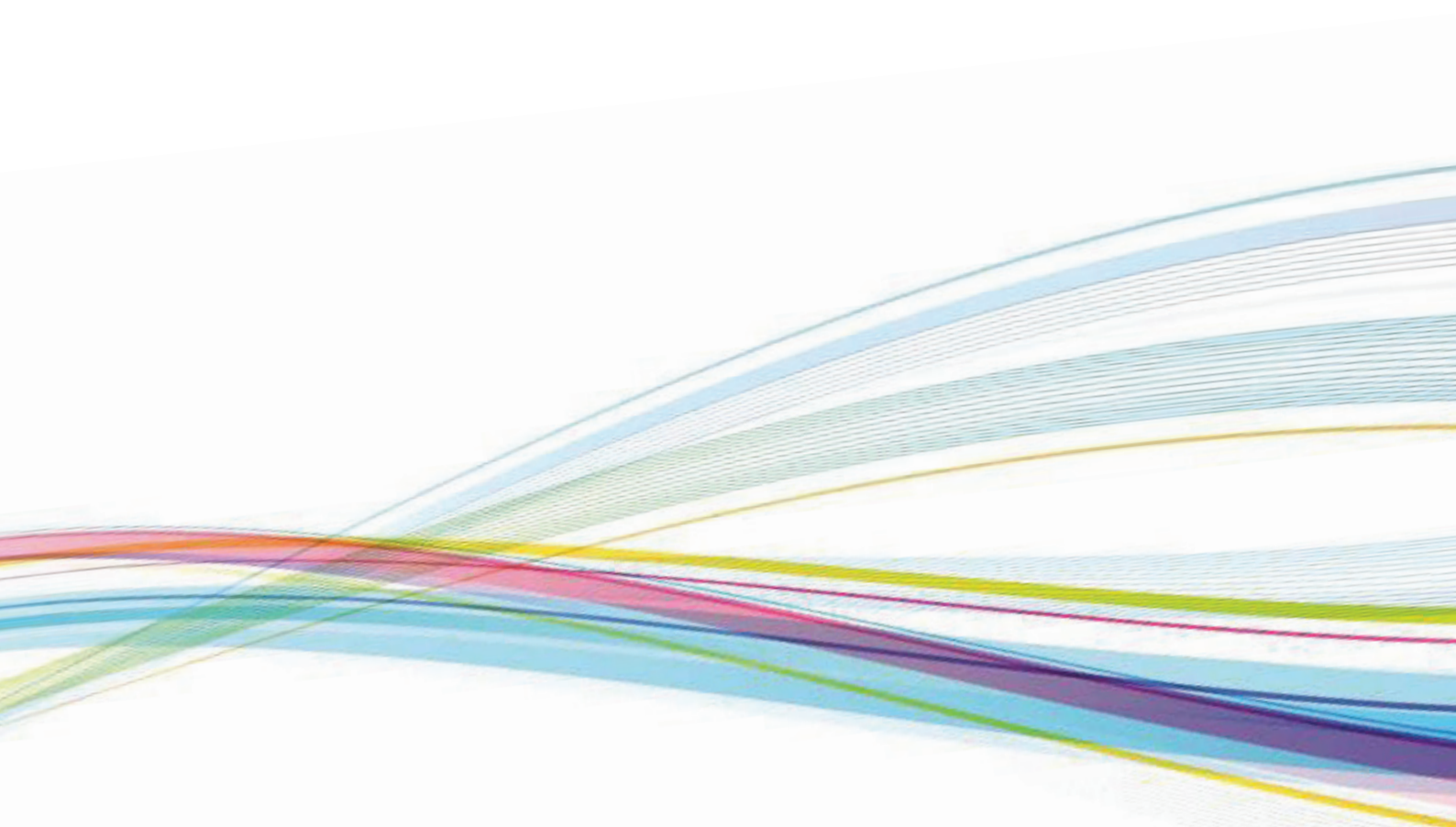


London Pensions Fund Authority

# Annual Report

**2016-17**



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## 1. Introduction

### 1.1 Note from the Chairman



**I am very pleased to present to you the 2016-17 LPFA annual report.**

While the last year has been one of constant change and uncertainty on the world stage, not everything has changed here at LPFA. I was delighted to be reappointed by Mayor Sadiq Khan to lead the pension fund in December. Additionally, the Mayor has tasked me with helping to boost infrastructure investment in London.

The Fund has seen significant changes over the 2016-17 period. Last year we announced the formation of the Local Pensions Partnership (LPP) alongside Lancashire County Pension Fund (LCPF), and I am happy to report some excellent results. Funding levels on a triennial basis have continued to improve, increasing to 96% at the 31 March 2016 valuation and reaching full funding in the year since.

Local Pensions Partnership Investments Limited (LPP I) has launched global equity, private equity and infrastructure pooled vehicles, achieving fee savings and economies of scale for both LPFA and LCPF in these asset classes. Most LPFA operational staff have transferred into the new LPP organisation, helping to ensure a smooth transition and continued high service levels for our employers and members.

As I've noted above, infrastructure is a key area for us, and LPFA investments are making a contribution in this area. GLIL, our UK infrastructure joint venture with Greater Manchester Pension Fund, has expanded to include new members. Merseyside, West Yorkshire and Lancashire joined in December 2016, bringing total funding commitments to £1.275b. Investments thus far have included energy and rail projects, and we continue to look at projects that will benefit London and the UK as a whole.

In addition, LPFA started to build out its direct UK commercial property portfolio in the year with acquisitions of offices in St Albans, warehouses in the Midlands and a regional shopping centre in Yorkshire.

In the year ahead, we will welcome two new board members, and continue to engage with LPP and LCPF as pooled vehicles for our remaining asset classes are launched. I will continue to work closely with the Mayor and his team at City Hall on LPFA matters as well as wider issues including responsible investing and housing development.

I hope you find the annual report a useful reflection on the past year, and look forward to the year to come.

Kind regards,

Sir Merrick Cockell  
LPFA Chairman

### 1.2 Note from the Managing Director



**2016 was a year of unprecedented change.**

Brexit, UK leadership changes, US elections... never has the phrase 'the only constant is change' been more true. Indeed, the same could be said for LPFA and the Local Government Pension Scheme (LGPS).

Pooling was the word of the year. LPFA and LCPF led the way, and in 2016 set up LPP with the aim of not just pooling assets, but focusing on end-to-end pension services. We believed that pooling assets as well as services could provide improved investment outcomes, efficient and effective administration, and increased funding levels.

I am happy to report that we are delivering on our plans, and we are beginning to see the fruits of our labour. The benefits we believed we would see as a result of the collaboration with LCPF are beginning to materialise for our members and employers.

At the start of the year, I was very pleased to take up the role of Managing Director of LPFA. Since starting in the position, my primary focus has been helping to deliver LPFA's part in the collaboration with LPP. The first step of that was successfully transitioning LPFA staff to the new LPP organisation, which was fully completed in November.

LPP now services more than 500,000 pension fund members from more than 1000 employers, but the rigorous processes and procedures we have in place mean that we are providing the same quality of service as prior to the collaboration. In order to maintain this, I work closely with the LPFA board, ensuring that our investment requirements, service level agreements and reporting arrangements reflect our (and your) needs to maintain the service you have come to expect.

In November, LPP received FCA approval for its investment arm, LPP I. We began pooling our assets in earnest with the launch of the global equity fund in November and the private equity fund in March. We will continue to work with LPP on the programme to continue pooling by asset class to ensure we benefit from the savings and efficiencies we are expecting.

#### Climate Change and Fossil Fuels

Recently, there has been much discussion about the impacts of climate change and how pension funds can use their investments to help address this issue. We are a pension fund first, and as such we seek the best possible risk-adjusted returns for our portfolios. By default, that process rejects many investments related to climate change, as their risk-adjusted returns frequently do not meet our criteria. We do hold some fossil-fuel related investments where they meet our criteria and we are looking at ways to address them over the coming months and years. We work closely with the Greater London Authority (GLA) on initiatives relating to climate change and aim to build on our existing approach, while ensuring that we uphold our fiduciary duty to protect the fund's long-term interests.

#### Infrastructure

We believe that infrastructure investing helps us to diversify sources of return in our portfolio while at the same time funding development of much needed infrastructure in our communities. Infrastructure funding through LGPS has been an aim of Government, and we support those efforts. Again it is important that we make the right investment choices in this asset class and ensure that the long-term, risk-adjusted returns fit with our fiduciary duty as a pension fund.

As you know, we are also one of the investment partners in the £1.275b GLIL infrastructure platform, which holds several investments including the Clyde wind farm. In 2016 GLIL welcomed new investment partners into the platform which provides additional scale to access investments we otherwise would not be able to. GLIL will continue to look to add new partners, which we believe will help to improve investment outcomes for all involved.

BOARD

Kerry Adby left the board in 2016, at the end of her term of office. I would like to thank her for her dedication and service to LPFA and wish her the best for the future. We have appointed two excellent new board members, and you will receive information about them in due course.

VALUATION

2016 was a triennial valuation year and I am happy to report that the overall funding level improved from 91% as at 31 March 2013 to 96% as at 31 March 2016. It has continued to increase over the year since to 104%. We also continue to work closely with our employers to ensure they understand their pension fund responsibilities and have put in place further arrangements to increase the level of security for the fund as a whole.

E-COMMUNICATIONS

You will have received further communications recently reminding you of our move to communicate online. We believe digital communications provide many benefits for our members and employers. We can provide you information more quickly, and provide more information than in traditional paper statements and flyers. In addition, through our member self-service portal, you have 24/7 access to all of your pension information – you can return to previous statements at any time. And don’t forget it’s better for the environment and in line with the Government’s ‘digital by default’ strategy for public services. However, if you are unable or prefer not to communicate digitally, we will provide paper statements.

In summary, I would like to say again that my first year as Managing Director of LPFA has been very rewarding, both personally and professionally. The rest of the LPFA team and I are very pleased with the progress we’ve made on our pooling agenda and I am really looking forward to what 2017 and beyond holds for us.



**Mike Allen**  
LPFA Managing Director

1.3 A Note from the Local Pension Board



A year ago, I wrote my first report as the Independent Chair of LPFA’s Local Pension Board (LPB). I commented then that we had successfully established the Board in accordance with the regulations but were still finding our feet within the overall governance structure. This was particularly so given the changes taking place as a result of the formation of the LPP to manage the investments, liabilities and administration of LPFA together with the LCPF. I ended my report by stressing the need for the LPB to add value to LPFA’s governance and activities. Although still early days, I said then that I believed it was already fulfilling two important functions: first, offering challenge to the executive; and second, providing valuable members’ and employers’ perspectives to the Executive which they might otherwise struggle to obtain.

Twelve months on, as a Board, we have a much clearer view of our role, and where and how we can add value. I shall devote some of this report to setting that out in more detail.

First, however, I should report on the mechanics. The Board has nine members: four employer representatives who were chosen to be representative of the Fund’s employers, four member representatives and myself as the Independent Chair. Charles Angus resigned as an employer representative during the year, as he had become ineligible to serve, and Adrian Bloomfield was chosen to replace him after an advertisement on the LPFA website and an interview. I would like to thank Charles for his contribution during the Board’s initial two years and to welcome Adrian. My term comes to an end in March 2019, while members may serve for a maximum of two terms of four years. When the Board was set up we agreed to stagger Board members’ tenure, so that not all members’ terms expired at the same time. Jamie Ratcliff, Peter Scales and Frank Smith’s first term came to an end in March 2017, and they all indicated their willingness to continue to serve.

When originally set up, the Board only met twice a year. We found this was insufficient and therefore agreed to meet quarterly. We have met four times during the year and held one working group (comprising two Board members) to consider how the Annual Benefit Statement might be improved.

The following table shows members’ attendance at Board meetings:

Board Member	Attendance at meetings 2016/17
William Bourne (Independent Chairman)	4 out of 4
Simon Steptoe (Member Rep)	4 out of 4
Peter Scales (Member Rep)	3 out of 4
Omolayo Sokoya (Member Rep)	4 out of 4
Jamie Ratcliff (Member Rep)	3 out of 4
Sean Brosnan (Employer Rep)	4 out of 4
Frank Smith (Employer Rep)	4 out of 4
Charles Angus (Employer Rep)	3 out of 4
Bernadette Jansen (Employer Rep)	4 out of 4
Adrian Bloomfield (Employer Rep)	Appointed on 24 January 2017 - attended 1 meeting to date

Information about the Board, including minutes and public papers, are available on the LPFA website. The Board has no internal budget but costs are defrayed by LPFA. This year, these amounted to £6,400.



## OVERVIEW OF ACTIVITY DURING 2016/17

The year has included a triennial actuarial valuation, a new set of investment regulations, as well as the FCA authorisation of LPP and the transfer of assets to it, so there has been no shortage of important subjects. In all of these, the LPFA Executive Board has primary responsibility for executive and strategic decisions, and the LPB's remit is one of scrutiny. We are there as a second pair of eyes on behalf of LPFA's stakeholders, especially the employers who make contributions and the members who both contribute and receive pensions, to ensure that good governance is in place. In practice this means verifying that the legal and regulatory requirements are complied with; that due process is followed; that risks are considered beforehand, monitored, and where possible mitigated; and that all is done in an efficient manner. However, it is important to underline the fact that executive power resides with the Executive Board, and we can only make recommendations or note our concerns.

For our scrutiny role, we rely considerably on third party verification reports, whether they be from officers, internal service providers such as auditors, or from independent parties. These are presented at meetings and we will normally discuss the background. If we are not comfortable with the assurance given we will ask to see the original documents. For example, during the year we noted our concerns as indicated below to LPFA that although LPP had commenced operations, the formal governance structure for monitoring its activities had yet to be put in place. Since then, a formal review has been conducted by LPFA's auditors.

The second major focus of the LPB's activities is assisting LPFA in the efficient running of the Fund. Here the perspectives which employer and member representatives on the Board bring to bear are of undoubted value. Looking at ways to improve communication between the Fund and its stakeholders is a particular focus for the coming year. We constituted a working party during this year and made recommendations on how to make the Annual Benefit Statement clearer and more accessible. These changes should be in place for the 2017 statements. Two working parties also met briefly in the first week of 2017/18 to discuss way of improving communications. We will be holding a series of other working parties during the course of the next year to look at different aspects of communication, including newsletters, the formal statements provided to employers, the website and how members approaching retirement are assisted.

Efficiency is also about keeping an eye on costs. The great majority of costs are now incurred by LPP, because investment and administration activities have been transferred to them. It is important that the Fund obtains good value for the money spent here and we have made LPFA aware of the importance we place on monitoring the value achieved over a long period in order to demonstrate the benefits delivered to the Fund from the establishment of the pool.

As part of the process of pooling, there is scope to reduce costs by reviewing and consolidating the arrangements by which the Fund and the LPFA conduct administration. The LPB is supportive of this quite ambitious plan but is aware that change brings risks with it. We have accordingly suggested that the LPFA conduct an audit to confirm that the risks which transformation inevitably brings have been properly assessed and, where possible, mitigated. At the time of writing this has yet to happen but we believe our comments have been given due consideration to the benefit of stakeholders.

New investment regulations came into law during the year under consideration as part of the process of pooling. Among other things, they make it clear that the LPB is one of the bodies which needs to be consulted in certain circumstances, underlining its status within the formal governance structure as the only body with stakeholder representation.

We reviewed the proposed Investment Strategy Statement, required under the new regulations, outside our meeting cycle for time constraint reasons. As we had concerns about the haste with which it was produced, we made a formal recommendation to LPFA that it provide the Board with an assurance that this document complied with the relevant regulations and, in particular, the requirement to consult appropriate bodies. This was provided, alleviating our concerns, although we expect there may be further changes to this particular Statement during the course of the coming year.

Governance is one of the keys to a well-run fund and it became apparent to the LPB during the year that in the course of the formation of LPP, LPFA itself may have been left with too little resource in this area. While LPP's resources can be used for some governance functions, it would not be appropriate to use their staff to provide governance advice on matters which concern themselves. We will continue to keep a careful eye on this over the coming year.

The LPB also sees all breaches of law or regulations and considers, among other things, whether there is a requirement to report a breach to The Pensions Regulator. During the year, no breach was sufficiently serious or systemic that this was necessary, but we will continue to keep a beady eye on the performance of LPP and any breaches.

After a full year of operation, we conducted an appraisal of the LPB, in accordance with our terms of reference. This exercise resulted in a number of recommendations and considerably greater clarity how we should operate. Our remit is clearly one of scrutiny and it is the LPFA Executive Board's role to manage the relationship with LPP. We will use our member and employer perspectives to assist the LPFA in seeking better ways to do things. Where the LPB sees a proposed formal document or decision before it is ratified by the Committee, we will make known any concerns by means of a formal note. Where, as inevitably happens on occasion, we only see a decision after it has been taken and we have concerns, we will make a formal recommendation to the relevant body, usually the LPFA Executive Board.

## LPB TRAINING

Training is also required under the Pensions Act 2013 for Local Pension Boards. All Board members participate in a mixture of individual and group training sessions, established with reference to the CIPFA Knowledge and Skills Framework principles. All LPB members are encouraged to complete the Pensions Regulator Toolkit as part of their role. Training sessions are usually held during the year prior to LPB meetings.

During 2016-17 training sessions were held on:

- Solvency Reporting
- 2016 Triennial Valuation
- LPFA Annual Benefit Statements

Individual training needs are tailored to the requirements of the LPB member following the outcome of the appraisals. In the past year, several members have attended relevant seminars hosted by CIPFA and recorded by the Authority for each individual.

Over the course of 2017/18 the LPB are looking to focus their training on risk management, new data protection regulations and other areas of the business such as communications and responsible investment.

