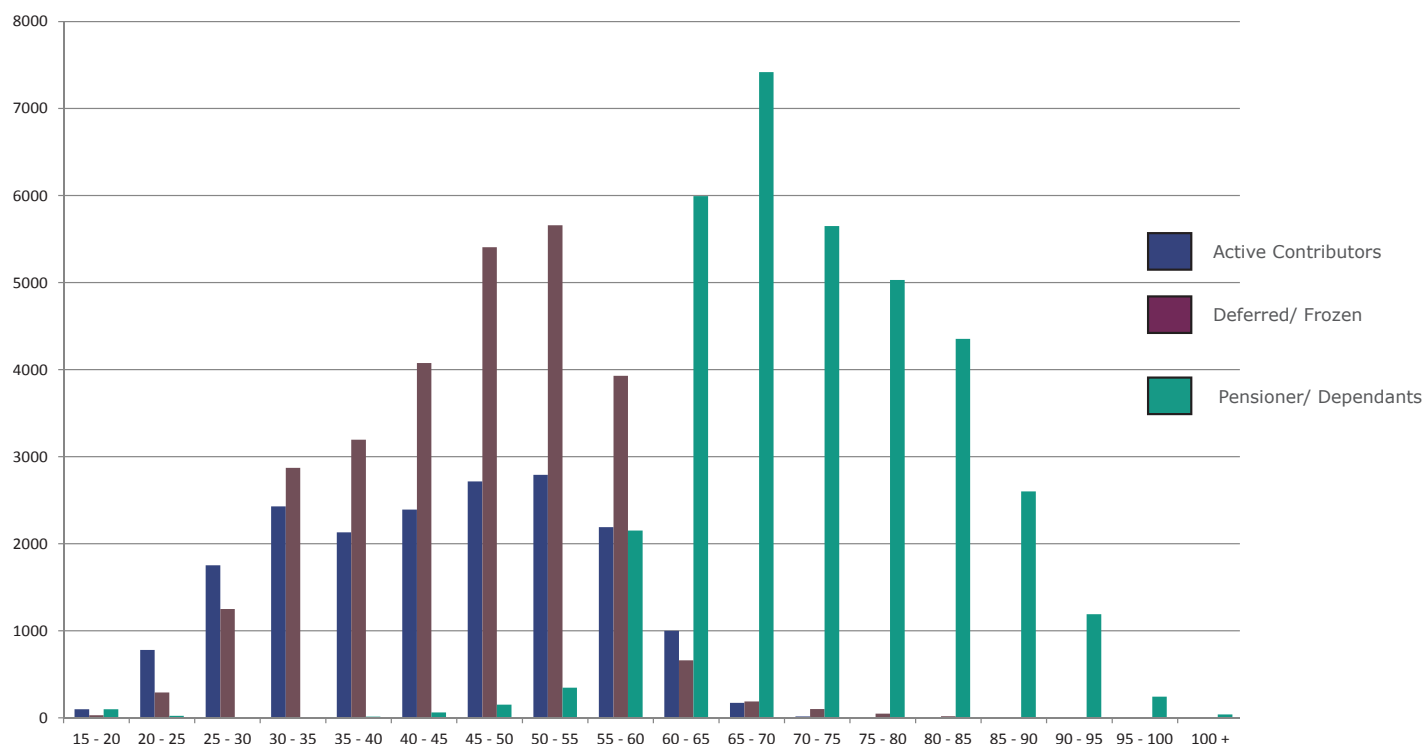
Active contributors **18,314**

Deferred Beneficiaries
25,859

Pensioners and Dependants
35,359

Undecided Leavers and Frozen Refunds **1,876**

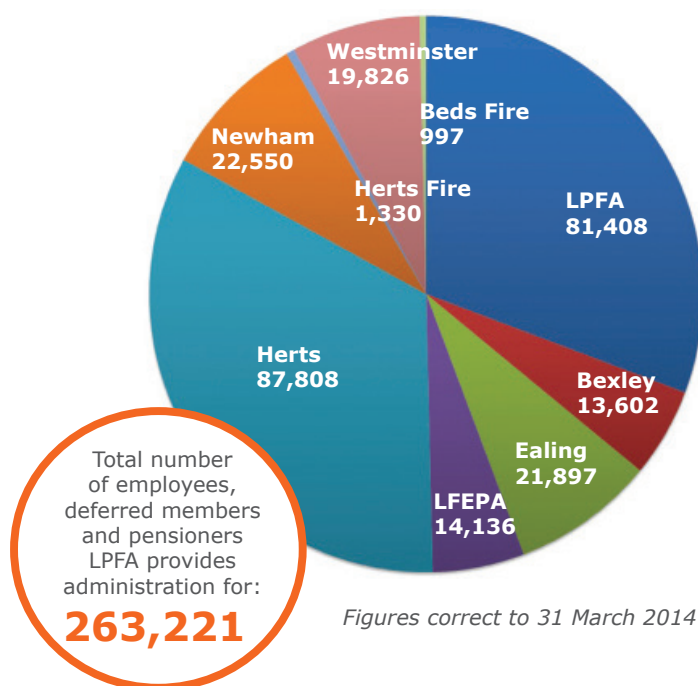
AGE OF LPFA SCHEME MEMBERS



| | Active | Deferred/Frozen | Pensioner/Dependants |
|----------------|------------|-----------------|----------------------|
| Average | 43.6 years | 46 years | 72 years |
| Maximum | 73.8 years | 97 years | 107.5 years |
| Minimum | 15.9 years | 16.6 years | 1.2 years |

TOTAL MEMBERSHIP UNDER ADMINISTRATION

As well as managing the LPFA fund, LPFA carries out LGPS and Fire Scheme administration for London Boroughs of Bexley, Ealing, Newham and Westminster City Council (contract ended August 2014), the London Fire and Emergency Planning Authority (LFEPA), Bedfordshire Fire, Hertfordshire County Council and Hertfordshire Fire.



2.3 Workloads and targets

WORKLOADS

The workload of the pension administration team continues to grow but staff are committed to providing a timely and accurate service. We set ourselves high standards and this past year, again, 99% of queries were completed within our expected timescales. We have also been working with employers to reduce our expected delivery times, which have continued to drop significantly in recent years. Below are the top 10 casework enquiries completed during the year and the amount completed within performance targets. The average number of days to complete the enquiry in the eyes of the customer is also displayed.

| | | | | |
|--|--|---|--|--|
| New Starters 5,340 99% on target of 5 days Avg. = 2 days | Transfers In 1,268 99% on target of 64 days Avg. = 51 days | Transfers Out 894 99% on target of 23 days Avg. = 11 days | Estimates for a member 1,261 100% on target of 10 days Avg. = 3 days | Deferred Benefits 2,047 99% on target of 23 days Avg. = 7 days |
| Deaths 2,070 99% on target of 44 days Avg. = 40 days | Retirements 1,691 100% on target of 53 days Avg. = 51 days | Refunds 724 99% on target of 28 days Avg. = 4 days | Estimates for an employer 725 99% on target of 9 days Avg. = 4 days | General Correspondence 4,785 99% on target of 7 days Avg. = 2 days |

41 staff are employed directly on administration and 6 on investment

Staff to Fund Member ratio = 1:1,985

Average cases per member of staff = 1,583

LPFA CUSTOMER SATISFACTION

Staff are committed to providing the best possible customer service and over the past year, 98% of LPFA members surveyed were satisfied with our service. We are also ServiceMark accredited with the Institute of Customer Service.



| | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---------|---------|---------|--------------|
| % of members satisfied with our overall service | 90% | 97% | 91% | 98% |
| % of members surveyed | 1.15% | 1.4% | 1.3% | 1.34% |
| Number of complaints received | 18 | 33 | 32 | 25 |
| Number of complaints received as a percentage of the workload | 0.05% | 0.09% | 0.09% | 0.06% |
| Number of IDRPs (Internal Dispute Resolution Procedure) | 7 | 2 | 6 | 6* |
| Number of complaints taken to the Pensions Ombudsman | 2 | 3 | 0 | 0 |

*The IDRPs consists of 4 Ill Health cases, 1 Pension Payment Error & 1 Dispute of pensionable elements.

“ *LPFA tries to maximise the use of technology wherever possible.* ”

GOING DIGITAL

LPFA tries to maximise the use of technology wherever possible.

www.yourpension.org.uk

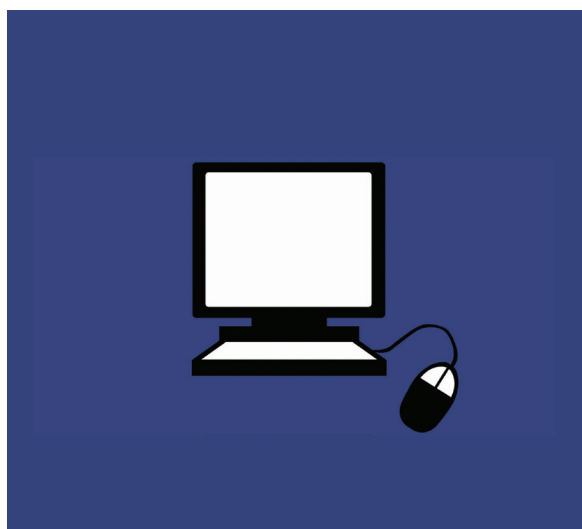
... is the site for members. Here your members can find information about the pension scheme including videos, guides and factsheets as well as calculation examples.

www.yourfund.org.uk

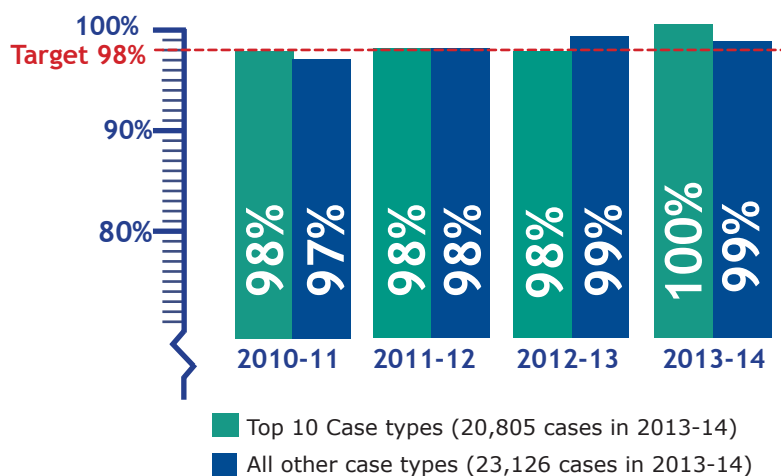
... is the secure online portal for employers. Employers can submit online forms, data or carry out data matching facilities.

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

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



Queries Completed on Time yearly comparison



Over the past year we have been working hard to collect members' email addresses so we can communicate with them electronically. As at 31 March 2014, LPFA held 8,584 active member e-mail addresses. That's **48%** of our active members.

As at 31 March 2014 **17%** of active members had signed up to our member self-service system. A full promotional campaign is planned during 2014.

98% of employer forms were submitted online via the employer portal - Yourfund

COSTS PER MEMBER

Although the costs for individual Authorities are published there appears to be little consistency or independent validation of the figures submitted. Within London for instance the costs of administration varies between £18.59 and £93.23 per member with the average being £50.38. Similar variations exist outside London when comparing costs incurred by County Councils.

The LPFA is unique in its structure in that it has its own board, corporate management team, finance & HR functions, IT and technical teams and full accommodation costs specifically to support the pension fund. Other funds are unlikely to include the full extent of such costs in any return figures they provide to Communities and Local Government or publish in their accounts as some of these are embedded within a local authority. Our headline costs are in the region of £70 but taking account of our particular structure and the specific costs we incur as a consequence are likely to be closer to £50 on a like for like basis.

This can be demonstrated by looking at the cost of providing the agency contracts which the LPFA administers where the cost per member on a marginal basis is in the region of £16. Clients will also have a dedicated team to manage specific employer functions.

In addition LPFA's Investment costs per member are extremely transparent in that some funds only include the total amount they are billed by fund managers. This hides fees that may not be disclosed directly but are netted off the valuation of pooled funds or funds in partnership structure. This might include investments in property pooled funds, bond funds, hedge funds, equity pooled funds and private equity and infrastructure limited partnership funds. LPFA includes these as "costs" and for that reason they are higher than the average. They also contain performance elements.

LPFA is working with central government to develop consistency in reporting costs per member.

FUND COSTS PER MEMBER

At 31 March 2014

| Fund costs | Absolute £'000 | Per fund member £ | % of Net assets of fund % |
|----------------|-------------------|----------------------|---------------------------------|
| Administration | 5,514 | 67.70 | 0.11% |
| Investment | 32,800 | 402.90 | 0.67% |
| TOTAL | 38,314 | 470.60 | 0.78% |

Includes performance fees of £13.5m

At 31 March 2013

| Fund costs | Absolute £'000 | Per fund member £ | % of Net assets of fund % |
|----------------|-------------------|----------------------|---------------------------------|
| Administration | 5,607 | 70.40 | 0.12% |
| Investment | 25,727 | 323.03 | 0.55% |
| TOTAL | 31,334 | 393.43 | 0.67% |

Includes performance fees of £10.5m

EMPLOYER INTERACTIONS

LPFA Pensions Administration Strategy (PAS)

The aim of the PAS is to ensure that both LPFA and its employers are fully aware of their responsibilities under the Scheme and to identify acceptable levels of performance. The original Strategy went live on 1st April 2010, and since then we have seen a significant improvement to the service that we provide to the Scheme member. This is a result of efficient data and information flow between LPFA and our employers.

The PAS covers 105 of our 159 employers - this represents 15,257 of the 17,736 active members, or 86%

Year End Error Rates

Year End Error rates include missing joiners, missing leavers, missing change of hours and high or low pay queries based on the information held on our pensions administration system. Employers who had a high year end error rate (> 10%) were subject to additional charges for the extra work incurred by our administration teams.

| | 2011-12 | 2012-13 | 2013-14 | PAS Error Rate Target |
|----------------------------|---------|---------|---------|-----------------------|
| Year End Error Rate | 14% | 11.6% | 15.5% | 10% |

Amounts due from employers at the Year End

- ▶ Employers contributions - £6,391,483
- ▶ Employees contributions - £2,349,386
- ▶ Cessation Values - £1,212,000

Timeliness of receipt of contributions

99% of contributions were received by the LPFA within 19 days of the following month. There were 42 instances where employers did not pay their contributions on time. These were charged under the pension administration strategy.

2,004 Employer Services End of Year Queries
100% on target

2.4 Pension Payments

PENSIONERS IN RECEIPT OF ENHANCED RETIREMENT BENEFITS

| | Ill health instances | Early retirement | Redundancy/ Voluntary Early Retirement |
|------------------------------------|----------------------|--------------------|--|
| 2009-2010 | 38 | 19 | 314 |
| 2010-2011 | 40 | 23 | 317 |
| 2011-2012 | 23 | 16 | 339 |
| 2012-2013 | 32 | 12 | 275 |
| 2013-2014 | 30 | 10 | 136 |
| TOTAL VALUE FOR 2013/14 | £1,947,076.68 | £611,074.77 | £7,990,097.11 |

ANALYSIS OF PENSION OVERPAYMENTS

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|--------------|------------|------------|------------|------------|------------|
| | £ | £ | £ | £ | £ |
| Overpayments | 203,604.94 | 202,385.82 | 215,443.45 | 147,547.50 | 122,920.49 |
| Collected | 172,488.17 | 173,561.42 | 190,928.97 | 98,078.31 | 93,162.00 |
| Written off | 13,517.03 | 13,517.03 | 15,225.44 | 34,267.12 | 20,257.53 |
| Outstanding | - | 15,307.37 | 9,289.04 | 15,202.07 | 9,500.96 |

3. Investment Review

In the last annual investment report, we informed the members that the London Pensions Fund Authority would formally amalgamate the notionally separated Active Sub Fund and Pensioner Sub Fund to form a single fund. This was a strategic decision to allow greater investment flexibility, improve cash flow and enhance our ability to manage the Fund holistically. The merger went through smoothly and this is the first annual report since.