## KEY FOCUS FOR 2017/18

The LPB's focus is likely to be on continuing to scrutinise the governance arrangements around LPP as they settle down. We are likely to spend more time on the administration side, as that is where the biggest changes will be happening. We will also continue to look at engagement with employers and members since the LPB as the representative body is best placed to promote that. In both these areas, we will look to share best practice with the equivalent body of our LPP partner, LCPF's Pension Board.

I will finally highlight the support from the LPFA Executive Board and also the officers. The LPB's ultimate objective is the same as that of the Executive Board, but we also have a clear duty to challenge the Board on occasion. This can only function effectively if the relationship is a good one, so that when we note concerns or make recommendations they are taken constructively. The Chair and Board have always been fully supportive of our interventions and comments, and the LPFA Shareholder Director on the LPP Board attended one of our meetings. Without the assistance of the officers running the fund, the LPB would find it difficult to function.

I have no doubt that in this year the LPB has, by acting as a scrutinising body, been able to add value. We look forward to the next year with confidence, expecting to be able to make our contribution to making a well-run fund even better.



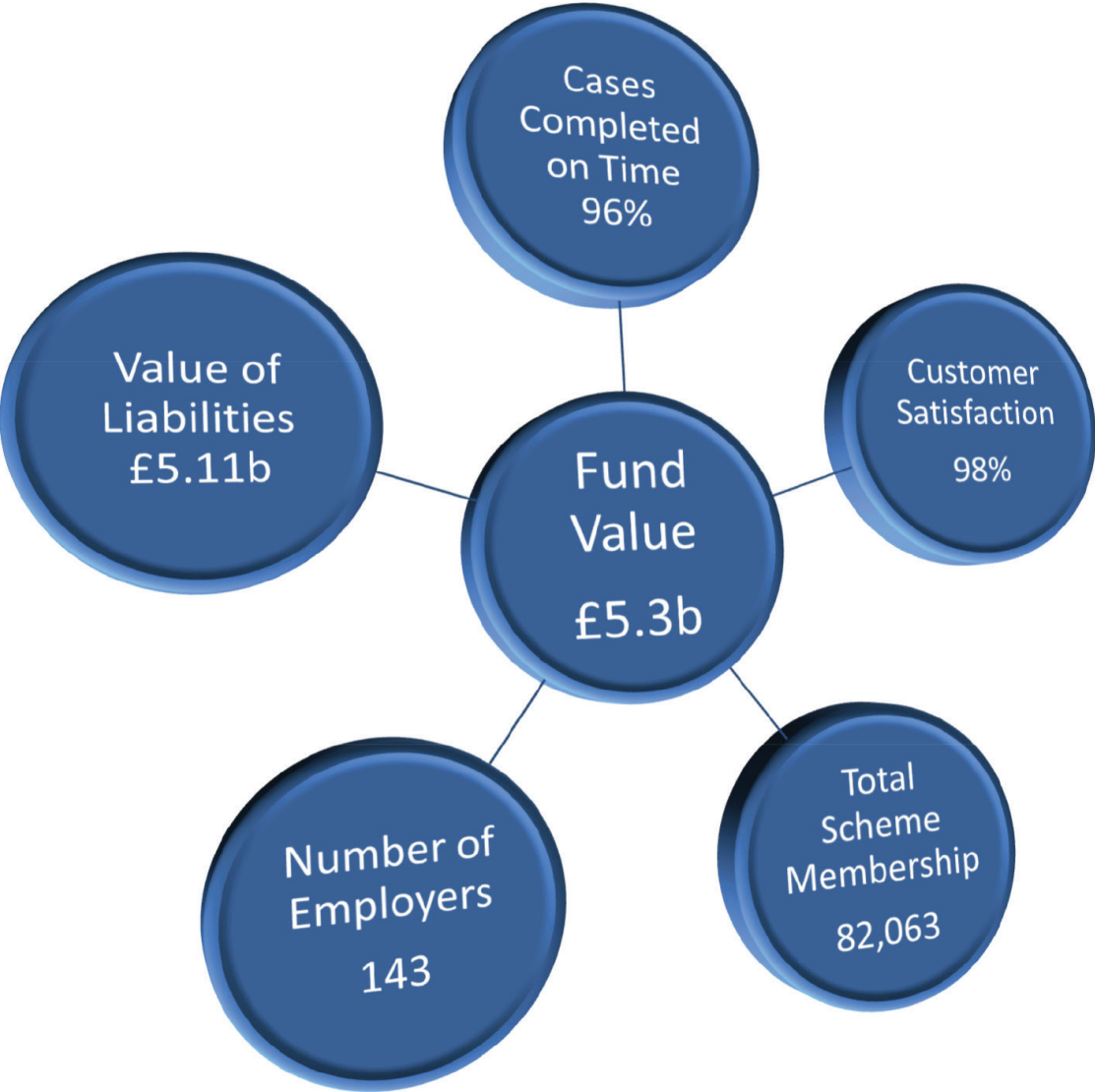
**William Bourne**  
Independent Chair of the LPFA Local Pension Board

2. Fund Administration

2.1 At a Glance (as at 31 March 2017)

The administration of the LPFA pension fund has, since April 2016, been provided by LPP. LPP is a leader in provision of pension administration services and has continued to deliver the same high standards to members and employers as LPFA previously achieved.

The LGPS provides occupational pension provision to a large number of local authority employees as well as employees of other public sector bodies and organisations.



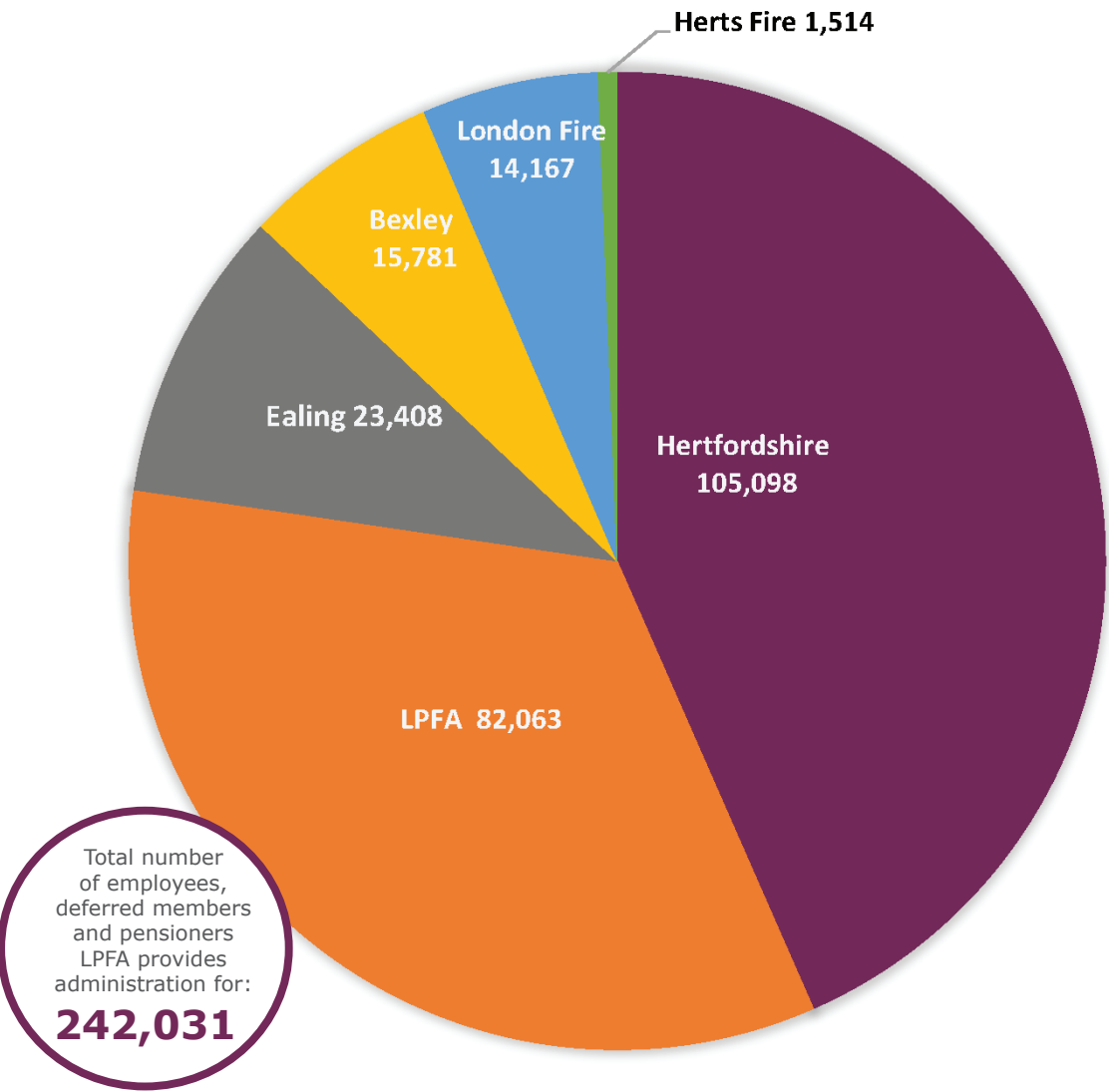
2.2 Membership

LPFA SCHEME MEMBERSHIP OVER 4 YEARS

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

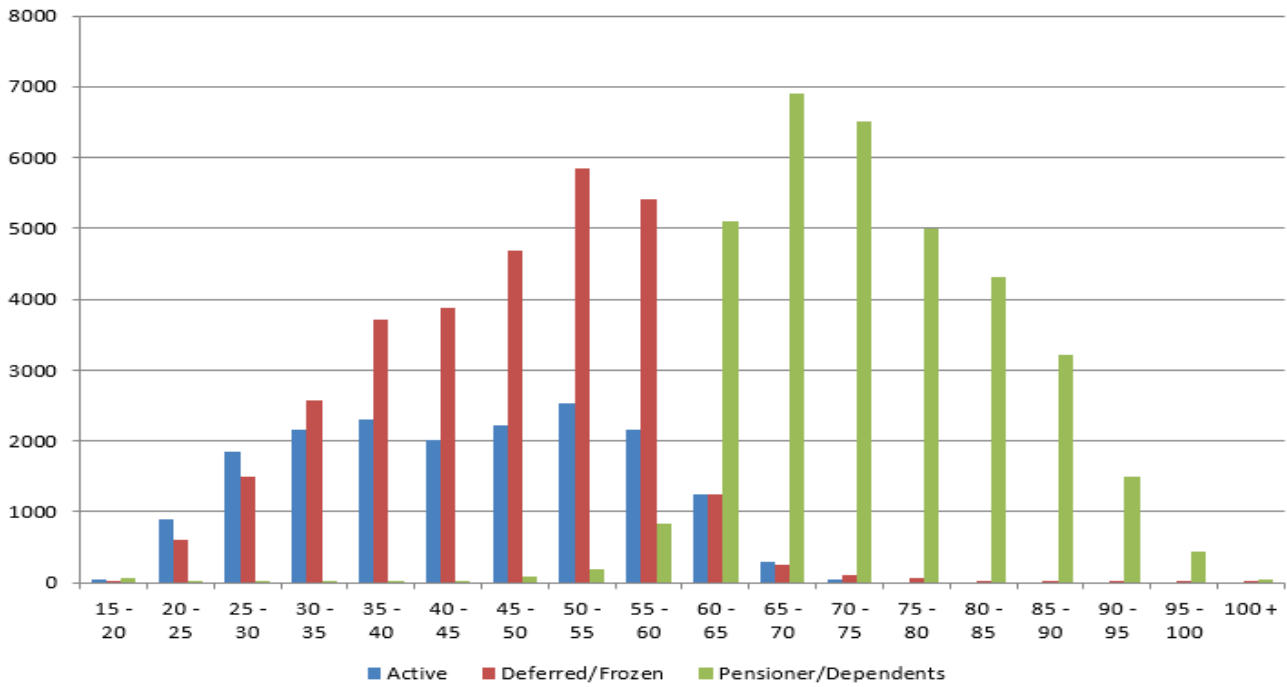
	2013-14	2014-15	2015-16	2016-17
Active Contributors	17,736	17,308	17,264	17,776
Deferred Beneficiaries	25,782	24,808	25,257	26,370
Pensioners and Dependants	35,488	33,580	33,838	34,321
Undecided Leavers and Frozen Refunds	1,902	1,950	2,620	3,596
<b>TOTAL MEMBERSHIP</b>	<b>80,908</b>	<b>77,646</b>	<b>78,979</b>	<b>82,063</b>

TOTAL MEMBERSHIP UNDER ADMINISTRATION



The pension schemes detailed above are administered by the LPP on behalf of LPFA through a sub-contracting arrangement.

AGE OF LPFA SCHEME MEMBERS



	Active	Deferred/Frozen	Pensioner/Dependants
Average	43.8 years	46.7 years	73.8 years
Maximum	74.7 years	101.0 years	107.8 years
Minimum	16.8 years	18.6 years	1.8 years

2.3 Workloads and targets

WORKLOADS

The workload has continued to grow as the pension scheme becomes ever more complex to administer. This is due to regulation changes and people's increased awareness of their retirement savings. LPP has continued to provide a high standard of service and has set service level agreements with LPFA. We are pleased to report that 96% of queries were completed within our expected timescales. The below figures show the number of enquires completed during the year and the performance against the targets.



(**'On Time'** - Percentage On Time Against KPI)  
(**'Avg'** - Average Elapsed Time)

LPFA CUSTOMER SATISFACTION

One of LPFA’s goals is to be a market leader in customer service and operate a culture where the customer is the centre of organisation. Pension administration services are now carried out on LPFA’s behalf by LPP, and the emphasis on customer service excellence is still at the forefront of their operation.

In its first full year of operation, LPP has continued to deliver a first-class service on behalf of LPFA, with 96% of queries were completed within our expected timescales, and 98% of our members said they were satisfied with the overall service.

	2013-14	2014-15	2015-16	2016-17	Benchmark
% of Members Satisfied with Our Overall Service	98%	97.5%	98%	98%	98%
% of Members Surveyed	1.34%	1.27%	1.62%	1.34%	1.39%
Number of Complaints Received	25	15	19	35	25
No. of Complaints Categorised as Pension Ombudsman Cases	0	0	0	0	0
No. of IDRPs Cases (Internal Dispute Resolution Procedure)	2	1	6	11*	<6
Cases per Member of Staff	1,464	1,244	1,897	1811	-

\*7 completed and 4 in progress

GOING DIGITAL

Our preferred method of communication is electronic and we will now communicate with you either by email or via our member self-service facility, which you can register for at: [www.yourpension.org.uk](http://www.yourpension.org.uk). To opt out of electronic communications, please write to us directly at: LPFA, 169 Union Street, London SE1 0LL.

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

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

[www.yourpension.org.uk](http://www.yourpension.org.uk)

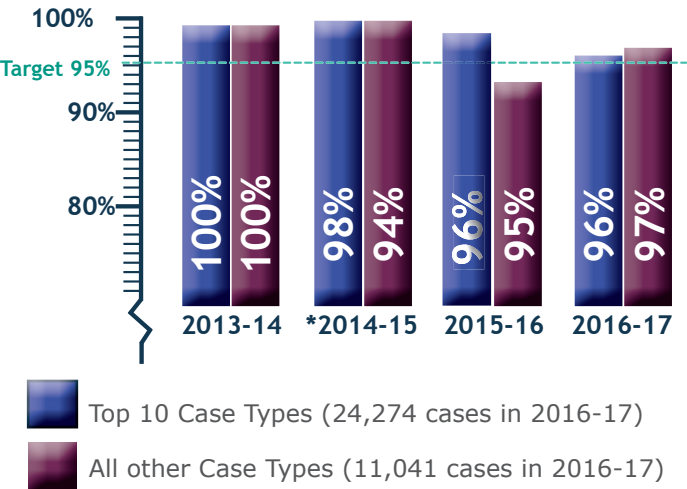
The site for members. Here your members can find information about the pension scheme including videos, guides and factsheets as well as calculation examples.

[www.yourfund.org.uk](http://www.yourfund.org.uk)

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

99% of employer forms were submitted online via the online employer portal.

Queries Completed on Time Yearly Comparison



Top 10 Case Types (24,274 cases in 2016-17)  
All other Case Types (11,041 cases in 2016-17)

\*Of the cases that did not meet the target, 50% were related to Guaranteed Minimum Pension notifications received from HMRC. These cases were received in a bulk delivery and although were not completed by the workflow due date, were completed in time for the pay run.

As at 31 March 2017, LPFA held 10,542 active member email addresses. That’s 59% of our active members.

As at 31 March 2017, 35% of active members had signed up to our member self-service system, an increase of 11 percentage points.

FUND COSTS PER MEMBER

At 31 March 2016

Fund Costs	Absolute £'000	Per Fund Member £	% of Net Assets of Fund %
Administration	7,767	98	0.17%
Investment	30,651	388	0.67%
TOTAL	38,418	486	0.84%

At 31 March 2017

Fund Costs	Absolute £'000	Per fund member £	% of Net Assets of Fund %
Administration	4,738	57	0.09%
Investment	22,369	276	0.42%
TOTAL	27,107	333	0.51%



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 PAS went live on 1st April 2010, and since then we have seen a significant improvement to the service that we provide to Scheme members. This is a result of efficient data and information flow between LPFA and our employers.

The PAS covers 92 of our 142 employers with actively contributing members this represents 14,249 of the 17,776 active members, or 80%.

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.

	2014-15	2015-16	2016-17	PAS Error Rate Target
Year-end Error Rate	27.3%	18.62%	17.22%	10%

Amounts Due from Employers at the Year End

- Employers Contributions - £7,223,747
- Employees Contributions - £1,785,967
- Cessation Values - £378,600

2.4 Pension Payments

PENSIONERS IN RECEIPT OF ENHANCED RETIREMENT BENEFITS

	Ill Health Instances	Early Retirement	Redundancy/ Voluntary Early Retirement
2012-2013	32	12	275
2013-2014	30	10	136
2014-2015	25	42	121
2015-2016	24	8	130
2016-2017	27	12	134
TOTAL VALUE FOR 2016-17	£3,875,582	£177,910.79	£1,256,559.26

ANALYSIS OF PENSION OVERPAYMENTS

	2012-13	2013-14	2014-15	2015-16	2016-17
	£	£	£	£	£
Overpayments	147,547.50	122,920.49	120,730.87	144,900.68	146,756.47
Collected	98,078.31	93,162.00	72,424.94	16,761.46	13,498.36
Written off	15,225.44	34,267.12	20,257.53	0	0
Outstanding	9,289.04	15,202.07	9,500.96	128,139.22	133,258.11

## 3. Investment Review

### 3.1 Investment Performance

#### THE LAST TWELVE MONTHS

2016 was a year of improved global growth and gradually decreasing volatility, albeit with some rather unexpected political developments. Whilst most central banks in developed markets (Eurozone, Japan) continued with their monetary stimulus programmes to revive growth and inflation, the Federal Reserve continued its monetary tightening with a second rate hike at the end of 2016. During the year, we witnessed a continuous increase in global stocks to new all time highs, a stabilisation and moderate pick up in commodity and energy prices, the widely unexpected Brexit referendum result, the Trump election, the decline of populist sentiment in Europe, and increased terrorist attacks in Europe and throughout the world.

In the U.S, the economy expanded at a faster pace in nominal terms in 2016 compared to 2015, however in real terms it remained close to 2%, as real wage growth remained sluggish. A moderate pickup in wage growth at the beginning of 2017, as the economy operates close to full capacity (4.7% unemployment rate at the end of 2016) should allow the Fed to continue to gradually raise interest rates. After two interest rate hikes in December 2016 and March 2017, two further are expected for the rest of 2017. The dollar (on a trade weighted basis) decreased for the first half of 2016, and increased significantly in the second half, especially following the election of President Trump. However, since the beginning of 2017, the dollar has gradually decreased, as a much-anticipated tax reform, regulatory overhaul and infrastructure spending plan have not yet materialized. Additionally, the toxic political environment surrounding external involvement in the presidential elections and Trump's firing of the FBI director have raised concerns in Washington.

Concerns about the break up of the currency union in Europe emerged, on the back of the Brexit referendum results and increased populist sentiment that seemed to disintegrate the EU. However, these concerns have since receded following the results of the Dutch and French elections, where pro-European candidates emerged victorious.

Growth in the Eurozone has picked up, buoyed by increased consumption and investment. However inflation (especially core), although increasing, remains below the 2% target. EURUSD ended 2016 lower than 2015 (c. 1.052 vs. 1.087) bringing the trade balance to its highest-ever level. Since then the currency exchange has accelerated significantly and is now trading around 1.12 USD. The ECB continued to implement its quantitative easing programme to boost growth and inflation in the region, leaving its interest rates at record-low levels. The QE programme was extended until December 2017, when the gradual withdrawal of extraordinary stimulus is expected to begin.

Following the result of the British referendum, where the leave vote prevailed, Sterling plummeted amid increasing uncertainty about the UK's future relationship with its main trading partner. Leaving the EU and the customs union in a hard Brexit scenario emerged as the base case. The stock market initially declined on the result, but then it quickly resumed its trend towards new all-time highs. The apocalyptic scenarios that many predicted did not materialize, and the economy continued to grow at more than decent levels supported by consumption and near record-low levels of unemployment. However, the gradually depreciating currency has started to feed through to inflation which has now soared beyond the Monetary Policy Committee's (MPC) target of 2%. Nominal wage growth has not kept pace with inflation, leading to consumers tightening their spending and the economy appears to have lost some momentum. With the Brexit discussions set to begin shortly, the BoE's MPC has kept the interest rate steady at 0.25%, after a rate decrease following the referendum's results.

Global markets remained less concerned about the impact of economic rebalancing and lower growth in China. The government has been focusing on shifting the economy away from investment and towards consumption. A general area of concern has been the rather elevated levels of credit and debt especially for local government entities. Even though Chinese economic data were not exhilarating they are far from freefalling and the economy continues to grow at over 6% in real terms.

#### INVESTMENT SUMMARY

As a pension fund our investment horizon is long term. Our investment strategy is based on the Fund's objectives of capital preservation and adequate cash flows to cover all liabilities as they fall due. We manage assets within an acceptable level of risk and adhere to the Fund's principles and beliefs\*. The Fund's investment return, excluding liability driven investment (LDI) was 17.9% from April 2016 to March 2017. LDI is primarily focused toward gaining enough assets to cover all liabilities, both present obligations and those that will be accrued in the future. This reinforces our commitment to be a long-term investor, ensuring we meet the assurances made to members and employers.

Over the year the Fund's strong outperformance against the RPI+3% benchmark returns (17.9% vs. 6.2%) was on the back of positive performance across all asset classes. Additionally, the increase of our illiquid assets allocation, especially in Private Equity and Real Estate, boosted returns. Sterling's depreciation following the Brexit vote led to additional significant gains.

*\*see the Investment Strategy Statement (ISS)*

#### LONG TERM PERFORMANCE

The funding level (the ratio between assets and liabilities) as measured on a LGPS actuarial basis is currently showing a small surplus of circa 3.9%. The Fund has generated an annual investment return of more than 9.5% over a 5-year period, achieving our target of a nominal return of circa 6% or better. As we move further away from legacy holdings to our current strategic asset allocation we expect to maintain or improve our long-term performance. This framework established a reference portfolio (consisting of equities and bonds), a policy portfolio (consisting of eight asset classes) and target ranges for each asset class.

The Board's belief is that a broadly diversified portfolio, including a meaningful allocation to illiquid assets, will improve risk-adjusted returns over the long term. Consequently, we have increased our allocation to Private Equity and Real Estate with the establishment of a UK direct property portfolio. Our allocation to Infrastructure has decreased over the year, as a result of opening up our joint venture with the Greater Manchester Pension fund to new investors. The GLIL partnership currently consists of five LGPS schemes. LPFA still has a substantial amount committed to the partnership. In these areas, we are increasingly making use of our internal resources to access opportunities in a more direct manner, reducing fees and increasing control. In the liquid part of our portfolio we have transitioned assets into the LPP I Global Equity Pool. It currently comprises the LPP I internal equity portfolio and three other external portfolios. Further mandates are under consideration by LPP I which when added will further diversify the Fund's risk/return characteristics.

FUND PERFORMANCE AS AT 31 MARCH 2017

Period return	Quarterly	1 Year	3 Year	5 Year
Excluding LDI	4.33%	17.89%	10.11%	9.52%
Including LDI	3.26%	21.43%	8.30%	8.29%

ASSET ALLOCATION AS AT 31 MARCH 2017

Asset Class	Valuation £m	Exposure £m	%	Target Allocation	Over/ (Under) Weight	Range
Equities	2,289.95	2,679.15	50.23%	47.50%	-2.73%	40%-60%
Fixed income	-	-	-	2.50%	2.50%	0%- 15%
Total Return	756.65	756.65	14.19%	15.00%	-0.81%	0%-20%
Private Equity	565.75	565.75	10.61%	7.50%	-3.11%	5%-15%
Infrastructure	239.08	239.08	4.48%	7.50%	3.02%	5%-15%
Real Estate	344.63	344.63	6.46%	10.00%	3.54%	5%-15%
Credit	189.88	189.88	3.56%	7.50%	3.94%	0%-10%
Cash	798.75	409.55	7.68%	2.50%	-5.18%	0%-10%
Diversified	149.12	149.12	2.80%	-	-2.80%	0.00%
Total	5,333.81	5,333.81	100.00%	100.00%		

Total Value of the Fund

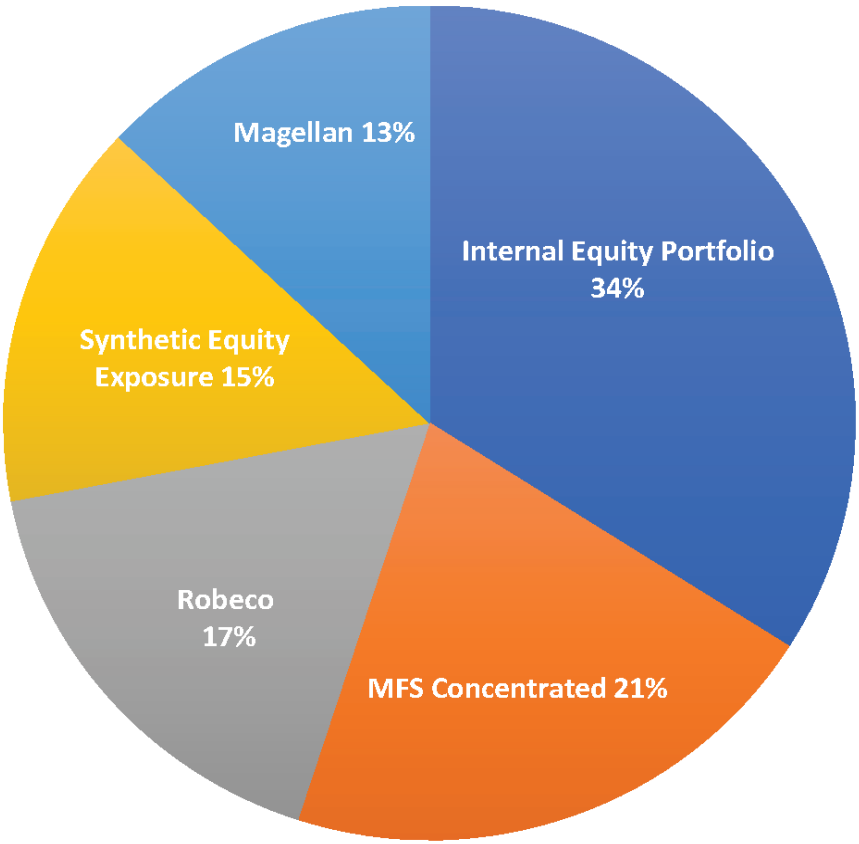
£5.3bn

at 31 March 2017

PUBLIC EQUITY

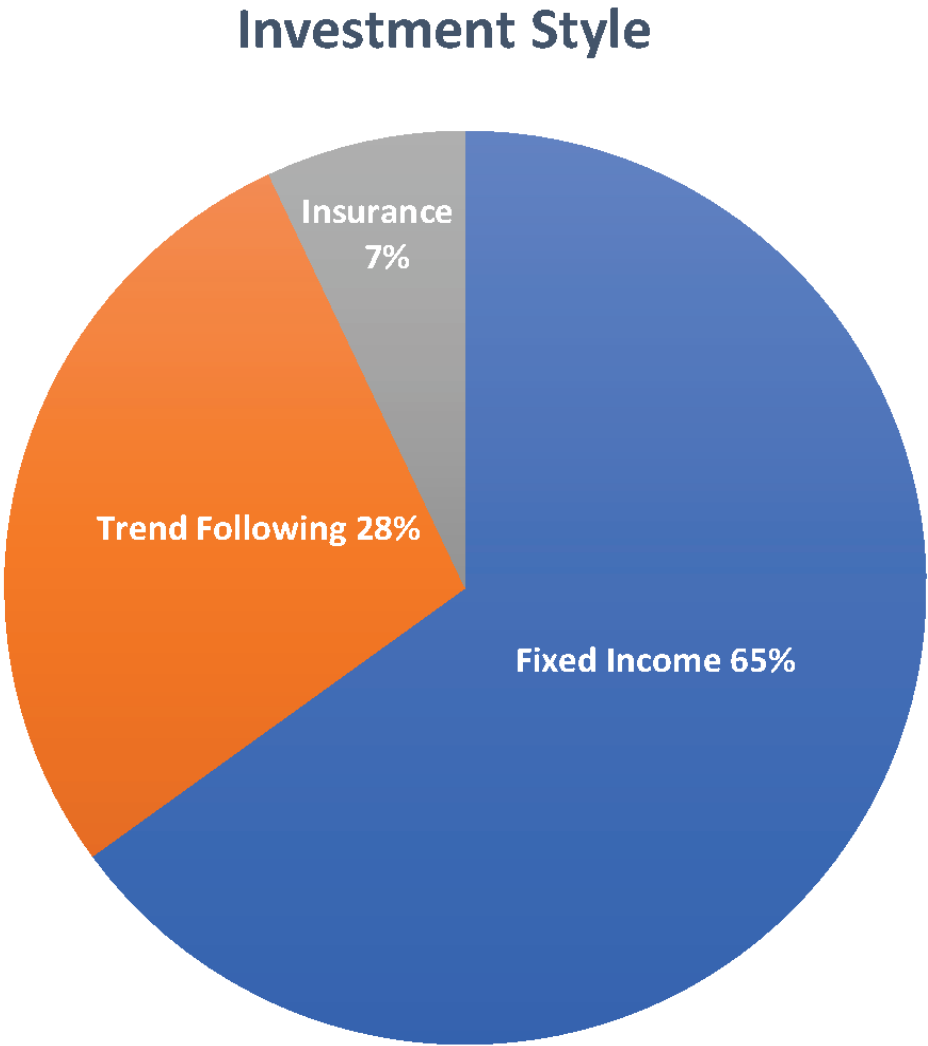
	Valuation £m	Exposure £m
LPP I Global Equities Pool	2,286.99	2,286.99
MFS Concentrated	562.39	562.39
Magellan	342.23	342.23
Robeco	449.36	449.36
Internal Equity Portfolio	915.90	915.90
Cash/Pending/Tax reclaim	20.08	20.08
Synthetic Equity Exposure	-	389.20

Equity Exposure



TOTAL RETURN

	Investment Style	£m	%
Insight Bond Plus 400	Fixed Income RV	267.34	35.33%
BlackRock FIGA	Fixed Income RV	224.63	29.69%
Aeolus Keystone	Insurance	20.49	2.71%
Aeolus Spire	Insurance	30.67	4.05%
Winton Evolution	Trend Following	126.76	16.75%
GSA Trend Risk Premia	Trend Following	46.16	6.10%
Graham T-Trend Capped Beta	Trend Following	40.60	5.37%
Total		756.65	100.00%

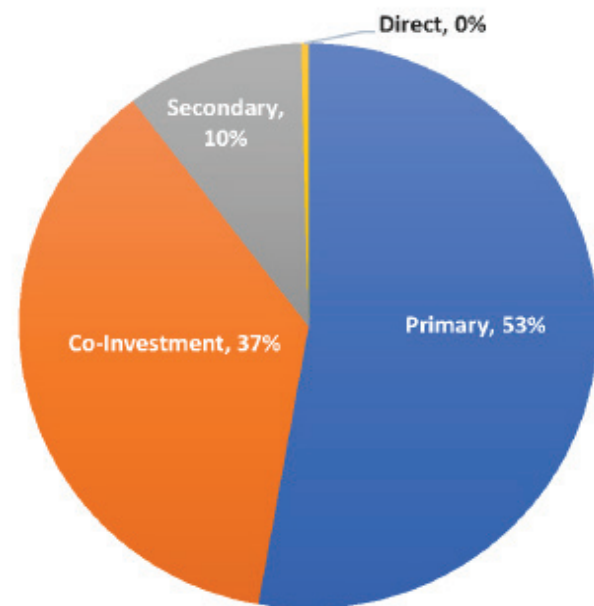
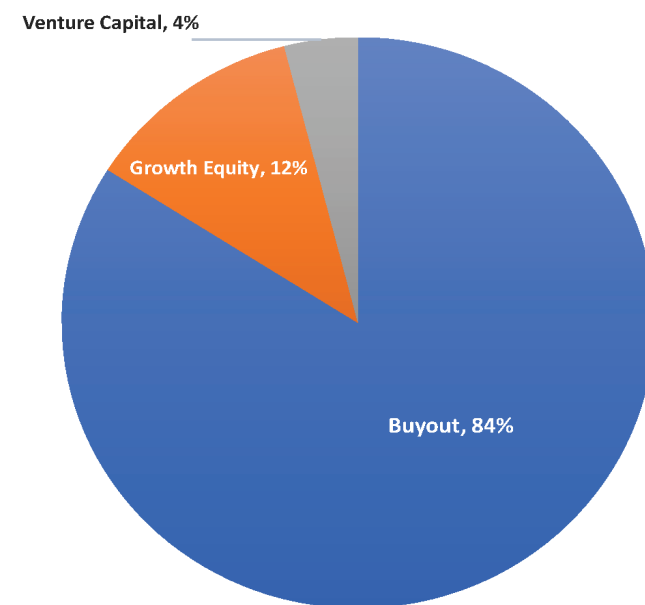