3.1 Investment Performance

THE LAST TWELVE MONTHS

Globally, the stock markets started the year on a high note partly due to optimism generated from Japan's "Abenomics" when the Japanese Prime Minister announced that he would introduce policies to reflate the economy by raising consumption in Japan and, partly due to the better than expected growth figures from the US. This market optimism was soon reversed from late May onwards when Mr. Bernanke (US Fed Chairman) talked of the possibility of tapering asset purchases by the Federal Reserve. The market interpreted this as the beginning of the end of easy/cheap money which had been a main support to the market whilst global economy was still recovering from the 2008/9 meltdown and subsequent recession. This led to a global equity and bond market correction of c.10% during June, with emerging markets more badly affected than developed markets. Ultimately the Federal Open Market Committee decided to delay tapering and forward guidance from the US, UK and European central banks confirmed a commitment to low rates helped to calm market nerves. In the UK, the new Bank of England (BOE) Governor Mark Carney has maintained the BOE's quantitative easing program and the base rate remained unchanged since March 2009.

In Q1 2014, the market experienced another bout of volatility, due partly to slowdown in China and partly the crisis in Ukraine. However in general, the US and the UK appeared to be further ahead on the recovery path than Europe with improving headline growth figures and decreasing unemployment numbers. The emerging markets have yet to fully recovered from the sell-off in last summer/this spring but the once near mortally wounded peripheral European countries were slowly on the mend, to the extent that sovereign ratings on Spain, Italy and Greece were upgraded by credit rating agencies in Q1 2014.

It is against this risk-on/risk-off background that we report to you the Fund's performance over the last 12 months. The Fund as a whole returned 6.1% from April 2013 to March 2014. Infrastructure proved to be the star performer by returning over 20% due to the successful sale of a fund held by us since 2004. Against the range bound market, the Fund's global equity investment generated a return of +7.1% slightly ahead of the blended equity benchmark return of +6.4%. MFS-an active equity manager with good long term performance again generated a return of c.7.6%. During the periodic equity market downturns, the Fund's bond portfolios provided the stability and cash flow required by the Fund and generated a positive one year return of 5%.

LONG TERM PERFORMANCE

As a pension fund our investment horizon is long term. Our investment strategy is based on the Fund's objectives of capital preservation, enough cash flow at the right quantity at the right time and on closing the existing deficit gap within the expected time frame. Assets are managed within an acceptable level of risk. Whilst we also make opportunistic investments, we are long term responsible investors and the Fund's investment strategy is decided in accordance with the Fund's principles and beliefs*.

*See the Statement of Investment Principles

The performance of the Fund is set out in the table below. The Fund is currently in deficit and the funding level, the ratio between assets and liabilities as measured using the conservative method of swap+0%, is 61% at 31st March 2014. However on a triennial valuation basis, the funding level is c.93%. To reach a fully funded position on a conservative basis and within a reasonable time period of c.15 years, the Fund requires an annual real return of 3 to 4% i.e. a nominal return of c.7% or better. The caveat is of course no further unexpected market shocks or a repeat of the unprecedented financial and economic meltdown of 2008. The table shows that the Fund has generated an annual return of over 10.7% during a 5 year period but a one year return of +6.1%. This slightly lower than expected 1 year annual return may at first glance appear that we are not achieving our stated objective of c.7% annual return. However it has to be judged against the short-term yo-yoing market background. As we gradually move away from the legacy holdings to the asset allocation stated in the 2013 Statement of Investment Principles, we expect our long term performance will improve over time.

As mentioned earlier, one of the reasons LPFA amalgamated the two sub funds was to increase investment flexibility and manage investments holistically. Following the completion of the asset review, the Fund's asset allocation was changed to reflect the Board's belief that we would increase

our investment in illiquid assets to harvest the illiquidity premia and to increase the risk adjusted return*. To this end, we are implementing the Board's decision and have already increased our illiquid investments in Private Equity (PE). We are also in the process of increasing investment in alternative debts and we are implementing a private rental accommodation investment strategy. In the March Board/Investment Committee meeting, it was decided that Newton no long fitted in our investment strategy and we would develop a new internally managed "Buy & Hold" equity strategy of large global stocks to capture high quality and sustainable investment return.

In the last annual report, we mentioned that greater emphasis would be put on the development of internal resource to manage investments internally to reduce fees paid and to develop an Asset Liability Management system (ALM). The internally managed "Buy & Hold" equity strategy, greater investment in single PE funds (instead of via the traditional fund of fund route) and making co-investments all reflect our efforts in this area.

We have also made significant progress on the ALM development and have completed stage one of the ALM project. We now report and publish the ALM report monthly on our website. This information allows us to monitor our funding level regularly and is a valuable tool in our risk monitoring process.

*See the Statement of Investment Principles

FUND PERFORMANCE AS AT 31 MARCH 2014

| Period | Quarterly | 1 year | 3 year | 5 year |
|--------|-----------|--------|--------|---------|
| Return | +0.57% | +6.1% | +6.63% | +10.74% |

GROSS AND NET RETURN ON INVESTMENTS TO 31 MARCH 2014

Calculated as return on investments (gross or net of investment fees)/Net assets of the fund at start of year

| | 2011-12 | 2012-13 (Actual) | 2013-14 (Actual) |
|----------------------------|---------|---------------------|---------------------|
| Gross return on investment | 5.0% | 14.1% | 6.8% |
| Net return on investment | 4.3% | 13.5% | 6.1% |

Total Value of the Fund
at 31 March 2014

£4.9bn



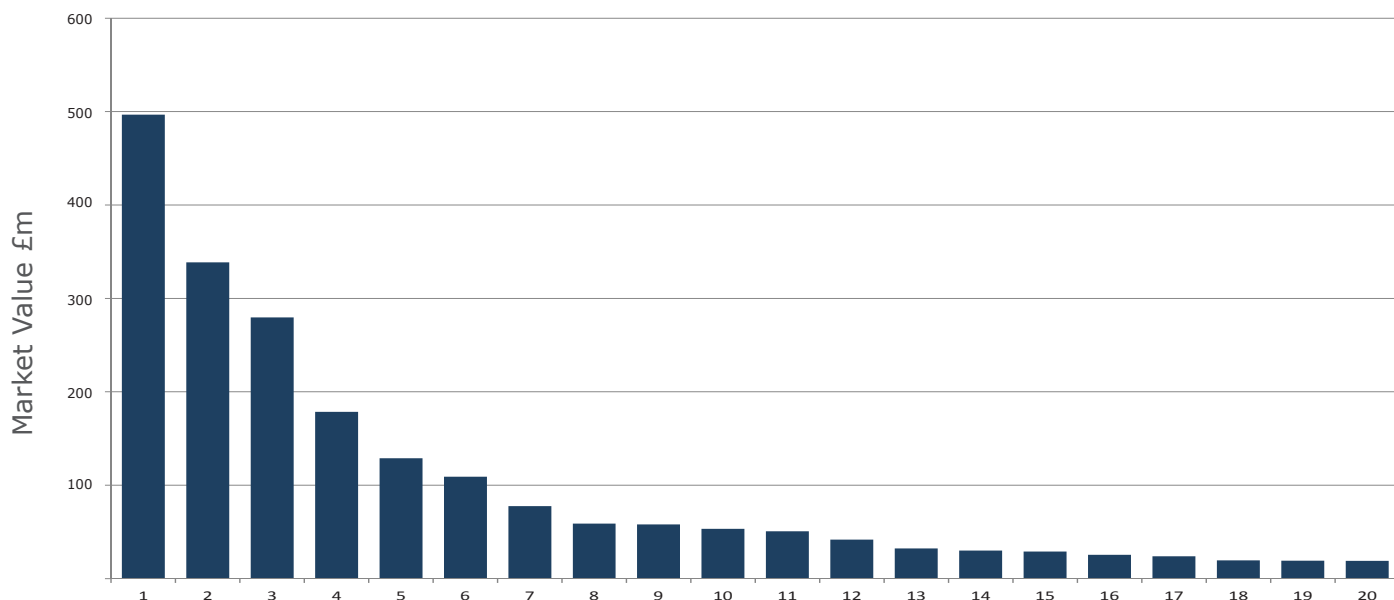
PORTFOLIO BREAKDOWN AS AT 31 MARCH 2014

TOTAL FUND

| Investment Manager | Valuation £m | Actual Asset Allocation | Bench Mark Allocation | | |
|---------------------------------------|-----------------|----------------------------|-----------------------|-----------|-----------|
| | | | Mid Point | Minimum | Maximum |
| LIQUIDS | 3,627.7 | 74.2 | 55 | 50 | 60 |
| Equities | 2,336.4 | 47.8 | | | |
| LGIM | 690.4 | 14.1 | | | |
| MFS | 763.8 | 15.6 | | | |
| Newton | 533.9 | 10.9 | | | |
| Sarasin Oekosar | 58 | 1.2 | | | |
| Insight Synthetic | 290.3 | 6.0 | | | |
| | | | | | |
| Bonds | 1,291.3 | 26.4 | | | |
| BlackRock | 202.4 | 4.1 | | | |
| ECM | 279.7 | 5.7 | | | |
| Insight | 496.7 | 10.2 | | | |
| Liability Driven Investments (LDI) | 312.5 | 6.4 | | | |
| | | | | | |
| TOTAL RETURN | 325.4 | 6.6 | 15 | 10 | 20 |
| BlackRock DDG | 310.7 | 6.3 | | | |
| Brevan Howard | 14.7 | 0.3 | | | |
| | | | | | |
| ILLIQUIDS | 806.4 | 16.5 | 30 | 25 | 35 |
| Private Equity | 350 | 7.1 | | | |
| Infrastructure | 170 | 3.5 | | | |
| Property | 134 | 2.7 | | | |
| Commodities | 52.5 | 1.1 | | | |
| Alternative Debts | 99.9 | 2.1 | | | |
| | | | | | |
| Cash & Currency Hedge | 131.8 | 2.7 | 0 | 0 | 10 |
| | | | | | |
| TOTAL | 4,891.3 | 100.0 | | | |

The above asset allocation was approved by the Board in 2013. We are in a transition period of moving from legacy asset allocation to the above asset allocation range. Adherence to these target ranges is subject to ongoing market opportunity. Having increased the allocation to illiquid assets, the Board expects that the Fund will have completed its transition to the new asset allocation range by 2016 provided that attractive investment opportunities can be found with suitable target risk, return and cashflow profiles.

3.2 Top 20 Pooled Funds (excluding LDI/cash funds)



| No. | Pooled Investment | Market Value £ |
|-----|-------------------------------------|----------------|
| 1 | Insight Bond Plus | 496,681,460 |
| 2 | L&G North America Index Fund | 338,610,892 |
| 3 | ECL MTN | 279,605,619 |
| 4 | BlackRock FIGA Fund | 178,536,242 |
| 5 | CBRE Global Osiris Fund | 128,862,833 |
| 6 | L&G European Index Fund | 109,091,461 |
| 7 | L&G World Emerging Market Fund | 77,676,745 |
| 8 | L&G Asia Pac (ex Japan) Index Fund | 58,939,551 |
| 9 | Sarasin Oekosar | 57,986,865 |
| 10 | L&G UK Index Fund | 53,307,387 |
| 11 | L&G Japan Index Fund | 50,771,644 |
| 12 | M&G Opportunity Debt Fund | 41,722,101 |
| 13 | Meridiam Infrastructure Fund | 32,364,163 |
| 14 | SAS Commodity Fund | 30,075,826 |
| 15 | M&G UK Companies Financing Fund | 29,058,667 |
| 16 | Pantheon Asia Fund IV | 25,437,464 |
| 17 | BlackRock Absolute Return Bond Fund | 23,894,946 |
| 18 | Dover Street VII | 19,503,880 |
| 19 | Pantheon USA Fund VI | 19,243,702 |
| 20 | Pantheon USA Fund III | 19,078,155 |

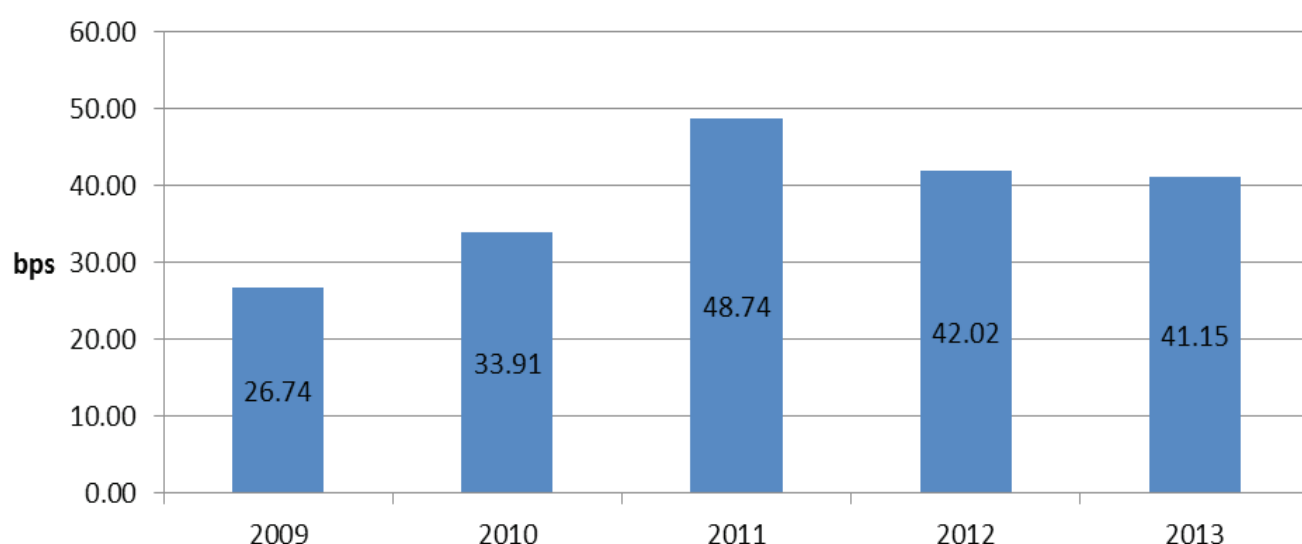
3.3 Top 20 Equity holdings

| | | | |
|---|--|---|--|
|  SEMPERIAN <small>PPP INVESTMENT PARTNERS</small> Semperian £37,661,284 |  The Walt Disney Company Walt Disney £30,741,427 |  Nestle £ 30,484,227 |  Bayer £29,205,761 |
|  United Technologies £25,921,663 |  Accenture £25,027,581 |  LGT Crown Asia-Pac PE plc £23,042,636 |  LGT Crown European PE plc £22,484,163 |
|  Roche £21,070,953 |  THE LINDE GROUP Linde £20,476,105 |  Reckitt Benckiser £19,356,036 |  Diageo £18,918,885 |
|  Honeywell £18,534,196 |  ThermoFisher £17,984,324 |  Microsoft £16,525,597 |  Visa £14,997,936 |
|  STATE STREET State Street £14,917,070 |  Oracle £14,746,901 |  3M £14,182,803 |  Time Warner £13,932,243 |

3.4 Fund Management Costs as a % of Assets Under Management (2009-2013)

Investment management, performance and administration fees are monitored and reported regularly to the Committee. We have regular dialogue with our fund managers and service providers to ensure that LPFA receive value for money. The table below shows the Fund's investment management, performance and custodian/consultant fees over the last 5 years. In September 2013, we renegotiated the management fees charged and reduced the base fees by c.1.5bps.