Investment	Investment Type	£m	%
Adveq TMC I, L.P.	Buyout	35.92	6.7%
Adveq TMC II, L.P.	Buyout	34.98	6.5%
Adveq TMCO 1, L.P.	Buyout	29.99	5.6%
Bridges Ventures III, L.P.	Growth Equity	7.89	1.5%
Capital Fund No. 1 LP	Growth Equity	0.61	0.1%
Cinven Fund 6 No.2 L.P.	Buyout	0.00	0.0%
CleanTech Europe (No.1) LP	Growth Equity	4.75	0.9%
Cleantech Europe II (No 1)	Growth Equity	8.69	1.6%
Collier International Partners VII Feeder Fund, L.P. - Series B	Buyout	6.30	1.2%
Dover Street VII Cayman Fund, L.P.	Buyout	8.64	1.6%
HarbourVest HIPEP IV - Supplemental European Companion	Buyout	1.90	0.4%
HarbourVest HIPEP V - Partnership Fund	Buyout	5.90	1.1%
HarbourVest Partners Cayman Cleantech Fund I L.P.	Buyout	11.77	2.2%
HarbourVest Partners VII - Cayman Buyout Fund L.P.	Buyout	7.64	1.4%
HarbourVest Partners VII - Cayman Mezzanine Fund L.P.	Buyout	2.27	0.4%
HarbourVest Partners VII - Cayman Venture Fund L.P.	Venture Capital	4.08	0.8%
HarbourVest Partners VIII - Cayman Buyout Fund L.P.	Buyout	14.00	2.6%
HarbourVest Partners VIII - Cayman Mezzanine Fund L.P.	Buyout	2.78	0.5%
HarbourVest Partners VIII - Cayman Venture Fund L.P.	Venture Capital	9.14	1.7%
Hermes PEC III	Buyout	11.05	2.1%
Hermes Private Equity Co-Investment Fund II, L.P.	Buyout	61.55	11.5%
HGGC Fund III-A L.P.	Buyout	0.00	0.0%
Ithaca, L.P.	Buyout	8.09	1.5%
LGT Crown Asia-Pacific Private Equity plc	Buyout	22.75	4.3%
LGT Crown European Buyout Opportunities II PLC	Buyout	7.95	1.5%
LGT Crown European Buyout Opportunities A PLC	Buyout	2.83	0.5%
LGT Crown European Buyout Opportunities D PLC	Buyout	0.74	0.1%
LGT Crown European Private Equity PLC	Buyout	8.65	1.6%
LGT Crown Global Secondaries II PLC	Buyout	4.49	0.8%
LGT Crown Global Secondaries PLC	Buyout	0.66	0.1%
Montana Capital Partners OSP III	Buyout	10.77	2.0%
Montana Capital Partners, L.P.	Buyout	6.54	1.2%
Naxicap Opportunities V	Buyout	16.87	3.1%
New Energy Solutions II K/S	Growth Equity	4.91	0.9%
Pantheon Asia Fund IV	Buyout	6.67	1.3%
Pantheon Europe Fund IV	Buyout	4.17	0.8%
Pantheon Europe Fund VI, L.P.	Buyout	14.62	2.7%
Pantheon Global Secondaries III	Buyout	3.04	0.6%
Pantheon USA Fund VI	Buyout	13.25	2.5%
Pantheon USA Fund VII	Buyout	8.75	1.6%
Pantheon USA Fund VIII Feeder	Buyout	24.92	4.6%
Permira Europe V, L.P.	Buyout	44.15	8.2%
Permira VI	Buyout	0.69	0.1%
PGSF IV Feeder LP	Buyout	7.01	1.3%
Robeco Feeder Clean Tech Private Equity II	Venture Capital	9.55	1.8%
The Energy & Minerals Group Fund III, L.P.	Growth Equity	34.67	6.5%
True Capital Fund II	Buyout	0.00	0.0%
Total		536.59	100%



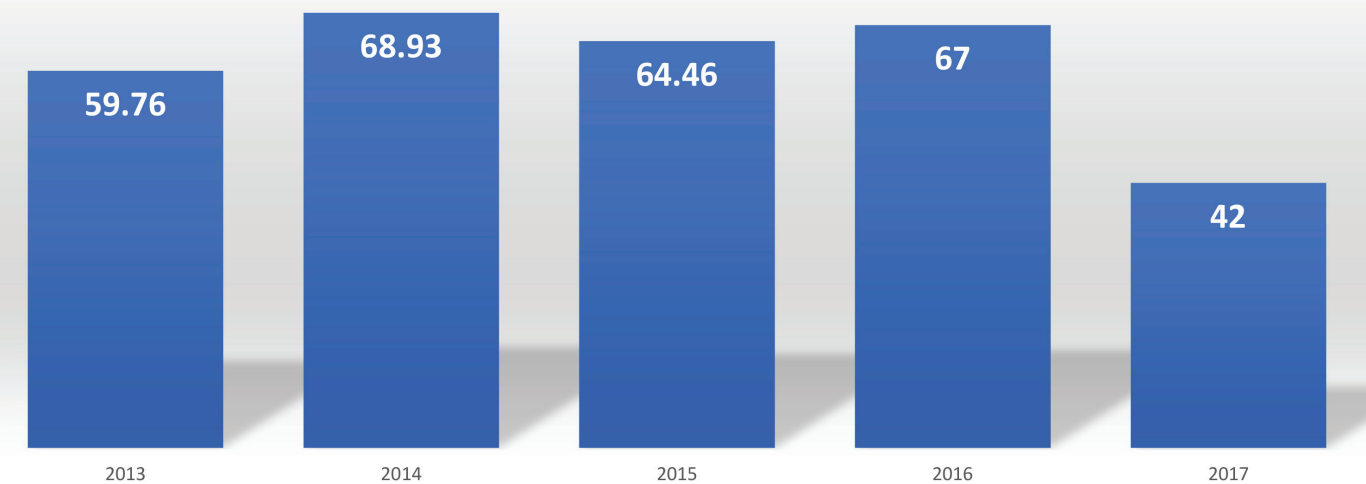
**REAL ESTATE**

Investment	Investment Strategy	Investment Type	£m	%
CBRE GP London	Traditional Property & Specialist income	Fund	199.32	57.9%
Phaunos Timber	Traditional Property & Specialist income	Fund	9.96	2.9%
Brookfield Brazil Agriland	Traditional Property & Specialist income	Fund	22.52	6.5%
Knight Frank	Traditional Property & Specialist income	Direct	112.41	32.6%
Pontoon Dock	Value-added / Opportunistic	Direct	0.42	0.1%
<b>Total</b>			<b>344.63</b>	<b>100%</b>

**Investment Strategy****Investment Type****Fund Management Cost as a BPS of Assets Under Management (2013-2017)**

Investment management, performance and administration fees are monitored and reported regularly to the Investment Panel and Board. We have regular dialogue with our fund managers and service providers to ensure that LPFA receives value for money. The table below shows the Fund's investment management, performance and custodian/consultant fees over the last 5 years. We continue to seek to minimize fees both through commercial negotiation and via more direct and internal management.

Fund Management Cost as a BPS of Assets Under Management  
April 2013 - March 2017

**INFRASTRUCTURE**

Investment	£m	%
3i Infrastructure, L.P.	17.06	7.2%
Foresight Environmental Fund L.P.	4.30	1.8%
Glennmont Clean Energy Fund Europe 1 'A' L.P.	22.58	9.5%
GLIL	38.35	16.0%
Impax New Energy Investor, L.P.	2.18	0.9%
Impax New Energy Investors II, L.P.	2.14	0.9%
Infrared Environmental Infrastructure Fund L.P. II	3.80	1.6%
Meridiam Infrastructure SICAR	47.88	20.0%
Semperian	95.60	40.0%
Standard Chartered IL&FS Asia Infrastructure Growth Fund, L.P.	4.16	1.7%
Zouk Solar Opportunities Limited	1.03	0.4%
<b>Total</b>	<b>239.08</b>	<b>100%</b>

## 3.2 Risk Management

The greatest short term risks to the 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 ISS and Funding Strategy Statement which are reviewed annually. Investment strategy is set in accordance with these guiding principles and beliefs.

Governance is an essential risk management tool. The LPFA governance framework is regularly reviewed and improved, especially with respect to decision-making processes 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 was merged with the Audit Committee in February 2016 in light of the formation of LPP. The Audit and Risk Committee meets quarterly to set/review the Fund's risk framework and officers are accountable to the Committee.

The Fund also has a risk framework in place to monitor the Fund's assets and management regularly.

The performance of the various fund managers is monitored frequently. JPMorgan, as the performance statistics producer, provides LPFA with monthly and quarterly performance statistics based on reconciled accounting information. These are analysed and reported to the Investment Panel quarterly. Over the past year LPP I has continued to improve the internal tools available to analyse and decompose short-term and long-term risks.

Significant progress has been made with the integration of the prevailing asset and liability risk model into the investment process. This asset liability modeling capability will allow for not only timely reporting of current exposures but also a full range of real-world scenarios which are the underpinning of our risk identification, evaluation, and monitoring. In addition to this very quantitative approach, a risk appetite framework has been developed and is consistent with the strategic objectives and relevant investment horizons of the Fund.

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.

## 3.3 Responsible Investment

2016/17 has been a year of change and transition. LPP was launched and investment pooling arrangements were implemented for our listed equity investments. Preparations for the changes these two events brought about included a review of our stewardship needs and agreement of practical arrangements for fulfilling them within new investment management arrangements. Our belief in responsible long term investment is strongly aligned with that of our partner Lancashire County Pension Fund and the arrangements we have agreed with LPP reflect that both funds are signatories to the Principles of Responsible Investment.

It is one of LPFA's five strategic objectives to manage investment and business processes to produce an overall positive impact on stakeholders and society. The creation of LPP provided the opportunity to build a dedicated responsible investment (RI) resource into the LPP Investment Team. The availability of specialist support for RI matters has helped LPFA to continue to develop insight on priority themes and a policy approach to the risks faced from climate change. LPFA is a member of the Institutional Investors Group on Climate Change (IIGCC) and CDP (formerly the Climate Disclosure Project) and is liaising with a network of groups including the Transition Pathway Initiative to gain further insight, support and specialist knowledge.

LPFA has continued to participate in and support a number of broader investor collaborations. We have worked directly with other LGPS through our membership of the Local Authority Pension Fund Forum (LAPFF) and via the LGPS Cross Pool Working Group's Responsible Investment Sub-Group. This group supports the development of RI practices within the LGPS as part of the evolution of pooling arrangements and the implementation of new investment regulations which have placed a stronger emphasis on stewardship and the integration of environmental social and corporate governance (ESG) considerations.

During 2016/17 responsibility for the management of shareholder voting has transferred to LPP I. This change accompanied LPFA's pooling of listed equity investments into a Global Equities Fund (GEF) managed by LPP I from 31 October 2016. Shareholder voting for the companies invested in by the GEF follows an agreed voting policy that reflects corporate governance best practice, long term investment considerations and the evaluation of material ESG issues. During the year, LPFA (either directly or via LPP I) participated in 282 company meetings and voted on 4,470 resolutions. 4,151 resolutions were supported, 310 resolutions were opposed and we abstained on 9 resolutions. In total LPFA (either directly or via LPP I) voted against management recommendation on 159 occasions. Further details on this as well as a range of RI matters are available from our website.

## RISK INDICATORS

LPFA's aim is to achieve fully funded status on an actuarial basis within 15 years. We use various metrics to assess the level of risk the fund and is exposed to, both in terms of assets and liabilities.

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

(VaR) is a widely used statistical approach to measuring the level of risk inherent within a portfolio - It is measured in three variables - Amount of potential loss; Probability of loss; and Time frame.

**Historical 1 Month VaR  
(95%): 5.3%**  
(vs. 5.64% for our benchmark).

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).

$\beta$ [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: 0.88**

In terms of liabilities, some key metrics we assess are:

The estimated effect on our liabilities on the triennial valuation of a 1 point basis (0.01%) move upwards in inflation.

**IE01 (As at 31 March 2017)  
+ £6.8m projection effect -  
£4.9m Triennial discounting  
effect = +£1.9m**

The estimated effect on our liabilities on triennial valuation basis of a 1 basis point (0.01%) move upwards in discount rate.

**PV01 (As at 31 March 2017)  
-£7.2m**

## 4. Governing the Fund

This section explains how LPFA governs and runs the Fund. It contains governance highlights, the structure of the Board, its standing Committees, the Local Pension Board, and risk management processes.

Further details of LPFA's governance arrangements, including Local Code of Corporate Governance, and LGPS Governance Policy Statement, can be found on our website [www.lpfa.org.uk](http://www.lpfa.org.uk).

### 4.1 Governance Highlights

► Sir Merrick Cockell was confirmed as LPFA's Chairman by the Mayor of London and will continue in the role until the end of 2018. Sir Merrick was also asked by the Mayor to take a leadership role in helping to facilitate LGPS investment in London's infrastructure.

► There has been an increased focus on Environmental, Social & Governance (ESG) issues utilising the specialist resources available within LPP. LPFA's Managing Director, in conjunction with LPP's Responsible Investment Manager hosted a seminar on Climate Change for the LPFA Board. External speakers were invited to share their experiences and their approach to managing climate change in relation to fund investments. LPFA is committed to publishing a clear policy statement to ensure we are able to take meaningful action where significant risk in relation to climate change is identified. LPFA is also working closely with the Greater London Authority in this area given the Mayor's manifesto commitment around fossil fuels in relation to climate change.

► A Board away day was held in September 2016 to review LPFA's future strategy working with LPP, in particular the continuation of developing the partnership arrangements and relationships with other LGPS Pools.

► LPP had its one year birthday on 8 April 2017 and was shortlisted for Governance Project of the Year at the ICSA (Governance Institute) Awards 2016.

► LPFA continues to work with LCPF and LPP to welcome other LGPS and public sector funds to join as owner shareholders or as investors in LPP's asset pools and encourages participation in the pension services provided by LPP which include liability management and administration services.

► On 1 December 2016, the joint venture formed with Greater Manchester Pension Fund (GMPF & LPFA Infrastructure LLP) has expanded with three other partners taking the funding commitments from £500m to £1.275b.

► The Managing Director meets with LPP on a quarterly basis to review the Service Level Agreement (SLA) which governs the relationship with LPP. KPMG, LPFA's internal auditors provided a significant assurance rating on the review of the SLA design and Compliance.

► LPFA LPB has now been in place for two years. An annual review from the Local Pension Board Chairman has been included in the Full Pension Fund Annual Report.

► An LPP Shareholder Event and Investor Forum was held for LPFA and LCPF in March 2017. The purpose of the event was to provide a roundtable engagement opportunity for LPP and its shareholders to discuss investment related matters, including future budgetary and strategic plans for LPP.

► The LPFA Board has acted on its Shareholder Matters Reserved outlined in the Shareholder agreement; these include the approval of LPP Executives remuneration, budgetary and strategy.

► A shareholder agreement is in place to help effectively manage the relationship with LPP. The LPFA Board has acted on its Matters Reserved; these include the approval of LPP Executives remuneration, budget and strategy.

► LPFA Board receives quarterly performance reports on the progress made by LPP in the implementation of its strategy and budget.

► The Fund has completed its 2016 Triennial Valuation. As at 31 March 2016, the Fund had assets sufficient to cover 96% of the accrued liabilities. This is an improvement from 91% as at 31 March 2013. It has increased over the year to 104%.

► LPFA reviewed and submitted its statement of commitment to the UK Stewardship Code in April 2016. This can be found on LPFA's website.



4.2 Board, Executive Team and Committees

THE LPFA BOARD

LPFA’s Board members 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.

Sir Merrick Cockell was appointed Chairman in September 2015 and was confirmed as the LPFA’s Chairman for two more years. Dermot 'Skip' McMullan was reappointed for a further four year term during the 2016-17 financial year.

In April 2016 the majority of the LPFA Executive team transferred to LPP and Mike Allen took over as Managing Director of LPFA at that time with Ed Williams (Monitoring Officer) and Tricia Clark (s151 Officer - interim) as Principal Officers.