Fund management cost as a % of assets under management Jan 2009-Dec 2013



Note:

The large increase in 2011 was due to performance fees paid to BlackRock and Insight. All performance fees except Schrodgers are calculated on a 3 year rolling basis. The figures above exclude private equity and infrastructure fees.

3.5 Liability Management

As explained above, we use the ALM information to help us manage the Fund's assets holistically with reference to the Fund's liabilities and cash flow requirements. Since liabilities represent the other half of the ALM, it is only natural that we devise means to manage the Fund's liabilities effectively and efficiently too. To this end, we are continuing to improve the Fund's data integrity as clean and reliable data produces dependable liability/cash flow information. We have also begun earnest dialogues with the employers to discuss contributions and improvements to strengthen the covenants. Our in house actuarial team has been expanded and we now have an in-house actuary whose responsibilities include the monitoring and management of the Fund's liability data and information. By applying ALM to the management of both assets and liabilities of the Fund, we believe we will enhance the Fund's long term return and performance and ultimately more likely to achieve the Fund's stated long term objective – to become fully funded.

3.6 Risk Management

The greatest risks to the LPFA Fund are not to have sufficient assets to generate the required cash flow for regular pension payments, and that the Fund's assets are exhausted before the liabilities are fully discharged. To this end, the Fund is governed by its Statement of Investment Principles and Funding Strategy Statement which are reviewed annually. Investment strategy is set in accordance with these guiding principles and beliefs.

One key element to risk management is the structured delegation of powers from the Board to the Investment Committee, and then to the Investment Sub Committee (ISC), which is supported by the Investment Team. To complement the delegation, there is extensive and detailed accountability back to the Board via a formal and regular reporting system.

Governance is an essential risk management tool; the LPFA governance framework is regularly reviewed and improved especially in decision making process and accountability, compliance and conflicts of interest policies.

In 2013, a Risk Committee was established and the monitoring of potential risks to assets and investment falls within its remit. The Risk Committee meets quarterly to set/review the Fund's risk framework and officers are accountable to the Committee.

The Fund also has in place a risk framework to monitor the Fund's assets and management regularly. The performance of the various fund managers are monitored frequently. JPMorgan, as the performance statistics producer, provide LPFA with the monthly and quarterly performance statistics based on reconciled accounting information. These are analysed and reported to the Investment Committee quarterly.

There are many risks associated with investment. Whilst some are known and can be anticipated, the greatest threat to the Fund is external unexpected shocks. The Investment Team is in the process of developing an asset liability model. This will further enhance the Fund's dynamic approach to risk, besides facilitating the investment and asset allocation decisions. We will be able to stress test our investment decisions on demand. This will enable us to anticipate events and improve our ability to prepare for the unexpected. For now, we calculate, monitor and report the Fund's funding level monthly.

The Fund's assets are audited annually by both external and internal auditors. As part of the audit process, the robustness of our internal controls system and procedures are also checked.

“Governance is an essential risk management tool; the LPFA governance framework is regularly reviewed and improved especially in decision making process and accountability, compliance and conflicts of interest policies.”

RISK INDICATORS

LPFA's aim is to achieve fully funded status on an actuarial basis within five years. We use various metrics to assess the risk of the fund and is exposed to, both in terms of assets and liabilities.

With respect to assets, some key metrics we look at are:

Portfolio VaR (Value at Risk. A statistical technique used to measure and quantify the level of financial risk within an investment portfolio over a specific time frame to a level of confidence, usually 95% or 99%. Value at risk is used to measure and control the level of risk which the Fund undertakes.)

=

Historical 1 month VaR (95%):
-3.59%*

For example, if the 1 year VaR (95%) of a given portfolio is calculated as being £100, there is a 5% chance that the loss over the next year will be more than £100. I.e. we are 95% confident that the loss will not exceed £100

∂ [Equity market] (Sensitivities to changes in the Equity market) In simple terms, beta is the tendency of the fund's returns to respond to the equity market's returns. A beta of 1 indicates that the Fund will move with the equity market. A beta of less than 1 means that the Fund will be less volatile than the equity market. A beta of greater than 1 indicates that the Fund's return will be more volatile than the market.

=

Fund Beta to MSCI World Net TR:
0.51*

*Based on monthly return data from Jan 08 – Mar 2014

In terms of liabilities, some key metrics we look at are:

∂ CPI (This is estimated effect on our liabilities of a 1 basis point (0.01%) move upwards in inflation.)

=

IE01 (As at 31 May 2014)
£13.7m

∂ IR (This is the estimated effect on our liabilities of a 1 basis point (0.01%) move upwards in interest rates.)

=

PV01 (As at 31 May 2014)
£-15.1m

3.7 Responsible Investment

One of the LPFA's five strategic objectives is to manage its business processes 'to produce an overall positive impact on stakeholders and society'. From an investment perspective this means taking account of environmental, social and corporate governance (ESG) issues as we develop our investment strategy and ownership activities.

Over the last few years, LPFA have worked hard to incorporate ESG in our investments. We have developed a level of understanding and an approach which has taken ESG issues as far as we believe we need to at this stage. We have stopped thinking about ESG as a separate strand, yet maintain the expectation that our managers understand it and fully apply it as part of their core approach. They report their voting activity to LPFA on a quarterly basis.

During the year under review, the LPFA voted in favour of 3,338 resolutions, against 309 resolutions and abstained on 31 resolutions at company meetings. In 128 out of 286 meetings we have cast one or more votes against management.

The LPFA continues to participate in and supports collaborative projects such as signing up to the UN Principles for Responsible Investing (UNPRI) and participation in networks and specialist knowledge sharing opportunities such as are provided by the Institutional Investors Group on Climate Change (IIGCC), the National Association of Pension Funds, and the Local Authority Pension Fund Forum (LAPFF).

Our Statement of Investment Principles including our Myners Compliance Statement can be found on our website: www.lpfa.org.uk/What-we-publish/FUND-PUBLICATIONS

4. Governing the Fund

This section explains how the LPFA governs and runs the LPFA pension fund. It contains the structure of the Board and Committees, governance highlights and risk management processes. As a stand alone authority LPFA's governance arrangements are based on a mixture of local government requirements (where appropriate) whilst also mirroring the UK Corporate Governance code and Financial Conduct Authority best practice.

Further details of the Authority's governance arrangements, including Local Code of Corporate Governance, and LGPS Governance Policy Statement, can be found on our website: www.lpfa.org.uk/What-we-publish

4.1 Board, Executive Team and Committees

LPFA's Board are appointed by the Mayor of London. Half of the appointments are via an open appointment process and the remaining are appointed via consultation with London Councils. Board members are usually appointed for a period of 3-4 years and usually only serve two appointment periods.

There was only one new appointment made to LPFA's Board membership during 2013-14. Robert Vandersluis who, following Sarah Smart's departure, took over chairmanship of the Risk Committee. Sir Merrick Cockell and Stephen Alambritis were reappointed for another term while Michael Cassidy left following two terms as a Board Member. All new Board members undergo an extensive induction programme during the first six months of their appointment.

The LPFA Executive team decreased to four members following retirement of Mike Taylor and appointment of the former Deputy Chief Executive, Susan Martin, to the role of the Chief Executive.

LPFA OFFICERS OF THE FUND

| | |
|--------------------------|--|
| Susan Martin | Chief Executive (from 1 January 2014) |
| Janice Watts | Director of Operations |
| Luke Webster | Director of Finance (from 27 August 2013) |
| Mike Allen | Director of Pensions |
| Adrian Bloomfield | Director of Finance (resigned from post on 12 July 2013) |
| Alex Gracian | Chief Investment Officer (resigned from post on 22 April 2014) |
| Mike Taylor | Chief Executive (retired from post on 16 August 2013) |



Susan Martin
Chief Executive



Janice Watts
Director of Operations



Luke Webster
Director of Finance



Mike Allen
Director of Pensions

CURRENT BOARD MEMBERS

Full biographies are available to view on our website
www.lpfa.org.uk/Who-we-are/BOARD-BOARD-REPORTS



Edmund Truell
Chair



Sir Merrick Cockell
Deputy Chair



Anthony Dalwood



Dermot 'Skip' McMullan
from 17 April 2013



Kerry Adby
from 17 April 2013



Mike O'Donnell



Robert Vandersluis
from 1 October 2013



Stephen Alambritis



Stephen Brooker

WE SAY GOODBYE TO

Michael Cassidy
Sarah Smart

Board Member (retired from post on 30 September 2013)
Board Member (retired from post on 31 December 2013)

BOARD MEMBER ATTENDANCE

| Board Member | Appointment Period | Background | Committee Membership | Appointed as part of a London Council consultation process | Attendance at Board during 2013/14 | Attendance at Committees during 2013/14 |
|---|--------------------------------|--|--|--|------------------------------------|---|
| Edmund Truell Chair | 1 Jan 2013 to 31 Dec 2016 | Private Equity Pension Fund Asset and Liability Management | Chairman Investment (Chair) Investment Sub-Committee (Chair) | | 4 out of 5 | 4 out of 4 10 out of 10 |
| Sir Merrick Cockell Deputy Chairman from April 2013 | 1 Oct 2010 to 31 Dec 2016 | International Business Public Administration | Business & Administration (Chair) Remuneration & Nomination (Chair) | Yes | 4 out of 5 | 4 out of 4 2 out of 2 |
| Stephen Brooker | 1 Jan 2013 to 31 Dec 2015 | Accountant Public sector governance | Audit (Chair) Risk Remuneration & Nomination | | 5 out of 5 | 4 out of 4 4 out of 4 2 out of 2 |
| Stephen Alambritis | 1 Oct 2010 to 30 Sept 2017 | Public Administration | Business & Administration Audit | Yes | 4 out of 5 | 3 out of 4 4 out of 4 |
| Anthony Dalwood | 1 Oct 2010 to 30 Sept 2014 | Investment Management | Investment Risk | Yes | 5 out of 5 | 3 out of 4 4 out of 4 |
| Mike O'Donnell | 1 Oct 2010 to 30 Sept 2014 | Accountant Public Administration | Audit Remuneration & Nomination | Yes | 4 out of 5 | 3 out of 4 2 out of 2 |
| Kerry Adby | 17 April 2013 to 31 March 2017 | Investment Management Infrastructure Legal | Investment | | 5 out of 5 | 4 out of 4 |

| Board Member | Appointment Period | Background | Committee Membership | Appointed as part of a London Council consultation process | Attendance at Board during 2013/14 | Attendance at Committees during 2013/14 |
|--------------------------------|--|---|---|--|------------------------------------|---|
| Dermott "Skip" McMullan | 17 April 2013 to 31 March 2017 | Business and Pension Fund Management Investment management | Investment Business & Administration Investment Sub-Committee | | 5 out of 5 | 3 out of 4 2 out of 4 1 out of 1 |
| Robert Vandersluis | 1st October 2013 – 30th September 2017 | Investment & Risk Management | Risk | Yes | 4 out of 4 | 1 out of 2 |
| Sarah Smart | 01.01.2009 to 31.12.2012; Extended to 31.12.2015 following appointment process; resigned 31.12.13 | Accountant, Investment Management | former Chair of Risk Committee Investment Committee | | 4 out of 4 | 3 out of 3 2 out of 3 |
| Michael Cassidy | 01/03/2007 to 30.09.2013 | Lawyer, Public Administration | former Chair of Risk Committee Investment Committee | Yes | 1 out of 1 | 0 out of 2 1 out of 2 |

BOARD STRATEGY

The strategy developed by the Board and Executive for 2013-14 focused on three main areas:

- Investment & Liability Management: Development of the ability to measure assets and liabilities in real time with the results feeding back to the performance report. The main objective is to ensure that over the 15 year long term the Fund will be able to meet all pensions liabilities.
- Business Growth and co-operating with other pension funds
- Focusing on excellence – preparing LPFA for future challenges, including sustainable pensions.

Underpinning this strategy are various strategic improvement programmes which focus on shaping an excellent and cost-efficient organisation. In particular, LPFA have managed to successfully implement the new LGPS 2014 scheme and auto enrolment. LPFA pushed for greater automation for both member and employer and focused on providing best value service through the monitored core administrative excellence.

BOARD TRAINING

All Board members participate in a mixture of individual and group training sessions. All Board training sessions are held prior to Board meetings and during 2013-14 sessions were held on:

- ▶ LPFA key risks – inflation hedging
- ▶ Valuation process
- ▶ New LGPS 2014

Individual training is tailored to the requirements of Board members and following the outcome of Board member appraisals. This is discussed during the induction process and on an on-going basis. LPFA ensures that both the Corporate Management Team and the Board Members are present at all major LGPS investment, governance or administration conferences.

In April 2014 Board Members held a structured offsite Board awayday and strategy review. This also included a Board Member only session. The annual event is considered vital to allow Board Members to dedicate time to setting and reviewing all aspects of LPFA's strategic direction.

A Board Member Appraisal exercise was carried out in the autumn 2013 and an externally managed Board Performance Evaluation is due in the Autumn of 2014. The results of the appraisal exercise were fed into the Board Member training plan. Audit Committee members will also carry out a self assessment.

All Board Members participated in conference or training opportunities based on the Trustee Toolkit and CIPFA Public Sector Knowledge and Skills Framework, which is captured in a skill matrix used in the Board Member recruitment process. LPFA is fully compliant with the CIPFA Public Sector Knowledge and Skills Framework and publishes annual training plans online.

LPFA'S CONSTITUTION AND COMMITTEE STRUCTURE

The Constitutional Document continued to be reviewed and amended where appropriate. The document is available on our website www.lpfa.org.uk

The chairmanship of all Committees was reviewed in February 2014 and Members were confirmed in their roles. The Board approved extension of remit of the Remuneration Committee to include nomination and succession planning process with due regard to all diversity matters.

Much of the substantive work of the Board has been conducted through five standing committees:

- ▶ Investment
- ▶ Risk
- ▶ Audit
- ▶ Business & Administration
- ▶ Remuneration & Nomination

Each Committee is empowered to carry out the specific duties set out in its terms of reference. Terms of reference are reviewed annually. Beyond these specific delegated powers, the Committees act as an advisory body with no executive powers, but is authorised to investigate any activity relating to or compatible with its terms of reference. Except where the Committee has been specifically authorised by the Board, the Committee will make recommendations for approval by the Board.

The terms of reference of each Committee are included in the Constitutional Document, as are items reserved for Board determination. Both Risk Committee and Audit Committee prepare annual reports to the Board which outline their activities during the year. These are publicly available online as part of LPFA's annual report documentation.

4.2 Governance Highlights

Board and Corporate Management Team awayday held in March 2014 to review the vision and strategic direction of the organisation.

Appraisals of Board Members were carried out by the Deputy Chairman in a series of one to one interviews. The output from this has led to a programme of collective and individual training.

Consolidation of the strategic focus on managing LPFA's assets and liabilities and ensured that the governance arrangements were in place to support this.

Introduction of new Treasury Management Strategy which resulted in improved cash management under the GLA Group Investment Syndicate.

Extended the function of the Remuneration Committee to include nomination and succession planning matters.

New risk based approach to the management of liabilities and valuation assumptions was applied at the 2013 triennial valuation which offered lower contribution increases in return for employers pledging security or demonstrating secure income streams.

Gifts, Hospitality and Expenses Policy and related procedures & processes refreshed; Registers are now published online quarterly

LPFA continued to make representation to the Government to encourage discussion around the shape of the new LGPS governance Regulations and the structure.

New LGPS 2014 scheme regulations have now been implemented and you can find out more about it on our member website www.yourpension.org.uk. The revised governance arrangements linked to these are expected to be introduced by April 2015.

LPFA's Director of Finance was made more integral to the investment decision making process, providing greater financial oversight of the process.

4.3 Risk Management

The LPFA Board promotes a culture of risk management and demand from the management governance of risk. The LPFA identifies and mitigates a range of risks arising from near and far environment, and promotes a top-to-bottom and bottom-to-top approach. The Risk Committee is responsible for oversight and advice to the Board on the current risk exposures and future risk strategy, including strategy for managing liabilities, and the embedding and maintenance of a supportive culture in relation to the management of risk throughout the Authority. The Committee focuses on both strategic and operational risks and receives quarterly reports on significant risks to the Authority, including status update on trend since last meeting.

LPFA's Scheme Risks are available on LPFA's website, www.lpfa.org.uk along with actions in place to manage the risk. Key risks for the LPFA include inflation being significantly higher than anticipated, failure of the investment managers to achieve the returns specified in their mandates, and the impact of the funding gap attributable to the GLC/ILEA abolition. These are actively monitored by the Risk Committee. A hedging strategy is in place to manage inflation.

Audit Committee provides assurance to Board about the robustness of the existing risk management framework.

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

| Management | Risk Committee | Board |
|---|---|---|
| <ul style="list-style-type: none"> • Identification and documentation of all risks to which the business is exposed • Assessing the likelihood and impact of all risks • Development of processes to manage and reduce risk • Monitoring all risks on a regular basis • Reporting on risk management to the Risk Committee and Board | <ul style="list-style-type: none"> • Reviewing the appropriateness of all risk policies and methodologies • Discussing potential new or unrecorded risks with management • Challenging management's assessment of the level of risk • Monitoring progress against actions to reduce risk • Receiving reports from management on the changes to the risk landscape • Providing guidance to management on expectations of Board on acceptable level of risk • Reporting to the Board | <ul style="list-style-type: none"> • Setting the risk culture of the organisation • Agreeing the risk appetite of the organisation • Approving the risk framework • Receiving regular reports from the Risk Committee on key risk items • Ensuring risk information is included in all strategic decisions and considerations at Board level |

4.4 LPFA Advisors and Service Providers

**Barnett
Waddingham**
a true partnership approach

Fund Actuary

 **Lloyds TSB**

Bankers

J.P.Morgan

Custodian

 **KPMG**

Internal Auditor

 **Grant Thornton**

External Auditor

 **PRUDENTIAL**

AVC Provider

 **EVERSHEDS**

Legal Advisor

Bevan Brittan 

Legal Advisor

 **STEWART LAW**
SOLICITORS

Legal Advisor

TRAVERS SMITH

Legal Advisor

**C L I F F O R D
C H A N C E**

Legal Advisor

5. Pension Fund Accounts

5.1 Auditor's Opinion

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

We have audited the pension fund financial statements of London Pensions Fund Authority for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of the London Pensions Fund Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

RESPECTIVE RESPONSIBILITIES OF THE DIRECT OF FINANCE AND AUDITOR

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial

statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund's financial statements:

- ▶ give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

OPINION ON OTHER MATTERS

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Neil Knights - Director

for and on behalf of Grant Thornton UK LLP,
Appointed Auditor
30 Finsbury Square, London, EC2P 2YU
25 September 2014

5.2 Pension Fund Accounts

| 2012/13 £'000 | | Notes | 2013/14 £'000 |
|------------------|---|-------|------------------|
| | Dealings with members, employers and others directly involved in the Fund | | |
| 160,865 | Contributions | 5 | 155,727 |
| 27,015 | Transfers in from other pension funds | 6 | 32,604 |
| 187,880 | | | 188,331 |
| | | | |
| 249,131 | Benefits | 7 | 253,991 |
| 22,831 | Payments to and on account of leavers | 8 | 20,325 |
| 5,607 | Administration expenses | 9 | 5,562 |
| 34 | Capital funding cost | 10 | (48) |
| 277,603 | | | 279,830 |
| (89,723) | Net additions/(withdrawals) from dealings with members | | (91,499) |
| | | | |
| | Returns on investments | | |
| 55,142 | Investment income | 11 | 50,983 |
| (131) | Taxes on income | 12 | (781) |
| 540,974 | Profit and losses on disposal of investments and changes in the market value of investments | 13a | 270,522 |
| (25,727) | Investment management expenses | 16 | (32,800) |
| 570,258 | Net return on investments | | 287,924 |
| | | | |
| 480,535 | Net increase in the net assets available for benefits during the year | | 196,425 |

Net Assets Statement for the year ended 31 March 2014

| 2012/13 £'000 | | Notes | 2013/14 £'000 |
|--------------------------|---|-------|--------------------------|
| 4,588,834 | Investment assets | 13 | 4,747,160 |
| 46,165 | Cash held by investment managers | 13 | 46,996 |
| 4,634,999 | | | 4,794,156 |
| | | | |
| 19,153 | Investments in Associate | 13 | - |
| (31,380) | Investment liabilities | 13 | (6,234) |
| 89,359 | Current assets | 19 | 121,975 |
| (17,135) | Current liabilities | 20 | (18,476) |
| 4,694,996 | NET ASSETS OF THE OF THE FUND AVAILABLE TO FUND BENEFITS AT THE PERIOD END | | 4,891,421 |

- 1 The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

Movement in Reserves Statement for the year ended 31 March 2014

| 2012/13 £'000 | | 2013/14 £'000 |
|--------------------------|---|--------------------------|
| 4,214,461 | Balance at 1 April | 4,694,996 |
| 480,535 | Movement in net assets available for benefits during the year | 196,425 |
| 4,694,996 | BALANCE AT 31 MARCH | 4,891,421 |

5.3 Note to the Pension Fund Accounts

1. GENERAL INFORMATION

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the Local Government Pension Scheme (LGPS) (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009. Pension administration (administration expenses in the revenue account) is carried out in-house, while custodial arrangements and fund investment is mainly outsourced to external investment managers (investment management expenses in the pension fund account) under the guidance of LPFA's Investment Committee.

An increase of 2.2 % (5.2% April 2012) was applied to pensions in April 2013. This was in accordance with The Pensions Increase (Review) Order 2013.

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

The LPFA makes payments of annual statutory compensation following the abolition of the former GLC and ILEA. These payments are financed by way of a levy on all London Boroughs in respect of former Greater London liabilities and on Inner London Boroughs in respect of Inner London liabilities. These transactions are reported in the financial statements of the Residual Liabilities Fund.

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 actuarial statement. This is shown on pages 66-67 and should be read in conjunction with these accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position as at 31 March 2014. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom based upon International Financial Reporting Standards (IFRS).

The accounts summarise the transactions of the Fund and report on the net assets at the disposal of the Authority. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations is dealt with in note 26 and actuarial statement. The actuarial present value of promised retirement benefits, valued on a basis consistent with IAS19, is disclosed in note 26 of these accounts.

The Financial Statements and Accounts have been prepared on a going concern basis.

The Authority is not required to be compliant with SERCOP (Service Reporting Code of Practice) under the Local Government Act 2003. The Authority is not governed by the Act.

Contributions

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the Actuary in the payroll period to which they relate.

Employers' augmentation contributions and capital cost contributions from the employer are accounted for in accordance with the regulations under which they are paid, or in the absence of such an agreement, when received.

Employers' deficit funding contributions are accounted for in accordance with the agreement under which they are being paid, or in the absence of an agreement on a receipt basis.

The LPFA has had discussions with the Department for Communities and Local Government (CLG) on the long-term funding of the deficit of the Pension Fund. The LPFA continues to collect deficit pension contributions from appropriate London Boroughs supported by statements from the fund actuary.

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/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 accumulation units is not paid but is reinvested automatically.

Investment market value changes comprise all realised and unrealised profits/losses during the year.

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. The Authority is not

required to be compliant with SERCOP (Service Reporting Code of Practice under the Local Government Act 2003).

The LPFA has a partial VAT recovery method agreed with HM Revenue & Customs. Any irrecoverable VAT is charged to the pension fund account.

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.

Investment management expenses

Investment management expenses are accounted for on an accruals basis.

Fees of the external 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 out-performance against an agreed benchmark, for most managers.

Fees are either explicit, being expensed separately to the LPFA, or implicit, being expensed within the fund under management.

Where they are implicit an adjustment has been made to the change in market value in order to separately identify the fees charged.

The costs of LPFA's in-house investment team are re-charged as investment expenses to the Fund.

Investment transaction costs

Investment transaction costs are included in the cost of investments purchased or deducted from the proceeds of investments sold.

Investment Assets

Investment assets are included in the net asset statement on a fair value basis as at the reporting date. 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.

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 using guidelines of the British Venture Capital Association. This includes the use of discounted cash flow models which are independently audited.

Pooled investment vehicles are valued at the closing price under single pricing system, or bid price under dual pricing system.

Accounting for an Associate

In accordance with IAS28 and IAS39, the LPFA has included its associate relationship within its financial statements at fair value as a financial asset held at fair value through profit or loss. During the year the LPFA sold its entire holding in the Associate.

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 to sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value.

Derivatives

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Derivative contracts' changes in fair value are included in change in market value. Futures contracts' value is determined using exchange prices at the reporting date.

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

The future value of forward currency 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.

Fund managers invest on behalf of the LPFA in accordance with the Investment Management Agreement and the Statement of Investment principles, subject to the Local Government Pension Scheme guidelines (England and Wales).

Additional Voluntary Contributions (AVCs)

AVCs are not included in the accounts in accordance with S(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulation 1998 (SI 1998 No 1831) but are disclosed as a note only (Note 18). 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT

Unquoted Private Equity and Infrastructure Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements 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 and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association or Institutional Limited Partners Association. The value of unquoted private equities and infrastructure at 31 March 2014 was £506m (£503m at 31 March 2013). There is a risk that these investments may be under - or overstated in the accounts, although it is considered unlikely to have a material impact on the value of the Fund.

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 IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuarial Statement on pages 66-67 of this report. This estimate is subject to significant variances based on changes to the underlying assumptions.

4. PENSION FUND INFORMATION

The last full triennial valuation of the LPFA Fund was carried as at 31 March 2013 in accordance with the Funding Strategy Statement of the fund. The funding level was 91%. New contribution rates for employers using a risk based approach will come into effect from 1 April 2014.

Employees pay contributions determined by their full time equivalent pay at the rates set out below:

| Year to 31 Mar 2013 | Year to 31 Mar 2014 | |
|----------------------------|----------------------------|--------------------------|
| Pay Range | Pay Range | Contribution Rate |
| £0 – £13,500 | £0-£13,700 | 5.50% |
| £13,501 – £15,800 | £13,701 – £16,100 | 5.80% |
| £15,801 – £20,400 | £16,101 – £20,800 | 5.90% |
| £20,401 – £34,000 | £20,801 – £34,700 | 6.50% |
| £34,001 – £45,500 | £34,701 – £46,500 | 6.80% |
| £45,501 – £85,300 | £46,501 – £87,100 | 7.20% |
| > £85,300 | > £87,100 | 7.50% |

The fund membership was as follows:

| Fund Membership | 2012/13 | 2013/14 |
|---------------------------|----------------|----------------|
| Contributors | 16,459 | 18,314 |
| Deferred Members | 28,112 | 27,735 |
| Pensioners and Dependants | 35,071 | 35,359 |
| Total | 79,642 | 81,408 |

5. CONTRIBUTIONS

By category

| | 2012/13 £'000 | 2013/14 £'000 |
|--------------------|------------------|------------------|
| Employers - normal | 125,153 | 119,341 |
| Members – normal | 35,712 | 36,386 |
| TOTAL | 160,865 | 155,727 |

By authority

| | 2012/13 £'000 | 2013/14 £'000 |
|---------------------------|------------------|------------------|
| Scheduled bodies | 104,363 | 78,033 |
| Admitted bodies | 53,294 | 75,451 |
| Community Admission Body | 1,140 | 348 |
| Transferee Admission Body | 2,022 | 1,873 |
| Resolution body | 46 | 22 |
| TOTAL | 160,865 | 155,727 |

During the year the LPFA reviewed the status of University and College employers and confirmed that four employers should not be treated as Scheduled Bodies given they did not meet the formal definition of higher education corporation contained within the Local Government Pension Scheme regulations. The classification for the year 2014 was changed from scheduled bodies to admitted bodies. The four employers total contributions received during the year were £24.1m (2013:£24.7m).

Additional deficit contributions

The LPFA has had discussions with the Department for Communities and Local Government (CLG) on the long-term funding of the pensioner sub-fund deficit. This issue is now being addressed through the merging of the active and pensioner sub-funds. The LPFA continues to collect deficit pension contributions from appropriate London Boroughs supported by statements from the fund actuary.

Total contributions paid into the fund at 31 March 2014
£155,727,000

6. TRANSFERS IN FROM OTHER PENSION FUNDS

| | 2012/13 | 2013/14 |
|----------------------|----------------|----------------|
| | £'000 | £'000 |
| Group transfers | 14,744 | 16,378 |
| Individual transfers | 12,271 | 16,226 |
| TOTAL | 27,015 | 32,604 |

7. BENEFITS**By category:**

| | 2012/13 | 2013/14 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Pensions | 210,371 | 216,979 |
| Commutation and lump sum retirement benefits | 34,643 | 33,325 |
| Lump sum death benefits | 4,117 | 3,687 |
| TOTAL | 249,131 | 253,991 |

By authority:

| | 2012/13 | 2013/14 |
|---------------------------|----------------|----------------|
| | £'000 | £'000 |
| Scheduled bodies | 194,809 | 179,342 |
| Admitted bodies | 52,901 | 73,647 |
| Community Admission Body | 24 | 20 |
| Transferee Admission Body | 1,348 | 891 |
| Resolution Body | 49 | 91 |
| TOTAL | 249,131 | 253,991 |

During the year the LPFA reviewed the status of University and College employers and confirmed that four employers should not be treated as Scheduled Bodies given they did not meet the formal definition of higher education corporation contained within the Local Government Pension Scheme regulations. The classification for the year 2014 was changed from scheduled bodies to admitted bodies. The four employers total benefits paid during the year were £14.0m (2013:£16.5m).

8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2012/13 | 2013/14 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Refunds to members leaving service | 40 | 694 |
| Payments for members joining state scheme | 12 | 29 |
| Group transfers | 4,364 | 3,237 |
| Individual transfers | 18,415 | 16,365 |
| TOTAL | 22,831 | 20,325 |

9. ADMINISTRATION EXPENSES

| | 2012/13 | 2013/14 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Administrative costs charged to the Pension Fund account by the operational account comprising of a share of board member and staff salaries, premises rental, supplies and services and IT | 5,378 | 5,374 |
| Other administration expenses charged directly to the fund | 229 | 188 |
| TOTAL | 5,607 | 5,562 |

The costs charged directly to the pension fund include actuarial charges, legal fees and bank charges.