LPFA OFFICERS OF THE FUND



Mike Allen  
Managing Director

OTHER OFFICERS IN THE FUND

Chris Perry  
s151 Officer

Ed Williams  
Monitoring Officer

CURRENT BOARD MEMBERS

Full biographies are available to view on our website: [www.lpfa.org.uk](http://www.lpfa.org.uk)



Sir Merrick Cockell  
Chairman



Dermot 'Skip' McMullan  
Deputy Chairman & LPP  
Director representative



Anthony Dalwood



Tamlyn Nall



Mike O'Donnell



Terence Jagger



Stephen Alambritis



Nigel Topping  
(appointed 30 June 2017)



Dr. Barbara Webber  
(appointed 30 June 2017)

We said goodbye to: Kerry Aaby, Board Member (31 March 2017)



BOARD MEMBER ATTENDANCE

This financial year, there has been a decrease in meetings as the majority of LPFA’s functions are now carried out by LPP under a Service Level Agreement. There was a total of 16 Committee and Board meetings, including, the Board Strategy Away Day compared with 41 Committee and Board meetings in 2015-16. An overview of Board members attendance has been highlighted below:

Board Member	Appointment Period	Background	Committee Membership 2016-17	Appointed as Part of a London Council Consultation Process		Attendance at Committees during 2016-17
Sir Merrick Cockell Chairman from September 2015	1 Oct 2010 to 31 Dec 2018	International Business  Public Administration	Board Chairman (from 1 September 2015)	Yes	5 out of 6	
Dermot “Skip” McMullan  (Shareholder Director of LPP)	17 April 2013 to 31 March 2017 - extended to 31 March 2021	Business and Pension Fund Management  Investment Management	Investment Panel		6 out of 6	4 out of 4
Stephen Alambritis	1 Oct 2010 to 30 Sept 2017	Public Administration	Audit & Risk	Yes	6 out of 6	4 out of 4 3 out of 3
Anthony Dalwood	1 Oct 2010 to 31 Dec 2018	Investment Management	Investment Panel (Chair from July 2016)	Yes	6 out of 6	4 out of 4
Mike O’Donnell	1 Oct 2010 to 31 Dec 2018	Accountant  Public Administration	Audit & Risk	Yes	4 out of 6	4 out of 4 2 out of 3
Terence Jagger (appointed 1 January 2016)	1 January 2016 - 31 December 2019	Public Administration Finance	Audit & Risk (from May 2016)		6 out of 6	3 out of 4
Tamlyn Nall (appointed 1 January 2016)	1 January 2016 - 31 December 2019	Finance	Audit & Risk (From May 2016)  Investment Panel		6 out of 6	4 out of 4 4 out of 4

BOARD MEMBERS DEPARTED						
Kerry Adby	17 April 2013 to 31 March 2017	Investment Management			6 out of 6	8

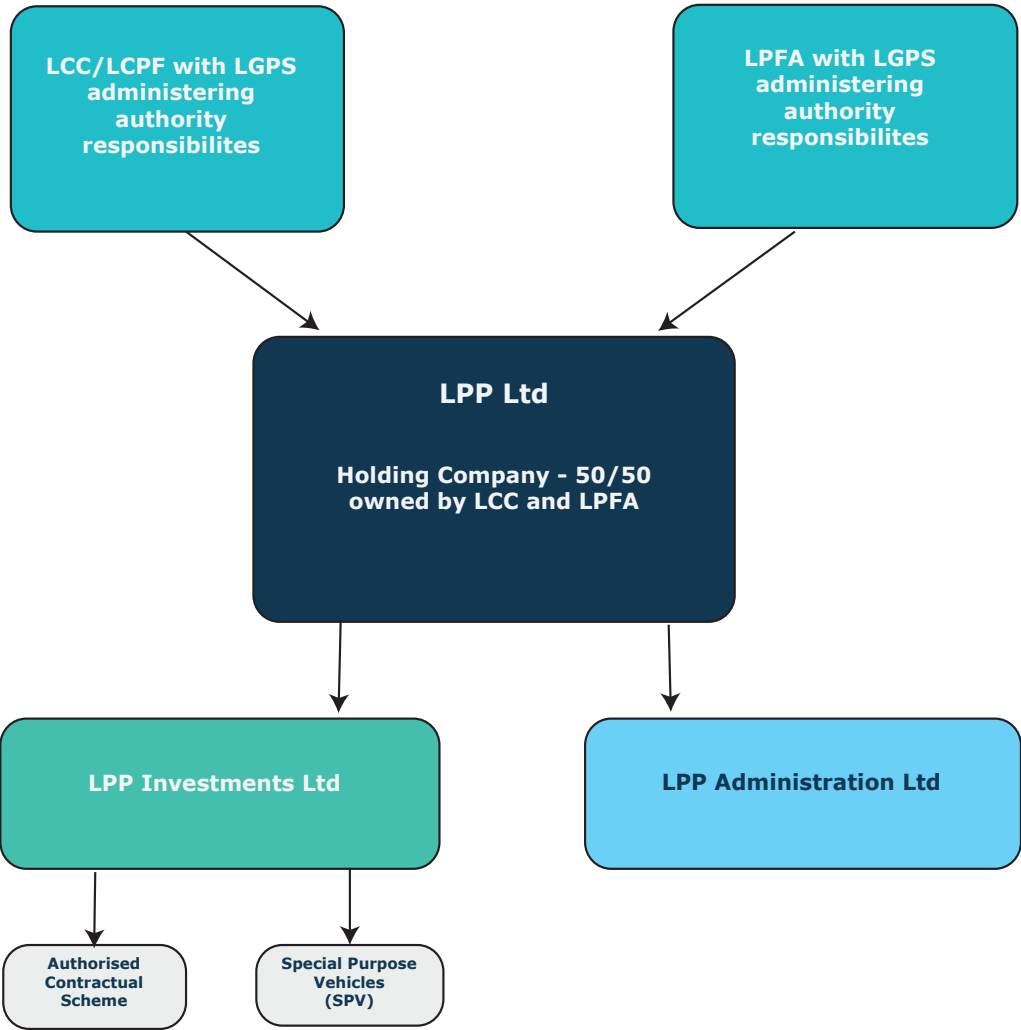
BOARD STRATEGY 2017-20

The Strategic Policy Statement, developed by the Board and Principal Officers, details our strategic aim for 2017-20. This is available on our website, [www.lpfa.org.uk](http://www.lpfa.org.uk).

During the period covered by this Statement, LPFA continued to use its position as an active shareholder of LPP to ensure effective implementation of the partnership and seek to assist where possible to facilitate the growth in LGPS collaborations. Since 1 April 2016, the majority of LPFA’s functions are now carried out by LPP under an SLA. LPFA has an important role in ensuring that LPP remains accountable and provides the necessary assurance to the Authority ensuring that LPFA continues to benefit from the new arrangements.

LPFA has a number of key strategic deliverables for the period which link to retained responsibilities of an administering authority. These include implementation of new employer contribution rates following the 2016 valuation, setting LPFA’s future investment strategy statement and future approach to ESG.

LPFA remains committed to seeing the third party pension administration contracts flourish and grow with LPP and to oversee the full transition of these contracts by 2019. These are contracts where LPFA provides pension administration services to other LGPS funds and which are currently sub-contracted to LPP.



## 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](http://www.lpfa.org.uk).

There were a number of changes made to the Board and Committee structures in the year ending 31 March 2017 to reflect the transition towards the new delegated arrangements under LPP. Much of the substantive work was consolidated under Matters Reserved of the LPFA Board and standing committees of LPFA. Currently there is only one standing committee which is the Audit & Risk Committee (two previously separate committees merged in February 2016). Additionally, the LPB was created by the LGPS Governance Regulations 2014. LPFA's standing orders do not apply to this committee, the arrangements for which are outlined in the Constitutional Document.

The Audit & Risk Committee is empowered to carry out the specific duties set out in its terms of reference. Beyond these specific delegated powers, the Committee acts as an advisory body with no executive powers, but it 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 the Audit & Risk Committee are included in the Constitutional Document, as are items reserved for Board determination. The Audit & Risk Committee prepares an annual report for the Board which outlines its activities during the year. These reports are publicly available online as part of LPFA's annual report documentation. The Constitutional Document was updated on 4 October 2016 to account for the new arrangements with LPP.

## BOARD TRAINING

All Board members participate in a mixture of individual and group training sessions, established with reference to the CIPFA Knowledge and Skills Framework principles which have been fully adopted. LPFA's Board members are encouraged to complete The Pensions Regulator's Trustee Toolkit as part of their induction process. Training sessions are usually held during the year prior to Board meetings. During 2016-17, training sessions and specific additional Board meetings where necessary were held on:

- 2016 Triennial Valuation and assumption setting process
- Approach to LPFA's policy on climate change, including carbon investment
- Strategic asset allocation
- Investment strategy.

Individual training is tailored to the requirements of Board members, following the outcome of Board member appraisals or themes raised by Board members throughout the year. This is discussed during the induction process and on an ongoing basis. New Board members receive a full and detailed induction programme.

In September 2016, Board members held a strategy review at a Board away day. This also included a Board member-only session to consider the balance of skills on the Board, a review of the first 6 months of LPP Investments and an overview of the pensions administration work. The annual event is considered vital to allow Board members and the Executive to dedicate time to setting and reviewing all aspects of LPFA's strategic direction.

## REMUNERATION AND NOMINATION COMMITTEE ANNUAL REVIEW

The Remuneration and Nomination Committee was removed from the governance structure of the LPFA and instead, the activities were consolidated under Matters reserved of the LPFA Board. This is chaired by Sir Merrick Cockell, as the LPFA Board Chairman.

The Board's general function is to consider the remuneration and service terms of Principal Officers. Under the Shareholder Agreement with LPP, there are a number of Shareholder Matters Reserved which are considered by the LPFA Board, such as changes to remuneration policy. The Mayor of London is responsible for Board member appointments.

The Board dealt with a number of matters in correspondence during the year, and held a Board-only session four times to review a number of topics. The attendance for the individual committee members is set out on page 30.

- The Board approved senior management's retention bonus and investment strategic retention plan (linked to the launch of the Partnership).
- Approval was received in respect of remuneration proposals for the LPP Investment executive posts where pay was being increased.
- Approval was received in respect of an annual variable remuneration pay awards for LPP colleagues and the LPFA Managing Director.
- Approval of the LPP Remuneration Policy.
- Discussed the Board's composition, including the level of skills and professional experience of the LPFA Board.

The Board aims to ensure that overall levels of remuneration (including salary, benefits and bonuses) are fair and sufficient to attract, retain and motivate senior staff.

4.3 Risk Management


The LPFA Board promotes a culture of risk management. LPFA identifies and mitigates a range of risks arising from the external environment (immediate and longer term) and promotes a top-to-bottom and bottom-to-top approach. The Audit & Risk Committee is responsible for oversight and advice to the Board on current risk exposures and future risk strategy, including the strategy for managing liabilities and the oversight of 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. After April 2016, the key corporate risks have evolved following the incorporation of LPP. LPFA’s risks were reassessed in line with LPP’s Risk Management Framework methodology along with a review of internal controls.


LPFA’s risk appetite is detailed on LPFA’s website, [www.lpfa.org.uk](http://www.lpfa.org.uk). The Audit & Risk Committee provides assurance to Board about the robustness of the existing risk management. The Annual Risk Management Report is published on the LPFA website and provides an insight into the work undertaken by the Audit & Risk Committee during the 2016-17 financial year. In addition a monthly solvency report is published on LPFA’s website. LPFA manages risk in the following way and is supported by the Audit & Risk Committee’s provision of assurance to the Board:

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

4.4 LPFA Advisors and Service Providers



Fund Actuary



External Auditor




Legal Service Providers




Bankers



Internal Auditor




Legal Advisor



AVC Provider



Legal Advisor



Custodian

5. Pension Fund Accounts

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LONDON PENSIONS FUND AUTHORITY ON THE CONSISTENCY OF THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE PENSION FUND ANNUAL REPORT

Opinion

The pension fund financial statements of London Pensions Fund Authority (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of London Pensions Fund Authority are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Pension fund annual report - Pension fund financial statements.

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

Who we are reporting to.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The audited financial statements and our Report thereon.

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 30 September 2017

Section 151 Officer responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Auditor's responsibility

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

Ciaran McLaughlin for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU

28 September 2017

5.1 Pension Fund Accounts

2015-16 £'000		Notes	2016-17 £'000
	Dealings with Members, Employers and Others directly involved in the Fund		
160,151	Contributions	5	165,685
36,265	Transfers in from Other Pension Funds	6	8,071
196,416			173,756
241,310	Benefits	7	245,749
30,716	Payments To and On Account of Leavers	8	13,066
(170)	Capital Funding Cost	10	(187)
271,856			258,628
(75,440)	Net Additions/(Withdrawals) from Dealings with Members		(84,872)
(38,418)	Management Expenses	9	(27,107)
	Returns on Investments		
48,805	Investment Income	11	48,258
(641)	Taxes on Income	12	(209)
(30,379)	Profit and Losses on Disposal of Investments and Changes in the Market Value of Investments	13a	851,444
17,785	Net Return on Investments		899,493
(96,073)	Net Increase/(Decrease) in the Net Assets Available for Benefits During the Year		787,514



Net Assets Statement for the Year Ended 31 March 2017

2015-16 £'000		Notes	2016-17 £'000
5,276,750	Investment Assets	13	6,269,439
44,813	Cash Held by Investment Managers	13	3,255
5,321,563			6,272,694
(1,127,471)	Investment Liabilities	13	(1,285,649)
374,050	Current Assets	19	359,306
(18,534)	Current Liabilities	20	(9,229)
4,549,608	NET ASSETS OF THE OF THE FUND AVAILABLE TO FUND BENEFITS AT THE PERIOD END		5,337,122

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 2017

2015-16 £'000		2016-17 £'000
4,645,681	Balance at 1 April	4,549,608
(96,073)	Movement in Net Assets available for Benefits during the year	787,514
4,549,608	BALANCE AT 31 MARCH 2017	5,337,122

5.2 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 LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended), the LGPS (Management and Investment of Funds) Regulations 2009, the LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014. Pensions 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.

There was no pension increase applied in April 2016 (1.2% April 2015). This is because the September to September consumer price index in 2015 decreased by 0.1%. This was in accordance with The Pensions Increase (Review) Order 2016.

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

LPFA makes payments of annual statutory compensation following the abolition of the former Greater London Council (“GLC”) and Inner London Education Authority (“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. LPFA’s Actuary is Barnett Waddingham, who have supplied an actuarial statement. This is shown on page 71 and should be read in conjunction with these accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises LPFA’s transactions for the 2016/17 financial year and its position as at 31 March 2017. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (IFRS).

The accounts summarise the transactions of the Fund and report on the net assets at the disposal of LPFA. 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.

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

LPFA has had discussions with the Department for Communities and Local Government (DCLG) on the long-term funding of the deficit of the Pension Fund. 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. Dividends and interest on quoted investments are accounted for when received or quoted ex dividend.

### 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.

LPFA recovers the full amount of VAT incurred in relation to investment management charges. This was first agreed with the HMRC in the 2015/16 financial year.

### 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 a percentage of 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 yearend 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, as advised by the respective fund manager.

### Foreign Currencies

Assets and liabilities in foreign currencies are expressed in sterling at 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 LPFA in accordance with the Investment Management Agreement and the Statement of Investment Principles, subject to the Local Government Pension Scheme ("LGPS") guidelines (England and Wales).

### Additional Voluntary Contributions (AVCs)

AVCs are not included in the accounts in accordance with 4(2)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 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, Hedge Funds, Property Funds 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 2017 was £1,147m (£819m at 31 March 2016). 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 and IAS26. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuarial Statement on page 50 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 out as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund. The funding level was 96%. New contribution rates for employers following analysis of the 2016 valuation came into effect from 1 April 2017.

Details of the participating employer bodies for the year ended 31 March 2017 are set out on pages 77-78.

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

Year to 31 March 2016		Year to 31 March 2017	
Pay Range	Pay Range	Contribution Rate	50/50 Section
£0-£13,600	£0 - £13,700	5.50%	2.75%
£13,601 - £21,200	£13,701 - £21,400	5.80%	2.90%
£21,201 - £34,400	£21,401 - £34,700	6.50%	3.25%
£34,401 - £43,500	£34,701 - £43,900	6.80%	3.40%
£43,501 - £60,700	£43,901 - £63,100	8.50%	4.25%
£60,701 - £86,000	£61,301 - £86,800	9.90%	4.95%
£86,001 - £101,200	£86,801 - £102,200	10.50%	5.25%
£101,201 - £150,800	£102,201 - £153,300	11.40%	5.7%
£150,801 and above	£153,301 and above	12.50%	6.25%

The fund membership was as follows:

Fund Membership	2015-16	2016-17
Contributors	17,264	17,776
Deferred Members	25,254	26,370
Pensioners and Dependants	33,838	34,321
Undecided Leavers and Frozen Funds	2,620	3,596
<b>Total</b>	<b>78,976</b>	<b>82,063</b>

#### 5. CONTRIBUTIONS

##### By Category

	2015-16 £'000	2016-17 £'000
Employers - Normal	74,290	77,801
Employers - Additional	48,112	42,456
Employers - One Off Deficit Payment	1,870	6,826
Cessation Value	-	1,945
Members – Normal	35,879	36,657
<b>TOTAL</b>	<b>160,151</b>	<b>165,685</b>

##### By Authority

	2015-16 £'000	2016-17 £'000
Administering Authority	1,236	-
Scheduled Bodies	65,736	76,965
Admitted Bodies	91,047	86,728
Community Admission Body	369	380
Transferee Admission Body	1,763	1,612
<b>TOTAL</b>	<b>160,151</b>	<b>165,685</b>

##### Additional Deficit Contributions

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

**6. TRANSFERS IN FROM OTHER PENSION FUNDS**

	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>
Group Transfers	27,653	-
Individual Transfers	8,612	8,071
<b>TOTAL</b>	<b>36,265</b>	<b>8,071</b>

**7. BENEFITS****By Category:**

	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>
Pensions	209,375	212,528
Commutation and Lump Sum Retirement Benefits	29,522	30,662
Lump Sum Death Benefits	2,413	2,559
<b>TOTAL</b>	<b>241,310</b>	<b>245,749</b>

**By Authority:**

	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>
Administering Authority	1,332	-
Scheduled Bodies	159,121	162,627
Admitted Bodies	79,317	81,688
Community Admission Body	247	404
Transferee Admission Body	1,252	990
Resolution Body	41	40
<b>TOTAL</b>	<b>241,310</b>	<b>245,749</b>

Total contributions paid into the fund at 31 March 2017  
**£ 165,687,000**

**8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>
Refunds to Members Leaving Service	555	687
Payments for Members Joining State Scheme	157	(9)
Group Transfers	17,265	42
Individual Transfers	12,739	12,346
<b>TOTAL</b>	<b>30,716</b>	<b>13,066</b>

**9. MANAGEMENT EXPENSES**

	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>
Investment Management	30,651	22,369
Administration	4,685	2,044
Oversight & Governance	3,082	2,694
<b>TOTAL</b>	<b>38,418</b>	<b>27,107</b>

**10. CAPITAL FUNDING**

	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>
Capital Funding Cost	(170)	(187)

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.