10. CAPITAL FUNDING

| | 2012/13 | 2013/14 |
|----------------------|----------------|----------------|
| | £'000 | £'000 |
| Capital Funding Cost | 34 | (48) |

The LPFA maintains a separate bank account for the pension fund. As part of managing this requirement the funding for capital expenditure from 2011/12 onwards is transferred to the operational account in the year assets are purchased (and held in a reserve). As the assets are used the depreciation charge is credited back to the pension fund.

11. INVESTMENT INCOME

| | 2012/13 | 2013/14 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Fixed interest securities | 3,679 | 3,418 |
| Equity dividends | 27,013 | 28,533 |
| Pooled property investments | - | 1,572 |
| Pooled Investments -Unit trusts and other managed funds | 18,594 | 13,169 |
| Cash deposits | 534 | 776 |
| Private equity income | 5,004 | 3,238 |
| Other | 318 | 277 |
| TOTAL | 55,142 | 50,983 |

12. TAXES ON INCOME

| | 2012/13 | 2013/14 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Withholding Tax - Fixed Interest securities | 85 | (3) |
| Withholding Tax - Equities | (154) | (760) |
| Withholding Tax - Pooled Investments | (62) | (18) |
| TOTAL | (131) | (781) |

13. INVESTMENTS

| | Market Value 31 March 2013 | Market Value 31 March 2014 |
|---|---------------------------------------|---------------------------------------|
| | £'000 | £'000 |
| Investment assets | | |
| Fixed interest securities | 90,451 | 98,269 |
| Equities | 1,339,123 | 1,322,573 |
| Pooled investments | 2,375,065 | 2,580,752 |
| Pooled property investments | 174,396 | 133,379 |
| Private equity/infrastructure | 516,605 | 519,917 |
| Commodity funds | 52,696 | 52,599 |
| Liquidity fund (Time deposit) | 10,085 | 17,190 |
| Futures | 1,842 | 547 |
| Forward currency contracts | 4,123 | 9,410 |
| Purchased/written options | 1,070 | 1,447 |
| Cash held by investment managers | 46,165 | 46,996 |
| Investment income due | 6,617 | 7,481 |
| Amounts receivable for sales | 16,761 | 3,596 |
| Total investment assets | 4,634,999 | 4,794,156 |
| Investment in associate | | |
| Investors in the Community – Guernsey Unit Trust | 19,153 | - |
| Investment liabilities | | |
| Futures | (126) | (646) |
| Forward currency contracts | (17,794) | (1,004) |
| Purchased/written options | (720) | (1,094) |
| Amounts payable for purchases | (12,740) | (3,490) |
| Total investment liabilities | (31,380) | (6,234) |
| NET INVESTMENT ASSETS | 4,622,772 | 4,787,922 |

13A. INVESTMENTS (CONTINUED)**Net Investment assets**

| | Market value 1 April 2013 £'000 | Purchases during the year and derivative payments £'000 | Sales during the year and derivative receipts £'000 | Change in market value during the year £'000 | Market value 31 March 2014 £'000 |
|---|---|---|---|--|--|
| Fixed interest securities* | 90,451 | 80,474 | (68,815) | (3,841) | 98,269 |
| Equities* | 1,339,123 | 352,148 | (443,815) | 75,117 | 1,322,573 |
| Pooled investments* | 2,375,065 | 339,446 | (199,927) | 66,168 | 2,580,752 |
| Pooled property investments | 174,396 | 21,433 | (61,547) | (903) | 133,379 |
| Private equity/ infrastructure | 516,605 | 52,635 | (85,078) | 35,755 | 519,917 |
| Liquidity fund (Time Deposits) | 10,085 | 2,742,374 | (2,735,269) | - | 17,190 |
| Commodity funds | 52,696 | 3,232 | - | (3,329) | 52,599 |
| Futures | 1,716 | 4,207 | (8,364) | 2,342 | (99) |
| Purchased/Written Options | 350 | 3,070 | (4,757) | 1,690 | 353 |
| Forward currency contracts | (13,671) | 35,519 | (103,218) | 89,776 | 8,406 |
| Investors In the Community - Guernsey unit trust ** | 19,153 | - | (30,731) | 11,578 | - |
| | 4,565,969 | 3,634,538 | (3,741,521) | 274,353 | 4,733,339 |
| Other Investment Balances: | | | | | |
| Cash held by investment managers | 46,165 | | | (3,831) | 46,996 |
| Amount receivable for sales of investments | 16,761 | | | | 3,596 |
| Investment income due | 6,617 | | | | 7,481 |
| Amounts payable for purchases of investments | (12,740) | | | | (3,490) |
| | | | | | |
| NET INVESTMENT ASSETS | 4,622,772 | | | 270,522 | 4,787,922 |

*An amount of £108,917k is included in the sales of equities with a corresponding amount included in the purchases of Pooled investments relating to a reclassification of assets

** accounted for as an associate

13A. INVESTMENTS (CONTINUED)**Net Investment assets (Prior year comparative)**

| | Market value 1 April 2012 £'000 | Purchases during the year and derivative payments £'000 | Sales during the year and derivative receipts £'000 | Change in market value during the year £'000 | Market value 31 March 2013 £'000 |
|--|---|--|--|---|--|
| Fixed interest securities | 332,629 | 101,523 | (353,721) | 10,020 | 90,451 |
| Equities | 1,119,113 | 335,166 | (340,564) | 225,408 | 1,339,123 |
| Pooled investments | 1,903,770 | 319,421 | (124,056) | 275,930 | 2,375,065 |
| Pooled property investments | 164,303 | - | (823) | 10,916 | 174,396 |
| Private Equity/infrastructure* | 484,929 | 61,302 | (79,712) | 50,086 | 516,605 |
| Liquidity fund (Time Deposits) | 11,576 | 2,486,128 | (2,487,613) | (6) | 10,085 |
| Commodity funds | 48,531 | 5,579 | - | (1,414) | 52,696 |
| Futures | 1,283 | 5,779 | (4,444) | (902) | 1,716 |
| Purchased/Written Options | 2 | 2,186 | (1,334) | (504) | 350 |
| Forward currency contracts | 8,970 | 48,050 | (40,166) | (30,525) | (13,671) |
| Investors In the Community - Guernsey unit trust ** | 19,074 | 1,762 | (202) | (1,481) | 19,153 |
| Other Investment Balances: | 4,094,180 | 3,366,896 | (3,432,635) | 537,528 | 4,565,969 |
| Cash held by investment managers | 33,752 | | | 3,446 | 46,165 |
| Amount receivable for sales of investments | 24,190 | | | | 16,761 |
| Investment income due | 6,381 | | | | 6,617 |
| Amounts payable for purchases of investments | (3,067) | | | | (12,740) |
| NET INVESTMENT ASSETS | 4,155,436 | | | 540,974 | 4,622,772 |

*The Private Equity/infrastructure sales have been adjusted by £6,787k with a corresponding adjustment to change in market value to reflect the expense of Private equity/infrastructure fees separately. These were previously reported within the change in market value.

**accounted for as an associate

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £672k (£652k in 2012/13). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

13B. ANALYSIS OF INVESTMENTS

| | 31 March 2013 £'000 | 31 March 2014 £'000 |
|--|--------------------------------------|--------------------------------------|
| Fixed Interest Securities | | |
| <u>UK</u> | | |
| Public sector quoted | 433 | 1,007 |
| Corporate quoted | 7,762 | 5,797 |
| <u>Overseas</u> | | |
| Public sector quoted | 587 | 21,793 |
| Municipal bonds quoted | 374 | 1,485 |
| Corporate quoted | 81,295 | 68,187 |
| | 90,451 | 98,269 |
| Equities | | |
| <u>UK</u> | | |
| Quoted | 185,179 | 134,127 |
| <u>Overseas</u> | | |
| Quoted | 1,153,944 | 1,188,446 |
| | 1,339,123 | 1,322,573 |
| Pooled Funds - Additional Analysis | | |
| <u>UK</u> | | |
| Unitised insurance policies | 651,872 | 690,396 |
| Unit trusts | 2,919 | 9,189 |
| Managed Funds | 64,854 | 65,720 |
| <u>Overseas</u> | | |
| Unit trusts | 189,354 | 202,431 |
| Managed Funds | 1,389,322 | 1,581,843 |
| Hedge Funds | 76,744 | 31,173 |
| | 2,375,065 | 2,580,752 |
| Pooled property investments | 174,396 | 133,379 |
| Private Equity / Infrastructure | 516,605 | 519,917 |
| Commodity funds | 52,696 | 52,599 |
| Liquidity fund (Time deposit) | 10,085 | 17,190 |
| Investors In the Community - Guernsey unit trust | 19,153 | - |
| Futures* | 1,716 | (99) |
| Forward currency contracts* | (13,671) | 8,406 |
| Options* | 350 | 353 |
| TOTAL | 4,565,969 | 4,733,339 |

*Further analysis of futures, forward currency contracts and options is given in note 13c.

13C. INVESTMENTS

Analysis of Derivatives

Derivatives are used to hedge liabilities or hedge exposures to reduce risk in 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 agreed between the LPFA and the various Investment Managers.

Futures

Outstanding exchange traded futures contracts are as follows:

| Type | Expires | Nominal value £'000 | Market value 31 March 2013 £'000 | Nominal value £'000 | Market value 31 March 2014 £'000 |
|--------------------------|--------------------|---------------------------|--|---------------------------|--|
| Assets | | | | | |
| UK equity | Less than one year | (11,766) | 285 | 3,408 | 250 |
| UK equity | One to five years | 2,173 | 236 | - | - |
| Overseas equity | Less than one year | 12,860 | 314 | 8,673 | 207 |
| Overseas equity | One to five years | 5,610 | 963 | - | - |
| Overseas fixed interest | Less than one year | 6,998 | 44 | (9,322) | 90 |
| Total Assets | | | 1,842 | | 547 |
| Liabilities | | | | | |
| UK equity | Less than one year | - | - | (2,990) | (20) |
| Overseas equity | Less than one year | - | - | (1,138) | (591) |
| UK fixed interest | Less than one year | (2,316) | (60) | (1,744) | (9) |
| Overseas fixed interest | Less than one year | (2,090) | (66) | 7,134 | (26) |
| Total liabilities | | | (126) | | (646) |
| NET FUTURES | | | 1,716 | | (99) |

Open Forward currency contracts

| Settlement | Currency bought | Local value '000 | Currency sold | Local value '000 | Asset value £'000 | Liability value £'000 |
|---|-----------------|------------------|---------------|------------------|-------------------|-----------------------|
| Up to one month | | | | | | |
| | EUR | 4,367 | GBP | 3,592 | 18 | - |
| | EUR | 3,400 | USD | 4,637 | 30 | - |
| | GBP | 257 | CAD | 464 | 5 | - |
| | GBP | 11,803 | SEK | 127,213 | 37 | - |
| | GBP | 11,900 | HKD | 152,889 | 74 | - |
| | GBP | 34,852 | JPY | 5,947,058 | 202 | - |
| | GBP | 20,337 | EUR | 23,777 | 677 | - |
| | GBP | 146,433 | USD | 238,581 | 3,300 | - |
| | JPY | 77,894 | GBP | 454 | - | - |
| | EUR | 6,930 | CHF | 8,497 | - | (42) |
| | GBP | 42,901 | USD | 71,636 | - | (70) |
| | GBP | 27,265 | CAD | 50,241 | - | (26) |
| | GBP | 187 | NZD | 369 | - | (5) |
| | GBP | 59,172 | EUR | 71,707 | - | (114) |
| | GBP | 121 | ZAR | 2,177 | - | (3) |
| | GBP | 11,369 | CHF | 16,870 | - | (92) |
| | GBP | 5,916 | SGD | 12,446 | - | (21) |
| | GBP | 33,292 | AUD | 60,069 | - | (46) |
| | GBP | 2,926 | NOK | 29,256 | - | (3) |
| | JPY | 134,776 | GBP | 793 | - | (8) |
| | USD | 625 | EUR | 454 | - | - |
| | USD | 18,651 | JPY | 1,923,052 | - | (14) |
| | USD | 242 | GBP | 145 | - | - |
| One to six months | | | | | | |
| | GBP | 5,220 | DKK | 47,070 | 6 | - |
| | GBP | 52,423 | JPY | 8,923,800 | 397 | - |
| | GBP | 56,182 | EUR | 67,336 | 474 | - |
| | GBP | 251,510 | USD | 549,620 | 4,190 | - |
| | GBP | 96,411 | USD | 160,691 | - | (81) |
| | GBP | 41,021 | EUR | 49,714 | - | (114) |
| | GBP | 22,848 | CHF | 33,720 | - | (76) |
| | GBP | 19,988 | USD | 12,285 | - | (289) |
| | | | | | 9,410 | (1,004) |
| Net forward currency contracts at 31 March 2014 | | | | | | 8,406 |
| Prior year comparative | | | | | | |
| Open forward currency contracts at 31 March 2013 | | | | | 4,123 | (17,794) |
| Net forward currency contracts at 31 March 2013 | | | | | | (13,671) |

Purchased/written options

| Investment underlying option contract | Expires | Put/ call | Notional holding £'000 | Market value 31 March 2013 £'000 | Notional holding £'000 | Market value 31 March 2014 £'000 |
|---------------------------------------|----------------------|--------------|-------------------------------|---|-------------------------------|---|
| Assets | | | | | | |
| Index linked purchased | One to three months | Call | 715 | 571 | 683 | 492 |
| Index linked purchased | Three to nine months | Call | - | - | 737 | 813 |
| Index linked purchased | Less than one month | Put | 207 | 220 | - | - |
| Index linked purchased | One to three months | Put | 411 | 279 | 260 | 142 |
| | | | | 1,070 | | 1,447 |
| Liabilities | | | | | | |
| Index linked written | One to three months | Call | - | - | (113) | (101) |
| Index linked written | Less than one month | Call | (205) | (171) | - | - |
| Index linked written | Three to nine months | Call | - | - | (776) | (542) |
| Index linked written | Less than one month | Put | (79) | (79) | (62) | (4) |
| Index linked written | One to three months | Put | (383) | (470) | (295) | (99) |
| Index linked written | Three to nine months | Put | - | - | (608) | (348) |
| | | | | (720) | | (1,094) |
| NET PURCHASED/WRITTEN OPTIONS | | | | 350 | | 353 |

13D. INVESTMENTS (CONTINUED)**Investments analysed by Fund Manager**

| | Market value 31 March 2013 £'000 | Market value 31 March 2014 £'000 |
|--|---|---|
| Record Currency Management | (14,167) | 8,218 |
| Legal and General Investment Management | 651,872 | 690,396 |
| European Credit Management Ltd | 271,730 | 279,606 |
| Insight Investment Management (Global) Ltd | 1,026,083 | 1,099,469 |
| MFS International (UK) Ltd | 690,792 | 750,312 |
| BlackRock Management | 474,612 | 494,409 |
| Newton Investment Management Ltd | 477,222 | 515,275 |
| 3i Infrastructure | 13,240 | 13,430 |
| BNP Paribas Clean Energy Partners | 16,661 | 18,218 |
| Brevan Howard Asset Management LLP | 60,999 | 14,744 |
| Brookfield Howard Asset Management | 11,867 | 14,875 |
| Foresight Group | 2,837 | 6,590 |
| HarbourVest Partners LCC | 116,462 | 102,482 |
| Henderson Equity Partners | 13,579 | 15,066 |
| Impax Asset Management | 36,840 | 12,095 |
| Infrared Capital Partners | 6,096 | 7,670 |
| CBRE Global Investors | 174,396 | 133,379 |
| Mill Asset Management Ltd | 19,153 | - |
| JP Morgan | 10,085 | 17,191 |
| LGT Capital Partners Ltd | 90,166 | 81,074 |
| M&G Investment Management Ltd | 73,728 | 99,839 |
| Meridiam Infrastructure | 30,691 | 33,673 |
| New Energy Solutions II K/S | 9,978 | 10,880 |
| Pensions Infrastructure Platform | 100 | 100 |
| Pantheon Ventures (UK) LLP | 124,338 | 118,664 |
| Phaunos Timber Fund Limited | 10,257 | 7,647 |
| Robeco Alternative Investments | 18,838 | 15,014 |
| Sarasin & Partners LLP | 54,562 | 57,987 |
| Schroders Investment Management | 30,572 | 30,076 |
| Semperian PPP Investment Partners | 36,624 | 45,977 |
| Standard Chartered | 10,012 | 9,154 |
| YFM Equity Partners | 1,142 | 1,093 |
| Zouk Capital LLP | 14,602 | 13,276 |
| Adveq Management AG | - | 14,290 |
| Bridges Ventures | - | 1,170 |
| | 4,565,969 | 4,733,339 |
| Cash held by investment managers | 46,165 | 46,996 |
| Amounts receivable for sales | 16,761 | 3,596 |
| Investment income due | 6,617 | 7,481 |
| Amounts payable for purchases | (12,740) | (3,490) |
| TOTAL | 4,622,772 | 4,787,922 |

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

| Security | Market value 31 March 2013 £'000 | % of Total Fund | Market value 31 March 2014 £'000 | % of Total Fund |
|---|--|--------------------------------|--|----------------------------|
| Insight LDI solutions plus LDI active '1'FD | 593,697 | 12.6 | 508,477 | 10.4 |
| Insight LDI solutions plus bonds plus FD CLS'S'SHS | 380,855 | 8.1 | 496,681 | 10.2 |
| Legal & General North America index | 307,023 | 6.5 | 338,611 | 6.9 |
| European Credit (LU VAR 15/NOV/2015) | 271,730 | 5.8 | 279,606 | 5.7 |

14. SECURITIES LENDING

Securities lending is governed by an agreement between the LPFA and the custodian. All loans are collateralised and subject to daily valuation and calling of collateral. Cash is not accepted as collateral and a maximum of 35% of securities in the fund can be lent. The Fund held collateral of £86.0m (2013:£29.5m) in equities and government issued debt.

Securities in the UK amounting to £3.2m (2013:£1.3m) were loaned as at 31 March 2014 against collateral of £3.5m (2013:£1.5m). International securities amounting to £75m (2013:£25.1m) were loaned against collateral of £82.5m (2013:£28.0m) as at 31 March 2014.

15. FINANCIAL INSTRUMENTS

Financial instruments held by the Fund at the year end are categorised as follows:

| Market value 31 March 2013 | Category | Market value 31 March 2014 |
|---|---|---|
| £'000 | Financial assets - Fair value through profit and loss | £'000 |
| 90,451 | Fixed interest securities | 98,269 |
| 1,339,123 | Equities | 1,322,573 |
| 2,375,065 | Pooled investments | 2,580,752 |
| 174,396 | Pooled property investments | 133,379 |
| 516,605 | Private equity/infrastructure | 519,917 |
| 52,696 | Commodity funds | 52,599 |
| 10,085 | Liquidity fund (Time deposit) | 17,190 |
| 1,842 | Futures | 547 |
| 4,123 | Forward currency contracts | 9,410 |
| 1,070 | Purchased/written options | 1,447 |
| 19,153 | Investors in the Community – Guernsey Unit Trust | - |
| 4,584,609 | | 4,736,083 |
| | Financial liabilities - fair value through profit and loss | |
| (126) | Futures | (646) |
| (17,794) | Forward currency contracts | (1,004) |
| (720) | Purchased/written options | (1,094) |
| (18,640) | | (2,744) |
| 4,565,969 | Total - Fair value through profit and loss | 4,733,339 |
| | Finance assests - loans and Receivables | |
| 46,165 | Cash held by investment managers | 46,996 |
| 6,617 | Investment income due | 7,481 |
| 16,761 | Amounts receivable for sales | 3,596 |
| 89,359 | Current Assets | 121,975 |
| 158,902 | Total - Loans and Receivables | 180,048 |
| | Finance liabilities - At amortised cost | |
| (12,740) | Amounts payable for purchase | (3,490) |
| (17,135) | Current liabilities | (18,476) |
| (29,875) | Total - Loans and Receivables | (21,966) |

The Fund held collateral of £86m in equities and government debt at 31 March 2014 (2013:£29.5m) as part of its securities lending arrangements.

The LPFA has financial liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next twelve 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 2014 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.

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

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 and futures 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.

| Value at 31 March 2014 | Level 1 | Level 2 | Level 3 | Total |
|--|------------------|------------------|----------------|------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Financial assets at fair value through profit or loss | 1,491,279 | 2,623,702 | 621,102 | 4,736,083 |
| Financial liabilities at fair value through profit or loss | (1,740) | (1,004) | | (2,744) |
| Loans and receivables | 180,048 | | | 180,048 |
| Financial liabilities at amortised cost | (21,966) | | | (21,966) |
| NET FINANCIAL ASSETS | 1,647,621 | 2,622,698 | 621,102 | 4,891,421 |

| Value at 31 March 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|------------------|------------------|----------------|------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Financial assets at fair value through profit or loss | 1,496,741 | 2,479,856 | 608,012 | 4,584,609 |
| Financial assets at fair value through profit or loss | (846) | (17,794) | | (18,640) |
| Loans and receivables | 158,902 | | | 158,902 |
| Financial liabilities at amortised cost | (29,875) | | | (29,875) |
| NET FINANCIAL ASSETS | 1,624,922 | 2,462,062 | 608,012 | 4,694,996 |

**Note the comparative has been restated for assets incorrectly classified as Level 1 rather than as Level 2 investments.*

Reconciliation of level 3 assets

| | Market value 1 April 2013 | Purchases during the year | Sales during the year | Change in market value during the year | Market value 31 March 2014 |
|----------------|----------------------------------|----------------------------------|------------------------------|---|-----------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Level 3 | 608,012 | 82,675 | (122,602) | 53,017 | 621,102 |

Nature and extent of risks arising from financial instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The principal aim of investment risk management is to maximise the returns of investments within reasonable risk parameters. The LPFA's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund its services. Overall responsibility rests with the Board, although a separate investment committee has been established along with a risk committee. Investment risk management is included within the investment strategy. The in-house investment team reports to the Investment Committee on a quarterly basis.

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 the Authority to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance.

Overall, the Authority 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 strategy.

In order to comply with the requirement that the LPFA set a balanced budget (Local Government Finance Act 1992) a draft budget is approved by the Corporate Management Team for submission to the Board. The draft budget once approved by Board is submitted to the Mayor of London for comment. The final budget is set by the Board bearing in mind any comments made by the Mayor.

The LPFA has significant pension fund assets and these are managed in line with the Authority's investment strategy and set out in the Statement of Investment Principles. This includes the use of derivatives, further details of which are in note 13. Further information on the management and performance of these assets is included in the Pension Fund Annual Report, which is available on the LPFA's website.

The LPFA also holds some pension fund assets in cash which are held in accordance with a Treasury Management Strategy Statement and underlying Treasury Management Practices, agreed by the Board and scrutinised by the Investment Committee, Audit Committee and Risk Committee. Further details on this are provided under 'Credit Risk'.

For the year ending 31st March 2014, the Authority has undertaken no repurchase or early settlement of borrowing, incurred no premiums and discounts, entered into no financial guarantees, not defaulted on any loans and not held or pledged any collateral (apart from collateral held as part of the securities lending programme) in respect of the repayment of any loans.

The LPFA's activities expose it to a variety of financial risks in respect of financial instruments:

Market risk

Market risk is the risk of loss from fluctuations in asset prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising return on risk.

The fund mitigates these risks by establishing a well diversified strategic asset allocation, including assets which provide real term returns as well as cash flow generating assets that try to match the fund's liabilities. The exposure of the fund to market risk is monitored quarterly and reported to the Investment Committee and Risk Committee.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices driven by factors other than those arising from interest rate risk or foreign exchange risk (e.g. supply, demand and investor confidence). Often these changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is also exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a potential risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. However, the potential losses from shares sold short, is unlimited.

The fund's investment managers mitigate this price risk of asset classes through diversification and the selection of securities.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the LPFA has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

| Asset Class | 2013 1 year expected volatility (%) | 2013% of fund | 2014 1 year expected volatility (%) | 2014% of fund |
|--|---|------------------|---|------------------|
| Global Equities | 16.0 | 49.8 | 16.0 | 51.3 |
| Private Equity | 22.0 | 7.9 | 22.0 | 7.2 |
| Property | 11.0 | 3.7 | 11.0 | 2.7 |
| Fixed Income | 7.5 | 21.5 | 7.5 | 24.1 |
| Commodity | 12.5 | 1.0 | 12.5 | 1.1 |
| Infrastructure | 14.5 | 3.6 | 14.5 | 3.5 |
| Cash & Liability Driven Investment (LDI) | 1.0 | 12.5 | 1.0 | 10.1 |
| TOTAL FUND VOLATILITY | 10.6 | 100 | 10.8 | 100 |

The potential price changes disclosed above are broadly consistent with one standard deviation movement in the returns for each of the major asset classes in which the Fund is invested. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on underlying volatilities and correlations of the assets. The methodology has been revised from the previous accounting period; we use long term assumptions for the volatility of each asset class, along with a cautious set of long run correlation assumptions, which result in a higher volatility projection than estimated previously over the equivalent accounting period.

The value of the Fund as at 31 March 2014 was £4,891m (2013:£4,695m) and the expected volatility was 10.8% (2013: 10.6%). Given these figures, we would expect that in roughly 2/3rd of outcomes the value of the Fund would lie between £5,419m (2013: £5,193m) and £4,363m (2013: £4,197m) 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.

Interest rate sensitivity analysis

The table overleaf shows the sensitivity in the values of the main bond mandates held by the Insight and BlackRock pooled investment vehicles. The analysis assumes a +/- 100bps parallel shift across all relevant yield curves, based on the assumption of fixed duration with underlying sensitivities provided by the two investment managers.

As at 31 March 2014

| Asset Class | Market value (£m) | Interest Rate Sensitivity PV01 (£m) | Impact of yield shift (£m) | |
|------------------------------|-------------------|-------------------------------------|----------------------------|-------------|
| | | | - 100 bps | + 100 bps |
| Insight: | | | | |
| Interest Rate Swaps | 25 | 0.180 | -18.0 | 18.0 |
| RPI Swaps | -7 | 0.073 | -7.3 | 7.3 |
| Conventional Gilts | 34 | -0.065 | 6.5 | 6.5 |
| Index Linked Gilts | 112 | -0.252 | 25.2 | -25.2 |
| Corporate Bonds | 13 | -0.012 | 1.2 | -1.2 |
| Corporate Index Linked Bonds | 94 | -0.183 | 18.3 | -18.3 |
| Asset Swaps | -44 | 0.365 | -36.5 | 36.5 |
| LIBOR Plus | 55 | - | - | - |
| Cash & ILF | 242 | - | - | - |
| Expected levy payments | - | - | - | - |
| BlackRock: | | | | |
| Global Alpha Fund | 178.5 | -0.015 | -1.5 | 1.5 |
| Absolute Return Fund | 23.9 | -0.001 | -0.1 | 0.1 |
| TOTAL | 726.2 | 0.1 | -12.2 | 12.2 |

As at 31 March 2013

| Asset Class | Market value (£m) | Interest Rate Sensitivity PV01 (£m) | Impact of yield shift (£m) | |
|------------------------------|-------------------|-------------------------------------|----------------------------|--------------|
| | | | - 100 bps | + 100 bps |
| Insight: | | | | |
| Interest Rate Swaps | 66.1 | 0.106 | -10.6 | 10.6 |
| RPI Swaps | 37.2 | 0.019 | 1.9 | -1.9 |
| Conventional Gilts | 73.6 | -0.136 | 13.6 | -13.6 |
| Index Linked Gilts | 49.0 | -0.136 | 13.6 | -13.6 |
| Corporate Bonds | 16.7 | -0.014 | 1.4 | -1.4 |
| Corporate Index Linked Bonds | 126.8 | -0.226 | 22.6 | -22.6 |
| Asset Swaps | -46.1 | 0.412 | -41.2 | 41.2 |
| LIBOR Plus | 52.4 | - | - | - |
| Cash & ILF | 206.4 | - | - | - |
| Expected levy payments | - | -0.896 | 89.6 | -89.6 |
| BlackRock: | | | | |
| Global Alpha Fund | 165.9 | 0.046 | 4.6 | -4.6 |
| Absolute Return Fund | 23.5 | 0.000 | 0.0 | 0.0 |
| TOTAL | 771.5 | -0.9 | 95.5 | -95.5 |

Note the comparative has been restated to reflect a change in methodology used.

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.

A global asset allocation with sterling liabilities exposes the Fund to fluctuations in exchange rates that may affect the value of its investments. The Board has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. This position is reviewed regularly as part of the investment strategy review.

Currency risk sensitivity analysis

The projected standard deviation of the Fund's currency exposure is based on 12 months market implied volatilities and correlations, as of the relevant accounting date. While the largest foreign currency exposure is USD, with an implied volatility of 7%, the higher volatilities of other currencies offset by the expected correlation mean that the overall currency exposure, after any currency hedging, is expected to contribute 2.1% (2013: 2.2%) of volatility to the overall assets (£4.9bn) of the portfolio. This assumes no diversification with other assets. The following tables summarise the fund's currency exposure by currency as at 31 March 2014 and as at the previous period end:

| Value at 31 March 2013 (£m) | Implied volatility % | Currency | Value at 31 March 2014 (£m) | Implied volatility % |
|-----------------------------------|-------------------------|----------|-----------------------------------|-------------------------|
| 993 | 7.5 | USD | 988 | 7.0 |
| 123 | 11.6 | JPY | 120 | 10.7 |
| 429 | 8.1 | EUR | 412 | 6.9 |
| 50 | 7.7 | CAD | 63 | 8.2 |
| 46 | 7.8 | CHF | 48 | 7.7 |
| 65 | 8.5 | AUD | 68 | 9.4 |
| 22 | 9.6 | SEK | 23 | 8.5 |

| 31 March 2013 | | 31 March 2014 |
|---------------|---|---------------|
| 0.05% | FX Variance (% of Net Assets) | 0.04% |
| 2.22% | Volatility (% of Net Assets) | 2.07% |
| £4,695m | Net Assets of the Fund | £4,891m |
| £4,799m | Net Assets of the Fund plus 1 Standard deviation | £4,992m |
| £4,591m | Net Assets of the Fund minus 1 Standard deviation | £4,790m |

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimizes credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on OTC derivative contracts is minimized as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

During the year 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 sophisticated creditworthiness methodology developed and maintained by Sector Treasury Services. The methodology uses an average of the ranked ratings from the ratings agencies; Fitch, Moody's and Standard & Poor.

The LPFA places the majority of its short term cash deposit with the GIS, but in addition can place cash directly with any counterparty on the approved list of the GIS.