**11A. INVESTMENT INCOME**

	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>
Fixed Interest Securities	2,844	2,230
Equity Dividends	32,382	28,627
Pooled Property Investments	131	136
Pooled Investments - Unit Trusts and Other Managed Funds	1,416	8,656
Property Income	-	1,957
Cash Deposits	5,241	3,238
Private Equity Income	4,896	3,414
Other	1,895	-
<b>TOTAL</b>	<b>48,805</b>	<b>48,258</b>

**11B. PROPERTY INCOME**

	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>
Property Income	-	2,252
Property Expenses	-	(295)
<b>TOTAL</b>	<b>-</b>	<b>1,957</b>

**12. TAXES ON INCOME**

	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>
Withholding Tax - Fixed Interest Securities	(6)	(6)
Withholding Tax - Equities	(465)	(23)
Withholding Tax - Private Equity	(150)	(181)
Withholding Tax - Pooled Investments	(20)	1
<b>TOTAL</b>	<b>(641)</b>	<b>(209)</b>

**13. INVESTMENTS**

	<b>Market Value 31 March 2016 £'000</b>	<b>Market Value 31 March 2017 £'000</b>
<b>Investment Assets</b>		
Fixed Interest Securities	122,855	56,649
Equities	1,804,946	44,647
Pooled Investments	1,235,608	3,322,474
Pooled Property Investments	147,423	253,047
Direct Property	-	110,020
Private Equity/Infrastructure	819,493	1,146,955
Commodity Funds	23,449	33,183
Liquidity Fund (Time Deposit)	3,354	9,723
Futures	356	-
Forward Currency Contracts	1,109,168	1,288,274
Purchased/Written Options	2,385	414
Cash Held by Investment Managers	44,813	3,255
Investment Income Due	6,142	3,632
Amounts Receivable for Sales	1,571	421
<b>Total Investment Assets</b>	<b>5,321,563</b>	<b>6,272,694</b>
<b>Investment Liabilities</b>		
Futures	(694)	
Forward Currency Contracts	(1,123,610)	(1,284,351)
Purchased/Written Options	(2,792)	(271)
Amounts Payable for Purchases	(375)	(1,027)
<b>Total Investment Liabilities</b>	<b>(1,127,471)</b>	<b>(1,285,649)</b>
<b>NET INVESTMENT ASSETS</b>	<b>4,194,092</b>	<b>4,987,045</b>

13A. INVESTMENTS (CONTINUED)

Net Investment Assets

	Market Value 1 April 2016	Purchases during the year and Derivative Payments	Sales during the year and Derivative Receipts	Change in Market Value during the year	Market Value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	122,855	113,181	(185,614)	6,227	56,649
Equities	1,804,946	5,159,057	(7,253,019)	333,663	44,647
Pooled Investments	1,235,608	4,679,425	(2,805,339)	212,780	3,322,474
Pooled Property Investments	147,423	51,116	(2,403)	56,911	253,047
Direct Property	-	114,206	-	(4,186)	110,020
Private Equity/Infrastructure*	819,493	167,884	(200,155)	359,733	1,146,955
Liquidity Fund (Time Deposits)	3,354	6,369	-	-	9,723
Commodity Funds	23,449	315	-	9,419	33,183
Futures	(337)	6,679	(4,560)	(1,782)	-
Purchased/Written Options	(408)	12,014	(8,742)	(2,721)	143
Forward Currency Contracts	(14,442)	226,287	(89,322)	(118,600)	3,923
	4,141,941	10,536,533	(10,549,154)	851,444	4,980,764
Other Investment Balances:					
Cash Held by Investment Managers	44,813				3,255
Amount Receivable for Sales of Investments	1,571				421
Investment Income Due	6,142				3,632
Amounts Payable for Purchases of Investments	(375)				(1,027)
NET INVESTMENT ASSETS	4,194,092			851,444	4,987,045

13A. INVESTMENTS (CONTINUED)

Net Investment Assets (Prior Year Comparative)

	Market Value 1 April 2015	Purchases during the year and Derivative Payments	Sales during the year and Derivative Receipts	Change in Market Value during the year	Market Value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	126,623	2,353,552	(2,371,283)	13,963	122,855
Equities	1,409,379	566,904	(218,592)	47,255	1,804,946
Pooled Investments	1,486,500	770,899	(944,450)	(77,341)	1,235,608
Pooled Property Investments	147,891	263	(151)	(580)	147,423
Private Equity/Infrastructure	638,528	332,730	(128,540)	(23,225)	819,493
Liquidity Fund (Time Deposits)	9,692	1,510,902	(1,517,240)	0	3,354
Commodity Funds	41,299	0	(20,565)	2,715	23,449
Futures	154	0	0	(491)	(337)
Purchased/Written Options	2,403	11,125	(15,769)	1,833	(408)
Forward Currency Contracts	(17,121)	8,098,340	(8,098,340)	2,679	(14,442)
	3,845,348	13,644,715	(13,314,930)	(33,192)	4,141,941
Other Investment Balances:					
Cash Held by Investment Managers	42,000			2,813	44,813
Amount Receivable for Sales of Investments	1,459				1,571
Investment Income Due	4,854				6,142
Amounts Payable for Purchases of Investments	(2,237)				(375)
NET INVESTMENT ASSETS	3,891,424			(30,379)	4,194,092

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 £645k (£516k in 2016). 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 2016 £'000	31 March 2017 £'000
<b>Fixed Interest Securities</b>		
<b><u>UK</u></b>		
Public Sector Quoted	8,622	491
Corporate Quoted	3,147	1,890
<b><u>Overseas</u></b>		
Public Sector Quoted	0	11,461
Municipal Bonds Quoted	30,332	7,596
Corporate Quoted	80,754	35,211
	<b>122,855</b>	<b>56,649</b>
<b>Equities</b>		
<b><u>UK</u></b>		
Quoted	339,605	28,431
<b><u>Overseas</u></b>		
Quoted	1,465,341	16,216
	<b>1,804,946</b>	<b>44,647</b>
<b>Pooled Funds - Additional Analysis</b>		
<b><u>UK</u></b>		
Unit Trusts	275,060	260,253
Managed Funds	916,167	766,377
<b><u>Overseas</u></b>		
Unit Trusts	12,552	7,265
Managed Funds	22,037	2,283,067
Hedge Funds	9,792	5,512
	<b>1,235,608</b>	<b>3,322,474</b>
Direct Property	-	<b>110,020</b>
Pooled property investments	<b>147,423</b>	<b>253,047</b>
Private Equity / Infrastructure	<b>819,493</b>	<b>1,146,955</b>
Commodity Funds	<b>23,449</b>	<b>33,183</b>
Liquidity Fund (Time Deposit)	<b>3,354</b>	<b>9,723</b>
Futures*	<b>(337)</b>	-
Forward Currency Contracts*	<b>(14,442)</b>	<b>3,923</b>
Options*	<b>(408)</b>	<b>143</b>
<b>TOTAL</b>	<b>4,141,941</b>	<b>4,980,764</b>

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

**13C. INVESTMENTS (CONTINUED)****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 2016 £'000	Nominal value £'000	Market value 31 March 2017 £'000
<b>Assets</b>					
UK Equity	Less than one year	1,000	1	-	-
Overseas Equity	Less than one year	27,218	355	-	-
<b>Total Assets</b>			<b>356</b>	-	-
<b>Liabilities</b>				-	-
UK Equity	Less than one year	0	(1)	-	-
Overseas Equity	Less than one year	(5,763)	(692)	-	-
<b>NET FUTURES</b>			<b>(337)</b>	-	-

The Fund had derivative contracts outstanding as at the year-end that are traded over the Counter. The collateral held against all open positions was valued at £nil (2016: £567m).

Open Forward currency contracts

Settlement	Currency Bought	Local Value		Local Value	Asset Value	Liability Value
Up to one month	USD	60,000	GBP	(48,286)	-	(303)
	USD	200,000	GBP	(160,537)	-	(594)
	GBP	7,746,239	EUR	(9,080,000)	-	(20,330)
	GBP	16,604,336	USD	(20,623,000)	112,240	-
	GBP	267,127	JPY	(37,187,000)	241	-
	GBP	192,171	CHF	(240,000)	416	-
	GBP	6,174	AUD	(10,000)	74	-
	GBP	295,316	CAD	(481,000)	6,890	-
	GBP	40,167	USD	(50,000)	182	-
	GBP	68,360	EUR	(80,000)		(68)
	GBP	208,747	USD	(260,000)	826	-
	GBP	129,260	USD	(160,000)	1,309	-
	USD	40,000	GBP	(32,590)	-	(602)
	GBP	16,322	USD	(20,000)	328	-
	EUR	30,000	GBP	(25,862)	-	(202)
	EUR	50,000	GBP	(43,445)	-	(677)
	USD	110,000	GBP	(90,300)	-	(2,333)
	USD	40,000	GBP	(32,898)	-	(911)
	EUR	80,000	GBP	(69,984)	-	(1,556)
	GBP	164,792	USD	(200,000)	4,853	-
	USD	20,000	GBP	(16,433)	0	(439)
	GBP	89,693	USD	(110,000)	1,727	-
	GBP	64,689	USD	(80,000)	714	-
	GBP	129,312	USD	(160,000)	1,361	-
	GBP	169,160	USD	(210,000)	1,224	-
	GBP	136,302	USD	(170,000)	354	-
	GBP	121,563	EUR	(140,000)	1,814	-
	GBP	208,149	USD	(260,000)	228	-
	GBP	32,041	USD	(40,000)	53	-
	GBP	7,955	USD	(10,000)	-	(42)
	USD	22,143,000	GBP	(17,798,695)	-	(91,063)
	JPY	37,187,000	GBP	(268,170)	-	(1,283)
	CHF	240,000	GBP	(193,257)	-	(1,502)
	AUD	10,000	GBP	(6,156)	-	(56)
	CAD	481,000	GBP	(289,184)	-	(758)
	EUR	9,140,000	GBP	(7,875,938)	-	(58,048)
	GBP	8,622,291	USD	(10,586,000)	161,308	-
	GBP	102,269,358	USD	(125,561,000)	1,913,277	-
	GBP	14,618,932	EUR	(16,300,000)	669,986	-
	GBP	6,326,222	EUR	(7,072,000)	274,262	-
	GBP	4,313,942	USD	(5,392,000)	4,323	-
	USD	708,000	GBP	(565,224)	653	-
	GBP	1,977,924	USD	(2,504,000)	-	(23,427)

Up to One Month

One to Six Months

Currency Bought	Local Value		Local Value	Asset Value	Liability Value
USD	234,000	GBP	(184,334)	2,693	-
GBP	8,304,248	USD	(10,557,000)	-	(133,556)
USD	425,000	GBP	(348,476)	-	(8,790)
GBP	10,799,366	JPY	(1,553,100,000)	-	(351,374)
GBP	26,732,913	CHF	(33,397,000)	28,338	-
GBP	562,084	USD	(712,000)	-	(6,990)
GBP	1,127,700	CHF	(1,407,000)	2,649	-
GBP	2,880,415	EUR	(3,367,000)	-	(941)
GBP	240,635	JPY	(34,100,000)	-	(4,192)
USD	143,000	GBP	(114,194)	100	-
GBP	402,000	CHF	(498,000)	3,795	-
GBP	1,196,746	EUR	(1,393,000)	4,667	-
GBP	141,818	JPY	(19,900,000)	-	(1,057)
GBP	5,523,158	USD	(6,786,000)	99,369	-
GBP	4,875,421	HKD	(47,011,000)	37,728	-
GBP	13,855,646	CAD	(23,063,000)	29,129	-
GBP	257,508	NZD	(457,000)	2,328	-
GBP	1,884,913	SGD	(3,274,000)	11,845	-
GBP	10,807,067	AUD	(17,630,000)	62,278	-
GBP	918,676	NOK	(9,785,000)	7,877	-
GBP	2,399,278	DKK	(20,617,000)	26,464	-
GBP	18,501,553	SEK	(204,538,000)	170,756	-
GBP	17,786,999	USD	(22,143,000)	91,073	-
GBP	6,149	AUD	(10,000)	56	-
GBP	193,457	CHF	(240,000)	1,517	-
GBP	289,115	CAD	(481,000)	765	-
GBP	7,880,645	EUR	(9,140,000)	58,125	-
GBP	48,246	USD	(60,000)	302	-
GBP	268,250	JPY	(37,187,000)	1,216	-
GBP	160,404	USD	(200,000)	590	-
GBP	7,930,824	USD	(9,878,000)	41,904	-
GBP	105,139,219	USD	(130,953,000)	555,523	-
GBP	19,996,952	EUR	(23,372,000)	-	(20,448)
GBP	1,976,009	USD	(2,504,000)	-	(23,774)
USD	234,000	GBP	(184,209)	2,671	-
GBP	8,298,354	USD	(10,557,000)	-	(132,839)
USD	425,000	GBP	(348,265)	-	(8,845)
GBP	561,943	USD	(712,000)	-	(6,685)
GBP	2,881,905	EUR	(3,367,000)	-	(1,828)
USD	143,000	GBP	(114,083)	122	-
GBP	11,280,282	JPY	(1,587,200,000)	-	(120,058)
GBP	141,939	JPY	(19,900,000)	-	(996)
GBP	27,735,038	CHF	(34,804,000)	-	(129,822)
GBP	402,597	CHF	(498,000)	3,887	-



	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
One to six months	GBP	1,198,224	EUR	(1,393,000)	5,162	-
	GBP	141,939	JPY	(19,900,000)	-	(996)
	GBP	5,517,616	USD	(6,786,000)	98,076	-
	USD	390,000	BRL	(1,225,458)	8,979	(955)
	USD	710,000	TWD	(21,707,540)	486	(5,441)
	USD	390,000	KRW	(443,777,100)	267	(6,025)
	USD	560,000	TRY	(2,108,904)	384	(6,696)
	GBP	1,783,249	TRY	(8,410,000)	-	(25,014)
	USD	2,770,000	CHF	(2,748,893)	10,117	-
	GBP	2,065,000	PLN	(10,466,246)	-	(42,927)
	USD	3,310,000	CAD	(4,317,001)	55,911	-
	USD	350,000	AUD	(455,882)	2,120	-
	USD	940,000	HKD	(7,286,193)	852	-
	USD	3,050,000	MXN	(63,024,499)	2,089	(211,143)
	USD	540,000	SGD	(765,139)	370	(6,652)
	SEK	11,614,982	EUR	(1,230,000)	-	(11,617)
	GBP	9,449,420	USD	(11,765,000)	55,702	-
	GBP	485,000	USD	(603,849)	2,859	-
	EUR	31,940,000	USD	(34,181,709)	85,165	(15,419)
	GBP	31,933,446	EUR	(37,160,000)	99,641	-
	GBP	2,686,506	JPY	(376,000,000)	-	(14,589)
	GBP	18,883,979	USD	(23,525,000)	100,536	-
	GBP	965,000	USD	(1,202,163)	5,138	-
	KRW	445,516,500	USD	(390,000)	7,001	-
	EUR	700,000	GBP	(609,606)	-	(9,937)
	USD	7,000,000	GBP	(5,718,394)	-	(129,271)
	GBP	16,185,207	USD	(20,201,000)	65,170	-
	GBP	106,926,846	USD	(133,457,000)	430,541	-
	GBP	19,774,582	EUR	(23,372,000)	-	(258,366)
	USD	425,000	GBP	(348,012)	-	(8,870)
	GBP	561,264	USD	(712,000)	-	(6,900)
	GBP	2,883,701	EUR	(3,367,000)	-	(2,271)
	USD	143,000	GBP	(113,997)	114	-
	GBP	1,198,945	EUR	(1,393,000)	4,957	-
	GBP	5,507,861	USD	(6,786,000)	92,754	-
	GBP	11,652,576	JPY	(1,607,100,000)	102,798	-
	GBP	28,629,820	CHF	(35,302,000)	334,366	-
	GBP	105,878,340	USD	(133,457,00)	-	(527,245)
	GBP	15,689,323	USD	(19,776,000)	-	(78,128)
	GBP	20,017,211	EUR	(23,372,000)	-	(31,427)
	GBP	560,617	USD	(712,000)	-	(7,062)
	GBP	2,889,728	EUR	(3,367,000)	1,495	-
	USD	143,000	GBP	(113,823)	191	-
	GBP	1,199,295	EUR	(1,393,000)	4,376	-
	GBP	5,502,544	USD	(6,786,000)	92,050	-
	GBP	106,460,943	USD	(134,169,000)	-	(421,188)

Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
GBP	15,578,470	USD	(19,633,000)	-	(61,633)
GBP	22,716,706	EUR	(26,739,000)	-	(238,042)
GBP	1,199,789	EUR	(1,393,000)	3,934	-
GBP	5,498,209	USD	(6,786,000)	92,325	-
GBP	112,767,609	USD	(140,955,000)	569,158	-
GBP	15,706,903	USD	(19,633,000)	79,275	-
GBP	24,466,400	EUR	(28,132,000)	385,439	-
				<b>7,206,208</b>	<b>(3,283,208)</b>

Net Forward Currency Contract	£'000
As of 31 March 2017	3,923
As of 31 March 2016	(14,442)

**Purchased/written options**

Investment underlying Option Contract	Expires	Put/call	Notional Holding	Market Value 31 March 2016	Notional Holding	Market Value 31 March 2017
			£'000	£'000	£'000	£'000
<b>Assets</b>						
Index Linked purchased	One to three months	Call	252	1,399	4	30
Index Linked purchased	Three to nine months	Call	-	-	4	75
Index Linked purchased	Over twelve months	Call	4	72	-	-
Index Linked purchased	One to three months	Put	5,631	539	12	242
Index Linked purchased	Three to nine months	Put	-	-	2	67
Index Linked purchased	Over twelve months	Put	3	375	-	-
				<b>2,385</b>		<b>414</b>
<b>Liabilities</b>						
Index Linked Written	One to three months	Call	(459)	(1,939)	(1)	(25)
Index Linked Written	Three to nine months	Put	(13)	(569)	-	-
Index Linked Written	One to three months	Put	-	-	(17)	(204)
Index Linked Written	Three to nine months	Put	(3)	(284)	(2)	(42)
				<b>(2,792)</b>		<b>(271)</b>
<b>NET PURCHASED/WRITTEN OPTIONS</b>				<b>(407)</b>		<b>143</b>