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 2014 was £103m (2013:£76.5m). This together with the amounts from the residual liabilities account was held with institutions as follows:

| Summary | Amount |
|----------------------------------|----------------|
| GIS | 110,653 |
| Barclays Bank Plc | 3,657 |
| Lloyds Bank Plc | 8,335 |
| TOTAL AS AT 31 MARCH 2014 | 122,645 |

Liquidity Risk

The LPFA ensures it has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments, particular for the diversifying assets portfolio.

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 2014 the value of illiquid assets was £768m which represented 15.2% of the total LPFA assets (31 March 2013 £782.4m which represented 15.8% of the total LPFA assets).

The LPFA has immediate access to its cash holdings with the GIS, Barclays Bank Plc and Lloyds Bank Plc.

All financial liabilities at 31 March 2014 are due within one year.

Refinancing Risk

The key risk is that the LPFA will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The LPFA does not have any financial instruments that have a refinancing risk, as part of its treasury management.

Geopolitical Risk

The LPFA considers possible losses arising from global political risks and considers both the formal domicile and the origins of the principal revenues of its investments. As at 31 March 2014, the LPFA's assessment concluded no material exposure to high risk economies.

16. INVESTMENT EXPENSES

| | 31 March 2013 | 31 March 2014 |
|-----------------------|----------------------|----------------------|
| | £'000 | £'000 |
| Investment fees basic | 15,225 | 19,335 |
| Performance fees | 10,502 | 13,465 |
| TOTAL | 25,727 | 32,800 |

Included in Investment expenses is £495k in respect of the In-house investment team costs (2013: £365k).

17. CASH BALANCES

| | 31 March 2013 | 31 March 2014 |
|---|----------------------|----------------------|
| | £'000 | £'000 |
| Short term deposits | 76,523 | 102,985 |
| Pooled deposits placed by investment managers | 46,165 | 46,996 |
| TOTAL | 122,688 | 149,981 |

18. AVC INVESTMENTS

| | Market value 31 March 2013 £'000 | Market value 31 March 2014 £'000 |
|------------|---|---|
| Prudential | 10,401 | 11,311 |

AVC contributions of £2,256k (2013:£2,170k) were paid directly to Prudential during the year.

19. CURRENT ASSETS

| | 31 March 2013 £'000 | 31 March 2014 £'000 |
|---|--------------------------------|--------------------------------|
| Cash balances | 76,523 | 102,985 |
| Contributions due – employees | 2,148 | 2,349 |
| Contributions due – employers | 6,892 | 6,998 |
| Sundry debtors | 4,997 | 4,293 |
| Prepayments | 8 | 545 |
| Group transfers | - | 5,823 |
| Impairment allowance for bad and doubtful debts | (1,209) | (1,018) |
| TOTAL | 89,359 | 121,975 |

The significant majority of debtors are with other Local Authorities.

Impairment allowance for bad and doubtful debts

During the year the Fund made an impairment allowance in respect of the possible non-recovery of pensioner death overpayments and potential non payment of cessation values where the employer is not backed up by a guarantee. These are reviewed on a case by case basis. No allowance is made in respect of other debts which relate to sums due to the Authority from employers.

20. CURRENT LIABILITIES

| | 31 March 2013 £'000 | 31 March 2014 £'000 |
|------------------|--------------------------------|--------------------------------|
| Sundry creditors | (15,064) | (16,655) |
| Group transfer | - | (373) |
| Benefits payable | (2,071) | (1,448) |
| TOTAL | (17,135) | (18,476) |

The significant majority of creditors are with other entities and individuals.

21. 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 ISA24 and its applicability to the public sector using current advice and guidance. Sir Merrick Cockell (Board member) is an elected member of Royal Borough Kensington and Chelsea and was Leader during part of the year. The Royal Borough Kensington and Chelsea paid employer contributions of £289k (2013: £322k) during the year. Mike O'Donnell (Board member) is the Finance Director at London Borough of Camden. The London Borough of Camden paid employer contributions of £478k (2013:£489K) during the year. Stephen Alambritis (Board member) is the Leader of London Borough of Merton. No contributions were paid by the London Borough of Merton during the year (2013:nil). These three boroughs are Scheduled bodies in the Fund. The LPFA Director of Finance allocates a portion of his time to treasury work for the GLA, LPFA received £5k (2013:nil) for this service. The former Director of Investment was still under contract with the LPFA during the year and sat on the board of the Investors In the Community. During the year the LPFA realized its total holding in the Investors In the Community and at the time of sale the relationship was terminated. The LPFA Operational Account and Residual Liabilities account are deemed to be related parties and transactions relating to such are reflected elsewhere in these accounts.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2014 totalled £251.1m [2013:£184.2m] based on:

- ▶ USD 147.6m at Exchange rate 1.667 equals £88.6m in GBP
- ▶ EUR 154.9m at Exchange rate 1.21 equals £128m in GBP
- ▶ GBP 34.5m

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 4 and 6 years from the date of each original commitment.

23. STATEMENT OF INVESTMENT PRINCIPLES

A copy of the statement can be obtained by contacting LPFA at Dexter House or via the corporate website: www.lpfa.org.uk.

24. POST BALANCE SHEET EVENTS

The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014, the principal change being that from this date benefits will build up on a career average rather than final salary basis.

Shortly after the year end the LPFA terminated its agreement with Newton Investment Management Ltd and divested all holdings realising £528m.

The Local Government Pension Scheme (Offender Management) Regulations 2014 came into effect on 1 June 2014. This meant that current and former probation staff across 35 Probation Trusts, who had LGPS benefits in one of a number of LGPS funds, were to have their benefits transferred to the LGPS fund administered by the Greater Manchester Pension Fund.

The LPFA had approximately 6,100 members deemed part of the transfer and their liabilities transferred on 1 June 2014 (the transfer date), although the assets estimated to be £410m will be transferred in four monthly installments from December 2014.

25. PARTICIPATING EMPLOYERS

A list of the employer bodies of the Pension Fund is set out on pages 74-78.

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 2013, 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 Fund was previously divided into two Sub Funds (the Active and the Pensioner Sub Fund) and reported separately under these. The comparators for the previous year have been combined to one Fund.

The present value of the Funded Obligation at 31 March 2014 for the Fund was £6,773m (2013:£6,945m). The net liability for the Fund at 31 March 2014 was £1,882m (2013:£2,250m).

Key Assumptions used

| Life expectancy from age 65 (years) | 31 March 2014 | 31 March 2013 |
|-------------------------------------|---------------|---------------|
| Retiring today : | | |
| Males | 21.8 | 20.8 |
| Females | 24.8 | 23.6 |
| Retiring in 20 years: | | |
| Males | 24.0 | 22.9 |
| Females | 26.9 | 25.7 |

- ▶ 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 2014 %p.a. | 31 March 2013 %p.a. ASF | 31 March 2013 %p.a. PSF |
|-------------------|------------------------|----------------------------|----------------------------|
| RPI increases | 3.6 | 3.4 | 3.1 |
| CPI increases | 2.8 | 2.6 | 2.3 |
| Salary increases | 4.5 | 4.3 | 4.0 |
| Pension increases | 2.8 | 2.6 | 2.3 |
| Discount rate | 4.4 | 4.6 | 3.1 |

These assumptions are set with reference to market conditions at 31 March 2014. In 2013 separate assumptions were used for the Active and Pensioner Sub Funds (shown in the above table).

5.4 Actuarial Statement

INTRODUCTION

The last full triennial valuation of the London Pensions Fund Authority ("LPFA") Pension fund was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

2013 VALUATION RESULTS

The results for the Fund at 31 March 2013 were as follows

- ▶ The Fund as a whole had a funding level of 91% i.e. the assets were 91% of the value that they would've needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £483m which is lower than the deficit at the previous valuation in 2010.
- ▶ The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment (usually expressed as a lump sum payment) required to pay for their individual deficit.
- ▶ 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.
- ▶ The contributions for strong employers that were expected to stay in the Fund over the long term were set using the same assumptions as the overall Fund results with an individual deficit recovery period of up to 17 years.
- ▶ In contrast, weaker employers that were expected to leave the Fund shortly were set contributions which target fully funded on a minimum risk basis when they leave the Fund.

KEY FINANCIAL ASSUMPTIONS

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised below:

| Assumption | 31 March 2013 | 31 March 2014 |
|-------------------|--|---|
| Discount rate | 5.9% p.a. | 6.2% p.a. |
| Pension increases | 2.7% p.a. | 2.8% p.a. |
| Salary increases | 2.7% until 31 March 2015 then 4.5% p.a. | 2.8% until 31 March 2015 then 4.6% p.a. |
| Mortality | Member-specific mortality based on Club Vita analysis with projected improvements based on the CMI 2012 model and a long-term rate of improvement of 1.5% p.a. | |
| Mortality | Each member retires at a single age, weighted based on when each part of their pension is payable unreduced | |
| Commutation | Members will convert 50% of the maximum possible amount of pension into cash | |

The effect of the change in the assumptions over the year is discussed in the final section.

ASSET VALUATION

At 31 March 2013, the value of the assets used was £4,659m and this has increased over the year to an estimated £4,740m.

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so these asset values have been adjusted in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

DEVELOPMENTS SINCE 2010 AND THE 2013 VALUATION

The estimated funding position at 31 March 2014 is a funding level of 93% which is a slight improvement on the position at 31 March 2013.

The assets have given a reasonable return of about 4% over the year but the main factor is that the discount rate is higher which reduces the assessed value of the liabilities.

The discount rate is higher for two reasons. The first is that market indicators suggest higher investment returns from the assets. In particular, long-term interest rates are higher so the part of the portfolio with a LIBOR benchmark are assumed to give higher future returns. The second reason is that the asset allocation has evolved over the year to be based on more growth assets which leads to a higher overall assumed return.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.



Mark Norquay FFA
Associate, Barnett Waddingham LLP

To read the 2013 Valuation Report, please visit our website
<http://www.lpfa.org.uk/What-we-publish/FUND-PUBLICATIONS.aspx>

6. Public Policy Statements

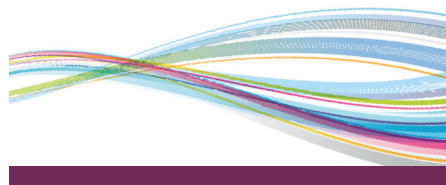
The following public policy statements are reviewed regularly and available on the LPFA website under the "What We Publish" section.

STATEMENT OF INVESTMENT PRINCIPLES (SIP)

London Pensions Fund Authority



Statement of **Investment** Principles



The Statement of Investment Principles (SIP) provides an overview of the responsibilities, process and conduct in the management of the LPFA pension fund investments. The SIP was formally approved by the Board in July 2014.

FUNDING STRATEGY STATEMENT (FSS)

London Pensions Fund Authority



Funding Strategy Statement



The purpose of this statement is to establish a clear and transparent fund specific strategy which identifies how employers' pension liabilities are best met in future years, to keep their contribution rates as constant as possible and to take a prudent longer-term view of funding those liabilities. It is available on the LPFA website and was reviewed and amended as part of the 2013 Fund valuation.

GOVERNANCE POLICY STATEMENT

London Pensions Fund Authority



Governance Policy Statement



The LGPS Governance Statement sets out how the administration of the Fund is governed. Each administering authority is required to publish a governance statement and also to explain their compliance with a set of best practice principles issued by The Department of Communities and Local Government.

LPFA LOCAL CODE OF CORPORATE GOVERNANCE

London Pensions Fund Authority



Local Code of Corporate Governance



Given LPFA's unique status as a statutory corporation this Code endeavours to reflect the guidance and best local government practice where possible, whilst having regard to the requirements placed on pension funds to demonstrate effective scheme governance. This document sets out LPFA's Local Code of Corporate Governance and the process for monitoring and maintaining the Code which will enable LPFA to successfully achieve its objectives.

COMMUNICATIONS POLICY STATEMENT

London Pensions Fund Authority



Communications Policy Statement



This describes how the LPFA provides information and publicity relating to the Scheme, and the frequency, format and method of distribution, to members, representatives, employers and potential members of the Scheme.

STRATEGIC POLICY STATEMENT

London Pensions Fund Authority



Strategic Policy Statement

2013-16



The Authority submitted a Strategic Policy Statement to the Mayor setting out LPFA's objectives and plans over the three year period from April 2013 to March 2016. The plan is spearheaded by a Mission Statement and 5 Strategic Objectives which will be delivered by a number of strategic programmes. All managers and their teams were engaged in the process to ensure consultation, coverage and links to budgets. As discussed above preparing the LPFA for fund pooling is a theme throughout the document.

LPFA PAY POLICIES

London Pensions Fund Authority



LPFA Pay Policies



This policy describes LPFA's pay framework and its approach to determining pay. It also sets out the current structure and arrangements in place for dealing with the remuneration of its Chief Executive Officer.

ENVIRONMENTAL POLICY

London Pensions Fund Authority



Environmental Policy



LPFA's Environmental Plan is in line with the Mayor's Green Procurement Code and current best practice. An approved supplier policy is maintained and confirms business will be transacted only with suppliers and contractors who have environmental (and Health & Safety and Equality) policies compatible with LPFA's.

LPFA's Environmental Policy is designed to satisfy the requirements of the ISO 14001:2004 standard, and operate environmental best practice throughout the LPFA.

Annexes

i Reporting and Controls

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

EXTERNAL REVIEW

The LPFA has historically been subject to external audit by the District Auditor, appointed by the Audit Commission. They ensured that public funds were properly safeguarded and accounted for, and provide value for money in accordance with the statutory and regulatory requirements. Following the abolition of the Audit Commission the 2012-13 audit has been completed by Grant Thornton. An Annual Governance Report provides their opinion on the financial statements and a value for money conclusion.

INTERNAL REVIEW AND CONTROL

The LPFA has appointed KPMG as internal auditors for 2013-14, both as a tool of management and with direct reporting to the LPFA's Audit Committee. Their audit reviews take place on a phased basis throughout the financial year and their recommendations are reported to each Audit Committee meetings with progress against each recommendation closely monitored.

ANNUAL REPORT AND ACCOUNTS

The LGPS Administration Regulations 2008 introduced a requirement to produce a 'pension fund annual report' comprising the reports detailed above and the Funding Strategy Statement, the Statement of Investment Principles and the Communications Policy Statement.

The Authority publishes all these documents online www.lpfa.org.uk/What-we-publish. In addition the Statement of Accounts details the LPFA's financial management of the organisation as well as the pension fund.

FRAUD AND IRREGULARITY

In order 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 available at www.lpfa.org.uk/What-we-publish

National Fraud Initiative (NFI)

We will be submitting data in September for the 2014/2015 exercise.

Atmos Data Services

In addition to participating in the NFI exercise the LPFA carries out monthly mortality screening on pensioners and their dependants. This reduces the costs and risks of Impersonation of the Deceased (IOD) fraud and pension overpayments and is a far more effective exercise than the life certificate processes previously adopted.

The use of the Atmos service has reduced the incidence of death overpayments. LPFA are able to suspend the pensions in good time following the notifications being received on a monthly basis from Atmos. Having less death overpayments to pursue reduces the administration burden across LPFA and the risk to the fund of not being able to fully recover an outstanding death overpayment. As an example of the swift notification of pensioner deaths under the Atmos service, the period April – July 2014 identified 99 deceased pensioners whom the LPFA had not been notified of at the time of the existence check.

Overseas Pensioners

The Atmos process only picks up on those deaths where the pensioner resided in the UK. We have a different challenge in establishing the existence of an overseas pensioner. Traditionally life certificates have been issued every two years to a selection of pensioners living abroad. Following a successful pilot it has been decided to go ahead with a service managed by Western Union to confirm the existence of overseas members.

REPRESENTATION

The LPFA's Board members are appointed by the Mayor. They are all independent members in the sense that they are selected based on their particular skills or background. There are no member or employer representatives. Therefore LPFA uses a range of representative panels and forums to seek the views of stakeholders although these do not have any voting rights.

The Fund Member Panel met following each meeting of the Board. Discussion in the Panel meetings included the governance aspects of LPFA, communications, customer care, auto enrolment, and the affordability of the local government pension scheme. During the year members received presentations on the investment strategy, on the LPFA's strategic objectives and vision and ESG factors.

The Fund Member Forum was held in September 2013 and contained presentations from the Chief Executive, Chairman, Deputy Chairman and our Board member, Skip McMullan.

FREEDOM OF INFORMATION (FOI) SCHEME

During 2013-14 a total of 31 requests for information were received. These were in respect of private equity investment; LPFAs fund manager arrangements, Gifts and Hospitality and LPFA award submissions. All of the 31 requests were satisfied within the statutory timescales.

EQUALITIES OBJECTIVES

A comprehensive review of equalities took place during 2013-14 to ensure the effective implementation of the Equality Act 2010. The equality objectives were confirmed in 2014 following consultation with stakeholders.

ENVIRONMENTAL PLAN

Information Security

The LPFA are certified to international standard ISO 27001 and have implemented an Information Security Management System. This is an international standard which allows us to manage, review and act on the any information security risks to our data.

The LPFA are committed to preserving the confidentiality, integrity and availability of all the physical and information assets throughout the organisation.

Environmental Management

The LPFA is committed to conducting its business with respect and care for the environment. Activities are carried out with consideration for the environment as part of the process to prevent pollution and minimise waste.

Key performance indicators have been set covering environmentally-friendly paper consumption, member and employer communications, stationery, accommodation move, and work-related travel. The LPFA received the ISO 14001 accreditation during 2011-12 and continues to implement actions to ensure compliance.

EXERCISE OF DISCRETIONS UNDER LGPS

Under the LGPS Administration Regulations 2008, the LPFA was required to produce a written statement of its policy in relation to the exercise of its functions under four specific areas of

discretion; these have been published on the Fund member website www.lpfa.org.uk/Employers/EMPLOYER-DISCRETIONS

HEALTH & SAFETY

Officers monitor performance with regard to Health and Safety and report annually to the Board. The report covers accidents, general fire safety, electrical equipment, display screen equipment, housekeeping and premises, training, and emergency procedures.

COMPLAINTS

If an member has a complaint, they are advised to contact the LPFA to try and resolve the problem. To view the Complaints Procedure follow the link below:
www.yourpension.org.uk

In addition to the Complaints Procedure, under the LGPS Regulations, an member who is dissatisfied with any decision made in relation to the Scheme has the right to have their complaint reviewed in accordance with our Internal Dispute Resolution Procedure (IDRP).

Should the decision fail to solve a complaint, the member may, within six months of the date of the decision, apply to the LPFA to have it reconsidered. They may also contact The Pensions Advisory Service (TPAS) or, once the IDRP process has been exhausted, the Pensions Ombudsman.

ii Employers Contributing to the Fund as at 31 March 2014

NUMBER OF EMPLOYERS IN THE FUND

| | Active | Ceased | TOTAL |
|---------------------------------|------------|------------|------------|
| Academy | 6 | 0 | 6 |
| Admitted Body | 79 | 99 | 178 |
| Community Admitted Body | 3 | 2 | 5 |
| Resolution Body | 1 | 2 | 3 |
| Scheduled Body | 71 | 81 | 152 |
| Transferee Admitted Body | 8 | 3 | 11 |
| TOTAL | 168 | 187 | 355 |

EMPLOYERS ACTIVELY CONTRIBUTING TO THE FUND

Academies

Corpus Christi School
Dunraven School
Durand Academy
Sacred Heart School
St Martin in the Field High School
St Michael's RC School

Admitted Bodies

Alleyns School
Association of Colleges
British Film Institute
British Universities Film and Video Council
Broadacres Housing Association Limited
Brunel University
Cenhoco 130 Ltd
Central School of Speech & Drama
CfBT Advice and Guidance Ltd
CfBT Education Trust
Chartered Institute of Environmental Health
Chartered Institute of Housing
City Literary Institute
City University

Colfe's School
College of St. Mark & St. John
Comm for Local Administration in England
Coram's Fields
Council for Awards in Care, Health & Education
Dulwich College
Dulwich Picture Gallery
Emanuel School
Food Standards Agency
Forest Hill and Sydenham Voluntary Service Association
Gallions Housing Association
Geffrye Museum Trust Ltd
Genesis Housing Group
Goldsmith College
Grafham Grange
Greater London Enterprise Limited
Guinness Care and Support Ltd
Guinness Hermitage Limited
Hermitage Housing Association
Horniman Museum & Gardens
Ibstock Place School
Kings College / Chelsea College
Kingston University Service Company Ltd
Lionheart (RICS Benevolent Fund)
London Artscom Ltd
London Councils

London Diocesan Fund
 London Metropolitan University
 Mary Ward Centre
 Methodist Colleges and Schools
 Mountain Training limited
 Myrrh Education & Training
 N.I.A.C.E.
 N.L. Hospice Group
 Nexus Community
 Old Ford Housing Association
 Open College Network London Region
 Peabody Trust
 Poplar Harca
 Probation Association
 Prospects Services Ltd
 RADICLE
 Roehampton University
 S.S.A.F.A. Forces Help
 SDP Regeneration Services 2 Ltd
 Sense
 Shenley Leisure Centre Trust Ltd
 SLCF & Southwark Diocesan Board of Finance
 South Bank University
 Sport and Recreation Alliance Limited
 Sport England
 St Christopher's Fellowship
 Tandridge Leisure Ltd
 The English & Media Centre
 The English Institute of Sport
 The Froebel Trust
 Tilfen Regeneration Ltd
 Trinity Laban
 Trust Thamesmead
 United Kingdom Sport
 Univerisity Association for Contemporary European
 Studies
 University of Greenwich
 University of Westminster
 Waltham Forest CBHA Ltd
 Woughton Leisure Trust

Community Admitted Bodies

British Sports Trust
 CASTLE VALE COMM HOUS'G ASSOC
 UK Anti Doping

Resolution Body

Serious Organised Crime Agency

Scheduled Bodies

Archbishop Tenison's Church of England GMS
 Bishop Thomas Grant School
 Charlotte Sharman Foundation Primary School
 City and Islington College
 City of London
 City of Westminster
 City of Westminster College
 Ealing, Hammersmith & West London College
 East London Waste Authority
 Friars School
 Greater London Authority
 Greenwich Community College
 Hackney Community College
 Immanuel & St Andrew C of E Primary School
 Julian's Primary School
 L.B. of Bromley
 L.B. of Camden
 L.B. of Enfield
 L.B. of Greenwich
 L.B. of Hackney
 L.B. of Hammersmith & Fulham
 L.B. of Islington
 L.B. of Lambeth
 L.B. of Lewisham
 L.B. of Southwark
 L.B. of Sutton
 L.B. of Tower Hamlets
 L.B. of Waltham Forest
 L.B. of Wandsworth
 La Retraite RC Girl's School
 La Sainte Union Convent School
 Lambeth College
 Lee Valley Regional Park Authority
 Lewisham College
 London Fire & Emergency Planning Authority
 London Legacy Development Corporation
 London Nautical School
 London Pensions Fund Authority
 London Probation Trust
 London Valuation Tribunals
 Morley College
 Notre Dame School
 R.B. of Kensington & Chelsea

Raine's Foundation School
South Thames College
St Andrews RC Primary School
St Anne's RC Primary School
St Anthony's School
St Bede's GM Infant & Nursery School
St Bernadette's School
St Francesca Cabrini Primary School
St Francis Xavier 6th Form College
St Joseph RC Infant School
St Joseph RC Junior School
St Mary's RC Primary School
St Thomas the Apostle College
Surrey Square Primary School
Tower Hamlets College
Transport for London
Turney School
Turnham Primary GMS School
University of Arts London
Valuation Office Agency
Valuation Tribunal Service
West London Waste Authority
West Riverside Waste Authority
Westminster Kingsway College

Transferee Admitted Bodies

Babcock Critical Services Ltd
Babcock Training Limited
Briggs Marine Contractors Ltd
Civica UK Limited
NSL Limited
Serco Community Payback
Serco Limited
Sodexo

OTHER EMPLOYERS IN THE FUND

Admitted Bodies

Affinity Sutton Group
Age Concern London
All England Netball Association Limited
All Saints Educational Trust
Alleyns School / Dulwich College
AmicusHorizon Group Ltd
Association for Colleges
BECTA
Bethnal Green City Challenge

Bondway Housing Association
British Amateur Gymnastics Association
British Athletics Federation Ltd
British Institute Record/Sound
British Mountaineering Council
Caris Haringey
Castle Vale H.A.T.
Central Council of Magistrate's Courts Committees
Centre for Environmental Studies
Centre of Information on Language Teaching
CfBT Advice and Guidance Ltd
Community Care Enterprises
Consortium of Rural Tecs
Cordwainers College
Council for National Academic Awards
Digby Stuart College
Divert Trust
Downland Affinity Group
Duncroft Approved School
East Thames Housing Group
Effra Trust
Family Service Units
Futures Careers Guidance
G.L. Employers Association Ltd
Gilbert Place Centre
GLC Staff Association
Godolphin and Latymer School
Gorseway Care Limited
Greenwich Leisure Limited (SCLL)
Greenwich Young People's Theatre Ltd
Guinness Trust
Haberdashers' Askes Hatcham College
Hounslow Welcare
Institute of Careers Guidance
Kelly House Bail Hostel
Kettering Community Leisure Ltd
Laser Advisory Council Ltd
Liverpool Housing Action Trust
Local Authorities Mutual Investment Trust
London and South East Library Region - LASER
London Arts Board
London Diocesan Fund
London Docklands Development Corporation
London East Anglian Group
London Regional Examination Board
London Sinfonietta
London South Bank Careers
Mid Sussex Housing Association

Middlesex Association for the Blind
 Museums Association
 N.A.C.R.O.
 Nat. Advisory Board for Public Sector Higher
 National Probation Directorate
 Neighbour Dispute Mediation Scheme
 New Islington and Hackney Housing Association
 Newlon Housing Trust
 North Hull H.A.T.
 Octavia Housing and Care
 Our Lady of Victory RC Primary School
 Pimlico Village Housing Co-operative TMO
 RIPA
 Royal London Aid Society
 RPS Rainer
 S.K.I.L.L.
 S.W. London College
 Samuel Lewis Housing Trust
 Schools Council
 Search Careers Limited
 SLCF & Southwark Diocesan Board of Finance
 Southern Archaeology (Chichester) Ltd
 Sports Council
 St Edmund's Probation & Bail Hostel
 St Margarets House
 St Pantile House As. In. Cam
 Stonebridge Housing Action Trust
 Sulgrave Charitable Trust
 Sutton Centre for Independant Living and Learning
 Sutton Performing Arts Network
 Tennant Housing Trust Ltd
 Thames Conservancy
 Thamesmead Town Limited
 Tower Hamlets H.A.T
 UK Film Council
 UK Housing Trust Ltd
 United Welsh Housing Association Ltd
 University of Reading
 University of Surrey
 Urban Learning Foundation
 Welcare Community Projects
 Whitelands College

Community Admitted Bodies

Infrastructure Planning Commission
 Olympic Park Legacy Company Ltd

Resolution Body

London Transport User's Committee
 National Criminal Intelligence Service

Scheduled Body

Albemarle Primary School
 Association of Education Committees
 Ave Maria School
 Broxbourne BC
 Burntwood School
 Cardinal Vaughan Memorial School
 CfBT Strategies
 Crown Courts
 Crown Courts
 Eardley Grant Maintained School
 Elliott School
 Epping Forest DC
 Ethelburga School
 Firebuy Limited
 GLMCA
 Graveney School GM
 Greater London Council
 Hackney Downs School
 Hertsmere BC
 Hillbrook Primary School
 Honeywell Infants G M School
 Honeywell Junior G M School
 Housing Crombie
 ILPS and ACCS
 Inner London Education Authority
 Inner London Probation Service
 Jews Free School
 John Paul II Roman Catholic School
 Kingsway College
 L.B. of Barking & Dagenham
 L.B. of Barnet
 L.B. of Bexley
 L.B. of Brent
 L.B. of Croydon
 L.B. of Ealing
 L.B. of Haringey
 L.B. of Harrow
 L.B. of Havering
 L.B. of Hillingdon
 L.B. of Hounslow
 L.B. of Merton
 L.B. of Newham

L.B. of Redbridge
L.B. of Richmond upon Thames
London Guildhall University
London Oratory School
London Residual Body
London Thames Gateway UDC
London Waste Regulation Authority
Middlesex Area Magistrates Court
Middlesex Probation Service
N. E. London Magistrates Court
National Council for Voluntary Youth Services
National Crime Squad
National Rivers Authority
NHS
North East London Probation Service
North London Waste Authority
Phillipa Fawcett College
R.B. of Kingston upon Thames
Reigate and Banstead BC
S. W. London Magistrates Court
S.E. London Magistrates Court
Salesian College
Shoreditch College

Slough BC
South East London Probation Service
South West London Probation Service
Southfields Community College
Southwark College
St Thomas's C of E JMI School
Thames Water Utilities
The London Development Agency
Three Rivers DC
Thurlow Park School
Thurrock BC
University of North London
Vehicle Licensing
Westminster College
Willowfield School
Woking BC

Transferee Admitted Body

Churchill Contract Services Limited
MITIE Managed Services (North & Scotland) Ltd
SITA UK Limited

iii Myners' Principles Compliance Statement

Please visit our Fund Publications 'Statement of Investment Principles' on our corporate website www.lpfa.org.uk/what-we-publish/fund-publications to view our annual assessment against the 6 revised Myners Principles.

iv Additional requirements from the CIPFA Guide

'Preparing the Annual report - Guidance for the Local Government Pension Scheme Funds 2014'

| ASSETS AT 31 MARCH 2014 | UK £m | Non-UK £m | Global £m | Total £m |
|--------------------------------|------------------|----------------------|----------------------|---------------------|
| Equities | 135.51 | 1,191.34 | 748.38 | 2,075.23 |
| Bonds | 6.93 | 92.63 | 482.04 | 581.60 |
| Alternatives | 177.34 | 419.00 | 267.53 | 863.88 |
| Other | | | 1,202.70 | 1,202.70 |
| Cash and Cash Equivalents | 150.31 | 17.68 | | 167.99 |
| Total | 470.09 | 1,720.66 | 2,700.65 | 4,891.40 |

| INCOME RECEIVED DURING THE YEAR ENDED 31 MARCH 2014 | UK £m | Non-UK £m | Global £m | Total £m |
|--|------------------|----------------------|----------------------|---------------------|
| Equities | 4.39 | 22.45 | | 26.84 |
| Bonds | 0.34 | 3.07 | 10.00 | 13.42 |
| Alternatives | 6.85 | | 1.57 | 8.43 |
| Other | | | 1.33 | 1.33 |
| Cash and Cash Equivalents | 0.62 | 0.01 | | 0.62 |
| Total | 12.20 | 25.53 | 12.90 | 50.63 |