**Investments analysed by Fund Manager**

	<b>Market Value 31 March 2016</b>	<b>Market Value 31 March 2017</b>
3i Infrastructure	15,525	17,046
Adveq Management AG	75,824	113,114
Aeolus Property	-	51,164
Apollo Union Street Partners	60,433	102,475
Bank Invest New Energy Solutions	5,810	4,906
Blackrock Co-Investment IV, LP	14,864	19,363
Blackrock Management	499,362	369,425
BNP Paribas Clean Energy Partners	20,431	-
Bridges Ventures	5,768	8,297
Brookfield Howard Asset Management	16,594	23,170
Buy & Hold - LPFA In-house	823,790	243
Capital Fund	-	609
CBRE Global Investors	143,537	202,724
Cleantech Europe	12,034	13,445
Coller Capital	-	8,821
Dover Street	-	8,358
Foresight Group	6,831	4,397
Glennmont Partners	-	22,606
GMPF & LPFA Infrastructure LLP	84,901	38,349
Graham Trend	-	40,596
GSA Trend	-	46,164
Harbour Vest Partners LCC	79,389	60,319
Hermes Private Equity	50,885	75,979
Impax Asset Management	10,978	4,868
Infrared Capital Partners	4,485	3,458
Insight Investment Management (Global) Ltd	803,131	699,634
Ithaca	-	8,090
JP Morgan	3,354	9,723
Knight Frank	-	110,020
LGT Capital Partners Ltd	55,699	44,418
LPP I Global Equities	-	2,276,213
M&G Investment Management Ltd	98,117	60,049
Meridiam Infrastructure	45,751	49,766
MFS International (UK) Ltd	925,737	-
Montana Capital Partners LP	9,992	20,046
Naxicap	-	19,664
Pantheon Ventures (UK) LLP	86,987	90,859
Permira Europe V, LP	35,702	45,894
Phaunos Timber Fund Ltd	6,854	10,012
Pontoon Dock	425	424
Record Currency Management	(14,195)	3,776
Red Kite Mine Finance	9,288	11,783
Robeco Alternative Investments	10,340	9,743
Semperian PPP Investment Partners	97,356	99,459
Standard Chartered	3,979	4,729
The Energy & Minerals Group Fund III, LP	26,504	34,662
Winton-EVO	-	126,765
YFM Equity Partners	642	-
Zouk Capital LLP	1,033	1,139

	<b>Market Value 31 March 2016</b>	<b>Market Value 31 March 2017</b>
	<b>4,141,941</b>	<b>4,980,764</b>
Cash Held by Investment Managers	44,813	3,255
Amounts Recievable for Sales	1,571	421
Investment Income Due	6,142	3.632
Amounts Payable for Purchases	(375)	(1,027)
	<b>4,194,092</b>	<b>4,987,045</b>

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

<b>Security</b>	<b>Market Value 31 March 2016 £'000</b>	<b>% of Total Fund</b>	<b>Market Value 31 March 2017 £'000</b>	<b>% of Total Fund</b>
LPP I Global Equity Fund	-	-	2,276,213	45.7
Insight Liability Driven Investment (LDI) solutions plus LDI active '1' FD (Fund)	430,492	9.5	317,053	6.4
Insight LDI solutions plus bonds plus FD (Fund) CLS (Class) 'S' SHS (Shares)	252,091	5.5	267,334	5.4
<b>Total</b>	<b>682,583</b>	<b>15.0</b>	<b>2,860,600</b>	<b>57.5</b>

**14. SECURITIES LENDING**

The Securities lending programme ended in September 2016, prior to the asset transition and launch of the ACS in November 2016.

During the prior year, securities lending was governed by LPFA and the Custodian. All loans were collateralised and subject to daily valuation and calling of collateral. Cash was not accepted as collateral and a maximum of 35% of securities in the Fund were available for lending. The Fund held no collateral at 31 March 2017 (2016: £124.8m) in equities and government issued debt.

No UK securities (2016: £19.5m) were loaned as at 31 March 2017 against collateral (2016: £21.1m). No International securities (2016: £92.7m) were loaned against any collateral (2016: £103.7m) as at 31 March 2017.

## 15. FINANCIAL INSTRUMENTS

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

Market value 31 March 2016	Category	Market value 31 March 2017
£'000	Financial Assets - Fair Value Through Profit and Loss	£'000
122,855	Fixed Interest Securities	56,649
1,804,946	Equities	44,647
1,235,608	Pooled Investments	3,322,474
147,423	Pooled Property Investments	253,047
-	Direct Property	110,020
819,493	Private Equity/Infrastructure	1,146,955
23,449	Commodity Funds	33,183
3,354	Liquidity Fund (Time Deposit)	9,723
357	Futures	-
1,109,168	Forward Currency Contracts	1,288,274
2,384	Purchased/Written Options	414
<b>5,269,037</b>		<b>6,265,386</b>
	<b>Financial Liabilities - Fair Value through Profit and Loss</b>	
(694)	Futures	-
(1,123,610)	Forward Currency Contracts	(1,284,351)
(2,792)	Purchased/Written Options	(271)
<b>(1,127,096)</b>		<b>(1,284,622)</b>
<b>4,141,941</b>	<b>Total - Fair Value through Profit and Loss</b>	<b>4,980,764</b>
	<b>Finance Assets - Loans and Receivables</b>	
44,813	Cash Held by Investment Managers	3,255
6,142	Investment Income Due	3,632
1,571	Amounts Receivable for Sales	421
374,050	Current Assets - Note 19	359,306
<b>426,576</b>	<b>Total - Loans and Receivables</b>	<b>366,614</b>
	<b>Finance liabilities - At Amortised Cost</b>	
(375)	Amounts Payable for Purchase	(1,027)
(18,534)	Current Liabilities - Note 20	(9,229)
<b>(18,909)</b>	<b>Total - Loans and Receivables</b>	<b>(10,256)</b>
<b>4,459,608</b>	<b>Grand Total</b>	<b>5,337,122</b>

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 2017 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. recieved / paid) the gain / loss becomes realised.

LPFA 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, futures and options.

#### Level 2

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

#### Level 3

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

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

The values of the investment in private equity and infrastructure are based on valuations provided by the general partners of the funds in which 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 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit or Loss	59,683	5,058,748	1,146,955	6,265,386
Financial Liabilities at Fair Value through Profit or Loss	-	(1,284,622)	-	(1,284,622)
<b>NET FINANCIAL ASSETS</b>	<b>59,683</b>	<b>3,774,126</b>	<b>1,146,955</b>	<b>4,980,764</b>

	Level 1	Level 2	Level 3	Total
Value at 31 March 2016	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit or Loss	2,088,707	2,360,837	819,493	5,269,037
Financial Assets at Fair Value through Profit or Loss	(3,486)	(1,123,610)		(1,127,096)
<b>NET FINANCIAL ASSETS</b>	<b>2,085,221</b>	<b>1,237,227</b>	<b>819,493</b>	<b>4,141,941</b>

**Reconciliation of level 3 assets**

	Market Value 1 April 2016	Purchases during the Year	Sales during the Year	Change in Market Value during the Year	Market Value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
<b>Level 3</b>	<b>819,493</b>	<b>167,884</b>	<b>(200,155)</b>	<b>359,733</b>	<b>1,146,955</b>

**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. 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 panel has been established along with an audit and risk committee. Investment risk management is included within the investment strategy. The in-house investment team reports to the Investment Panel 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 LPFA to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services of Practice and Investment Guidance.

Overall, LPFA manages risk in the following ways:-

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

In order to comply with the requirement that LPFA set a balanced budget (Local Government Finance Act 1992) a draft budget is approved by the Chief Executive officer 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.

LPFA has significant pension fund assets and these are managed in line with LPFA's investment strategy and set out in the Investment Strategy Statement. 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.

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 Panel, Audit and Risk Committee. Further details on this are provided under 'Credit Risk'.

For the year ending 31st March 2017, LPFA 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 in respect of the repayment of any loans.

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 Panel and Audit 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 monthly data, business cycles, trend and expected investment return movement during the financial year, our stochastic analysis has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period:

2016 1 Year Expected Volatility	2016 % of Fund	Asset Class	2017 1 Year Expected Volatility	2017 % of Fund
16.0	51.5	Global Equities	18.7	51.5
22.0	12.7	Private Equity	26.5	10.1
11.0	3.5	Property	23.2	5.9
7.5	5.2	Fixed Income	10.0	1.0
12.5	0.6	Commodity	0.0	0.0
14.5	7.5	Infrastructure	15.5	5.1*
0.0	0.0	Credit	4.9	3.6
0.0	0.0	Total Return	4.9	14.4
1.0	19.0	Cash & LDI	0.1	8.4
11.3	100	Total Fund Volatility	15.1	100

\*Includes Commodity

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 short 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 2017 was £5,337m (2016: £4,550m) and the expected volatility was 15.1% (2016: 11.3%). Given these figures, we would expect that in roughly 2/3rds of outcomes the value of the Fund would lie between £6,064m (2016: £4,610m) and £4,545m (2016: £3,674m) 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 below 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.

Asset Class	Market Value (£m)	Interest Rate Sensitivity PV01 (£m)	Impact of Yield Shift (£m)	
			- 100 bps	+ 100 bps
Insight - as at 31 March 2017	313	0.829	-82.9	82.9
Insight - as at 31 March 2016	434	1.109	-101.9	101.9
Blackrock - as at 31 March 2017	-	-	-	-
Blackrock - as at 31 March 2016	193	0.089	-8.9	8.9

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 12m market implied volatilities and correlations, as of the relevant accounting date. While the largest foreign currency exposure is USD, with an implied volatility of 9.4%, 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 1.44% (2016: 1.19%) of volatility to the overall assets (£5.337m) 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 2017 and as at the previous period end:

Value at 31 March 2016 (£m)	Implied volatility %	Currency	Value at 31 March 2017 (£m)	Implied volatility %
625	12.6	USD	812	9.4
(34)	15.0	JPY	(28)	11.1
116	12.0	EUR	88	8.7
(14)	12.3	CAD	42	9.2
103	13.0	CHF	87	8.2
(10)	13.2	AUD	25	10.0
24	12.1	SEK	19	9.1

31 March 2016		31 March 2017
0.04%	FX Variance (% of Net Assets)	0.03%
2.10%	Volatility (% of Net Assets)	1.68%
£4,550m	Net Assets of the Fund	£5,337m
£4,645m	Net Assets of the Fund plus 1 Standard Deviation	£5,427m
£4,454m	Net Assets of the Fund minus 1 Standard Deviation	£5,247m

### 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 recognized financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

During 2013/14 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. The methodology uses an average of the ranked ratings from the ratings agencies; Fitch, Moody's and Standard & Poor. 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. 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 2017 was £341m (2016: £338m).

### Liquidity Risk

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.

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 2017

the value of illiquid assets (Private Equity, Infrastructure, Credit and Real Estate) was £1,312m which represented 24.7% of the total LPFA assets (31 March 2016 £788.9m which represented 19.1% of the total LPFA assets).

The LPFA has immediate access to its cash holdings with the GIS and Lloyds Bank Plc. All financial liabilities at 31 March 2017 are due within one year.

### Refinancing Risk

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

## 16. INVESTMENT EXPENSES

	31 March 2016 £'000	31 March 2017 £'000
Investment Fees Basic	20,045	13,075
LPP Services	-	4,023
Custodian Fees	231	494
Performance Fees	10,375	4,777
<b>TOTAL</b>	<b>30,651</b>	<b>22,369</b>

LPFA's Global Equity Portfolio amounting to £2.1bn was transferred into the LPPI Asset Pooling Authorised Contractual Scheme ('ACS') on 31 October 2016. Management fees for the ACS are deducted directly from the ACS and are not paid directly by LPFA and therefore not reflected in the above figures. The management fees for LPFA's share of the ACS amounts to approximately £2.1m for the period from 31 October 2016 to 31 March 2017.

## 17. CASH BALANCES

	31 March 2016 £'000	31 March 2017 £'000
Short Term Deposits	359,530	346,765
Pooled Deposits Placed by Investment Managers	44,813	3,255
<b>TOTAL</b>	<b>404,343</b>	<b>350,020</b>

**18. AVC INVESTMENTS**

	<b>Market value 31 March 2016 £'000</b>	<b>Market value 31 March 2017 £'000</b>
Prudential	11,525	12,960

AVC contributions of £1,866k (2016:£1,929k) were paid directly to Prudential during the year.

**19. CURRENT ASSETS**

	<b>31 March 2016 £'000</b>	<b>31 March 2017 £'000</b>
Cash balances	359,530	346,765
Contributions due – employees	2,282	1,786
Contributions due – employers	6,826	7,224
Sundry debtors	8,354	4,955
Impairment allowance for bad and doubtful debts	(2,942)	(1,424)
<b>TOTAL</b>	<b>374,050</b>	<b>359,306</b>

The significant majority of debtors are with private entities.

**20. CURRENT LIABILITIES**

	<b>31 March 2016 £'000</b>	<b>31 March 2017 £'000</b>
Sundry Creditors	(14,573)	(9,148)
Group Transfer	(1,797)	-
Benefits Payable	(2,164)	(81)
<b>TOTAL</b>	<b>(18,534)</b>	<b>(9,229)</b>

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

**21. RELATED PARTY TRANSACTIONS**

This disclosure note has been produced using a specific declaration obtained in respect of related party transactions. LPFA has prepared this note in accordance with its interpretation and understanding of IAS24 and its applicability to the public sector using current advice and guidance. Mike O'Donnell (Board member) is the Executive Director of Corporate Services at London Borough of Camden. The London Borough of Camden paid employer contributions of £480k (2016:£458K) 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 (2016:nil). These two boroughs are scheduled bodies in the Fund.

The Mayor of London comments on the LPFA annual budget and the Greater London Authority is a participating employer of the pension scheme and paid employer contributions of £4,774k during the year (2016: £4,689k). 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. LPFA entered into a joint venture with Lancashire County Council and incorporated LPP and its subsidiaries on 19 October 2015. LPP is a related party of LPFA. The 50% share of LPP is consolidated using the equity method of accounting.

**22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS**

Outstanding capital commitments (investments) at 31 March 2017 totalled £1,013.65m [2016: £673.66m] based on:

<b>Currency</b>	<b>Commitment</b>	<b>Exchange Rate</b>	<b>£</b>
US\$	549,262,749	1.255	437,659,561
CHF	14,800,000	1.259	11,755,362
EUR	182,256,961	1.178	154,717,284
GBP	409,513,297	1.000	409,513,297
<b>TOTAL</b>			<b>1,013,645,504</b>

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 169 Union Street or via the corporate website: [www.lpfa.org.uk](http://www.lpfa.org.uk).

24. PARTICIPATING EMPLOYERS

A list of the employer bodies of the Pension Fund is set out on pages 77 - 78.

25. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial valuation, the Fund’s actuary also undertakes a valuation of the pension fund liabilities in accordance with IAS 26, every year using the results of the Triennial Actuarial Valuation as at 31 March 2016, estimated income and expenditure for the year, fund returns for the year and details of any new retirements for the year that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

The present value of the Funded Obligation at 31 March 2017 for the Fund was £7,978m (2016:£6,870m). The net liability for the Fund at 31 March 2017 was £2,674m (2016: £2,325m).

Key Assumptions Used

Life Expectancy from age 65 (years)	31 March 2016	31 March 2017
Retiring Today		
Males	22.0	21.3
Females	25.0	24.2
Retiring in 20 years		
Males	24.4	23.6
Females	27.3	26.5

- 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 2016 % p.a.	31 March 2017 % p.a.
RPI Increases	3.2	3.5
CPI Increases	2.3	2.6
Salary Increases	4.1	4.1
Pension Increases	2.3	2.6
Discount Rate	3.6	2.7

These assumptions are set with reference to market conditions at 31 March 2017.

5.4 ACTUARIAL STATEMENT

Introduction

The last full triennial valuation of the London Pensions Fund Authority Pension Fund was carried out as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017. The next formal valuation will be carried out as at 31 March 2019, with new contribution rates set from 1 April 2020.

This statement gives an update on the likely progression of the funding position to 31 March 2017 and comments on the main factors that have led to a change since the full valuation as at 31 March 2016.

2016 valuation results

The results for the Fund at 31 March 2016 were as follows:

- The Fund as a whole had a funding level of 96% i.e. the assets were 96% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponds to a deficit of £183m which is lower than the deficit at the previous valuation in 2013.
- 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 employers with a strong covenant 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 a maximum of 14 years.
- The contributions for less secure employers were set using more prudent discount rate assumptions and with a shorter maximum individual deficit recovery period than the more secure employers. If these employers were expected to leave the Fund shortly, then contributions were set which target a fully funded position on a minimum risk basis when they leave the Fund.

Updated position

Using an approach consistent with the 2016 valuation, the funding position at 31 March 2017 is projected to have improved, primarily due to strong Fund asset returns and payment of deficit contributions.

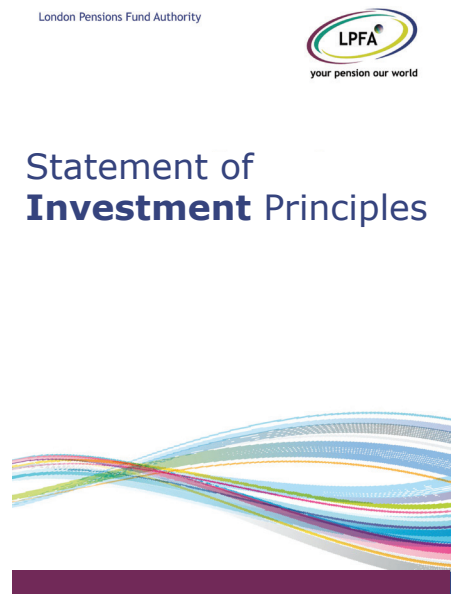
**Graeme D Muir FFA**  
**Partner, Barnett Waddingham LLP**



6. Public Policy Statements

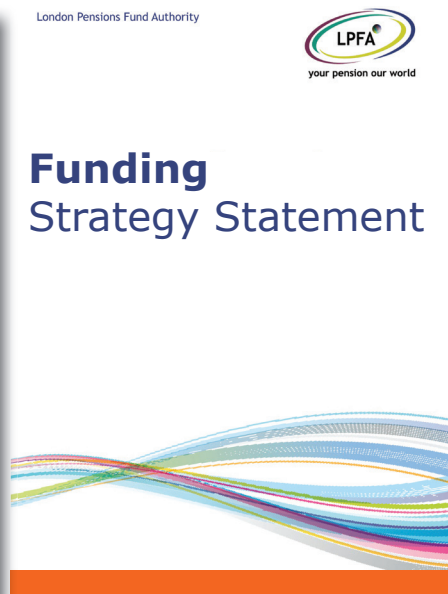
The following public policy statements are reviewed regularly and available on the LPFA website under the “What We Publish” section.

INVESTMENT STRATEGY STATEMENT (ISS)



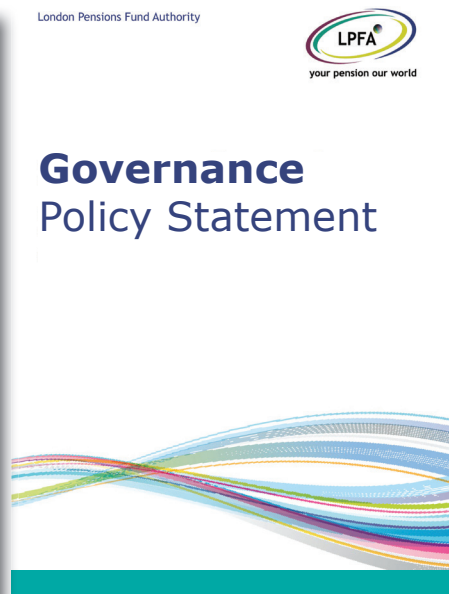
The Investment Strategy Statement (formerly known as the Statement of Investment Principles) provides an overview of the responsibilities, process and conduct in the management of the LPFA pension fund investments. The ISS was approved by the Board in October 2016 and would be reviewed annually.

FUNDING STRATEGY STATEMENT (FSS)



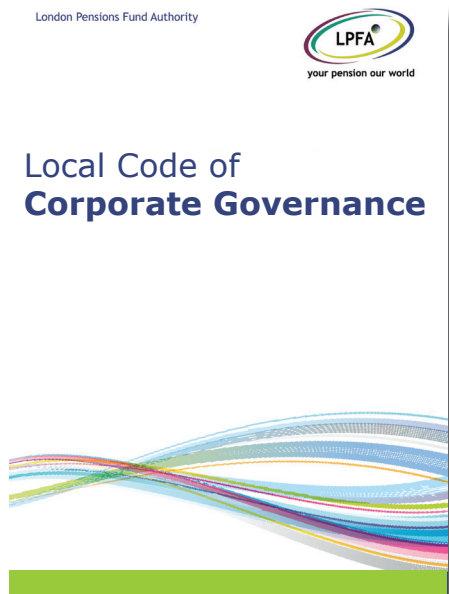
The purpose of this statement is to establish a clear and transparent fund specific strategy which identifies how employers’ pension liabilities are best met in future years, to keep their contribution rates as constant as possible and to take a prudent longer-term view of funding those liabilities. The Funding Strategy Statement was approved by the Board in October 2016 as part of the 2016 Fund Valuation.

LGPS GOVERNANCE STATEMENT



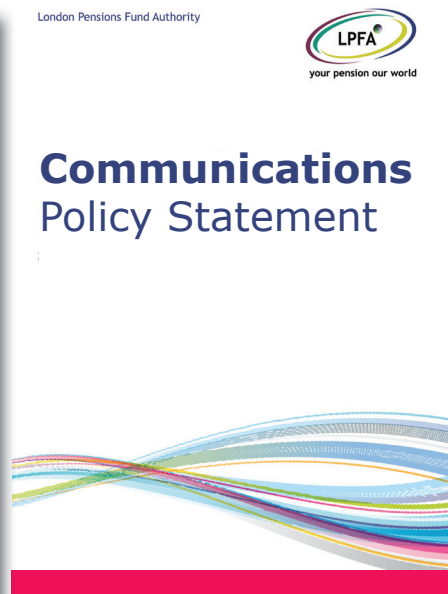
The LGPS Governance Statement sets out how the administration of the Fund is governed. Each administering authority is required to publish a governance statement and also to explain their compliance with a set of best practice principles issued by The Department of Communities and Local Government. The introduction of Local Pension Boards via the Public Service Pensions Act 2013 has been reflected in the Authority’s governance arrangements.

LPFA LOCAL CODE OF CORPORATE GOVERNANCE



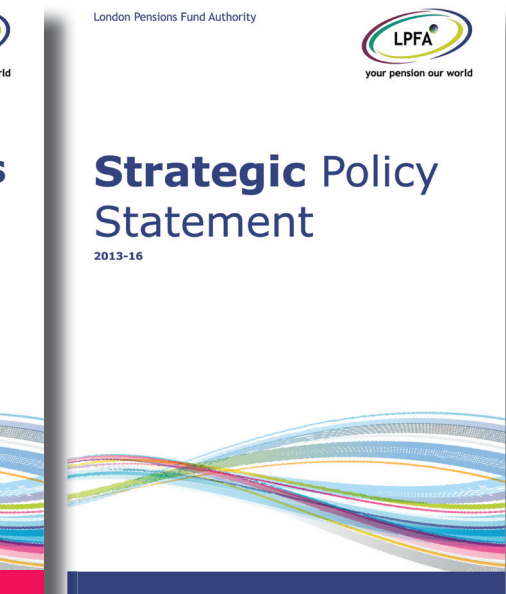
This document sets out LPFA’s Local Code of Corporate Governance and the process for monitoring and maintaining the Code which will enable LPFA to successfully achieve its objectives. This was reviewed by the Local Pension Board in June 2017.

COMMUNICATIONS POLICY STATEMENT



This describes how 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. This was approved by the Board in July 2017.

STRATEGIC POLICY STATEMENT

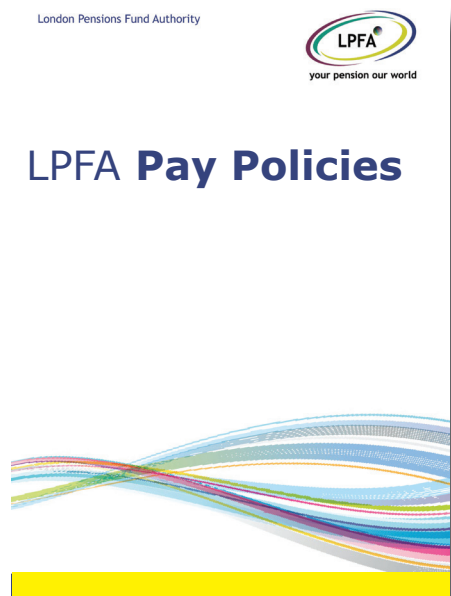


The Authority submitted a Strategic Policy Statement to the Mayor setting out LPFA’s objectives and plans over the three year period from April 2017 to March 2020 in accordance with section 402 of the Greater London Authority Act 1999. The plan is spearheaded by a mission statement and underpinned by the following three main pillars:

- Innovation in investments and liability management
- Partnership working and wider collaboration
- Operation efficiency and robust shareholder role.

The Act also requires LPFA to prepare the statement along with a Medium Term Financial Plan (MTFP) containing a draft budget for the next three financial year. The MTFP is available to view on LPFA’s website. Both statements were approved in December 2016.

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 officers.

ENVIRONMENTAL POLICY



LPFA's Environmental Plan 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 and operate environmental best practice throughout 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. The Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis. PSAA will oversee the Audit Commissions audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG). An Annual Governance Report provides their opinion on the financial statements and a value for money conclusion for 2016/17.

INTERNAL REVIEW AND CONTROL

KPMG was appointed as LPFA's internal auditors for 2013-14, 2014-15, 2015-16 and 2016-17, both as a tool of management and with direct reporting to the LPFA's Audit and Risk Committee. Their audit reviews take place on a phased basis throughout the financial year and their recommendations are reported to each Audit and Risk Committee meetings with progress against each recommendation closely monitored. It is expected that LPFA will appoint its internal auditor in October 2017.

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 Investment Strategy Statement and the Communications Policy Statement. The Authority publishes all these documents online [www.lpfa.org.uk/What-we-publish](http://www.lpfa.org.uk/What-we-publish). In addition the Statement of Accounts details 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](http://www.lpfa.org.uk/What-we-publish).

National Fraud Initiative (NFI)

LPFA will participate in the National Fraud Initiative 2016/17. The timetable released by the Cabinet Office confirms that data is required to be uploaded to the NFI secure web application by October 2016 with results being available from January 2017.

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 in 2015-16 led to 264 deaths being identified which LPFA had not previously been notified of. By being notified early by ATMOS LPFA can suspend pension payments early reducing the incidences of overpayments. The reduction in death overpayments reduces the administrative work required to pursue re payment. In addition to ATMOS, LPFA has recently adopted the tell us once (TUO) service which affords another method of being notified of deaths which helps reduce the risk of death overpayments.

Overseas Pensioners

Atmos only picks up on those deaths where the pensioner resided in the UK. In order to establish the existence of pensioners who reside overseas, Life Certificates are issued to a select few, with the remaining being asked to complete the Western Union Overseas existence process.

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, experience or knowledge. 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. In line with the new Public Service Pensions Act 2013, all LGPS administering authorities were to set up a Local Pension Board (LPB). Please see page x which provides a note from the Local Pension Board Independent Chairman, William Bourne.

FREEDOM OF INFORMATION (FOI) SCHEME

During 2016/17 a total of 31 requests for information were received. These were in respect of private equity investment; investment portfolio and holdings, fossil fuels and pension fund requests regarding the scheme. All of the 31 requests were satisfied within the statutory timescales.

EQUALITIES OBJECTIVES

A comprehensive review of equalities took place during 2014-15 to ensure the effective implementation of the Equality Act 2010. The equality objectives were confirmed in 2014 following consultation with stakeholders. With the creation of the LPP, LPFA’s equality policy and objectives remain as a term and condition under TUPE transfer regulations. LPFA’s Equality policy and objectives have been reviewed in light of this, to ensure it fully reflects LPFA’s role as an active Shareholder.

ENVIRONMENTAL PLAN

Information Security

LPFA continues to be 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. LPFA is committed to preserving the confidentiality, integrity and availability of all the physical and information assets throughout the organisation.

Environmental Management

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

EXERCISE OF DISCRETIONS UNDER LGPS

Under the LGPS Administration Regulations 2008, LPFA was required to produce a written statement of its policy in relation to the exercise of its functions under four specific areas of discretion. These have been published on the website: [www.lpfa.org.uk/Employers/](http://www.lpfa.org.uk/Employers/)

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 employee has a complaint, they are advised to contact LPFA to try and resolve the problem. To view the Complaints Procedure visit [www.yourpension.org.uk](http://www.yourpension.org.uk). In addition to the complaints procedure, under the LGPS regulations, an employee 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 employee 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 2017

NUMBER OF EMPLOYERS IN THE FUND

	Active	Ceased	TOTAL
Academy	6	0	6
Admitted Body	75	3	75
Resolution Body	1	0	1
Scheduled Body	60	0	60
Grand Total	142	3	142

EMPLOYERS ACTIVELY CONTRIBUTING TO THE FUND

Academy

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

Admitted Bodies

Local Pensions Partnership  
Local Pensions Partnership Investments  
London Councils  
Shenley Leisure Centre Trust Ltd  
NSL Limited  
Computacenter Ltd  
Bromley College  
Compass Group  
Churchill Contract Services Ltd  
Geffrye Museum Trust Ltd.  
Horniman Museum & Gardens  
Babcock Training Limited  
Babcock Critical Services Ltd  
SITA UK Ltd  
UK Anti Doping  
Briggs Marine Contractors Ltd  
Radius Trust Limited  
Forest Hill and Sydenham Voluntary Service Association

Association of Colleges  
Gallions Housing Association  
Lee Valley Leisure Trust Limited  
Brunel University  
City University  
British Film Institute  
Sodexo  
United Kingdom Sport  
Mountain Training limited  
St Christopher’s Fellowship  
The Froebel Trust  
Ibstock Place School  
Poplar Harca  
Sport England  
The English Institute of Sport  
University of St Mark & St John  
London Artscom Ltd  
Goldsmith College  
London Metropolitan University  
University of Westminster  
University of Greenwich  
Genesis Housing Group  
Peabody Trust  
The Royal Central School of Speech & Drama  
Sport and Recreation Alliance Limited  
Coram’s Fields  
SSAFA  
Emanuel School  
Chartered Institute of Housing  
Chartered Institute of Environmental Health  
N.I.A.C.E.

Rathbone Training  
Roehampton University  
Greater London Enterprise Limited  
N.L. Hospice Group  
City Literary Institute  
Mary Ward Settlement  
Bouygues E&S Ltd  
The English & Media Centre  
Trinity Laban  
Nexus Community  
Prospects Services  
Food Standards Agency  
Food Standards Scotland  
CfBT Advice and Guidance Ltd  
CfBT Education Trust  
Broadacres Housing Association Limited  
Guinness Partnership Limited  
Open College Network London Region  
The Pioneer Group  
Alleyns School  
Dulwich College  
BUVFC  
SDP Regeneration Services 2 Ltd  
Lionheart (RICS Benevolent Fund)  
Kingston University Service Company Ltd  
Tandridge Leisure Ltd

**Resolution Body**  
Transport for London

**Scheduled Bodies**  
Valuation Office Agency  
Greater London Authority  
London Legacy Development Corporation  
Old Oak & Park Royal Development Corporation  
Morley College  
Bromley College  
London Fire & Emergency Planning Authority  
East London Waste Authority  
West London Waste Authority  
West Riverside Waste Authority  
Turnham Primary GMS School  
Lambeth College  
Lewisham and Southwark College  
Bishop Thomas Grant School  
St Francesca Cabrini Primary School

Archbishop Tenison’s Church of England GMS  
Charlotte Sharman Foundation Primary School  
Julian’s Primary School  
Notre Dame School  
St Andrews RC Primary School  
St Bernadette’s School  
St Anne’s RC Primary School  
St Bede’s GM Infant & Nursery School  
Friars School  
St Anthony’s School  
St Joseph RC Infant School  
St Joseph RC Junior School  
St Thomas the Apostle College  
Immanuel & St Andrew C of E Primary School  
Surrey Square Primary School  
Turney School  
St Mary’s RC Primary School  
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  
R.B. of Kensington & Chelsea  
L.B. of Lambeth  
L.B. of Lewisham  
L.B. of Southwark  
L.B. of Tower Hamlets  
L.B. of Wandsworth  
City of Westminster  
Lee Valley Regional Park Authority  
Valuation Tribunal Service  
La Retraite RC Girl’s School  
South Bank University  
Comm for Local Administration in England  
University of Arts London  
London Nautical School  
Hammersmith and West London College  
City of Westminster College  
La Sainte Union Convent School  
Raine’s Foundation School  
Tower Hamlets College  
South Thames College  
St Francis Xavier 6th Form College  
Westminster Kingsway College

**iii Additional requirements from the CIPFA Guide**

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

ASSETS AT 31 MARCH 2017	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	28,607	1,346	14,694	44,647
Fixed Income	2,162	10,976	43,511	56,649
Pooled Property	2,570	199,322	51,155	253,047
Property	110.020	-	-	110,020
Private Equity	630,714	333,155	183,086	1,146,955
Pooled Investment	3,310,272	15	12,187	3,322,474
Cash	358,938	307	499	359,744
Alternatives	22,515	-	13,707	36,222
Other	4,052	-	-	4,052
<b>Total</b>	<b>4,469,850</b>	<b>545,121</b>	<b>318,839</b>	<b>5,333,810</b>

INCOME RECEIVED DURING THE YEAR ENDED 31 MARCH 2017	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	6,457	9,839	12,331	28,627
Fixed Income	151	699	1,380	2,230
Pooled Property	134	-	2	136
Property Income	1,957	-	-	1,957
Private Equity	107	375	2,932	3,414
Pooled Investment	4,904	1,488	2,264	8,656
Cash	3,050	(11)	199	3,238
<b>Total</b>	<b>16,760</b>	<b>12,390</b>	<b>19,108</b>	<b>48,258</b>





### **Annual Report Enquiries**

For further information please contact:

Corporate Development Team

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email: [corporate@localpensionspartnership.org.uk](mailto:corporate@localpensionspartnership.org.uk)

### **General Enquiries**

Pension Services Team

tel: 020 7369 6118

text: 020 7369 6119

email: [enquiries@localpensionspartnership.org.uk](mailto:enquiries@localpensionspartnership.org.uk)

### **Pensions Payroll Team**

For pensions payroll enquiries:

Pensions Payroll Team

tel: 020 7369 6060

fax: 020 7369 6240

email: [pensionspayroll@localpensionspartnership.org.uk](mailto:pensionspayroll@localpensionspartnership.org.uk)

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[www.yourpension.org.uk](http://www.yourpension.org.uk)

