LPFA

your pension our world

London Pensions Fund Authority
Pension Fund Annual Report

2018-19

Contents

About us

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

The pension fund had £6.05bn of assets as at 31 March 2019 and is responsible for the pension provision of 88,788 members. Of these, 19,489 are employees working for not-for-profit, charity, private sector and local government employers, 35,541 are pensioners and dependants, 5,536 are undecided leavers and frozen refunds, and 28,222 are deferred beneficiaries.

In April 2016, LPFA formed a pensions partnership with the Lancashire County Council (LCC). The resulting body, Local Pensions Partnership (LPP) now manages the pension fund assets and pension administration on behalf of LPFA. LPFA retains strategic oversight of the pension fund but the implementation of its strategy is outsourced to LPP.

Highlights of 2018-19

£6.05bn

Pension fund assets as at 31 March 2019

88,788

Total membership

19,489

Employees with pension provisions

142

The number of employers who contributed to the Fund this year

35,541

Number of pensioners and dependants

1. Overview

1.1 Chairman's welcome

I am pleased to present LPFA's Annual Report for 2018-19 and confirm that, once again, we have delivered on our key objectives for this year.

➜ Infrastructure remains a strategic focus for us as we look to diversify the Fund, while at the same time supporting growth in the communities we represent.

Despite the challenges arising from the global economic environment, the uncertainty caused by Brexit and ongoing trade tensions between the US and China, we are healthily funded at the time of writing. Clearly, we cannot be complacent as there are upcoming challenges facing the UK economy, the public sector and the pensions system more generally.

Our triennial valuation took place this year. We continue to work collaboratively with employers and LPP to ensure LPFA maintains a healthy funding level. Currently, employer contribution rates are stable and investment strategies are effective in meeting our long-term responsibilities to both members and employers. In addition, a government consultation is currently underway, looking at a move from triennial to four-year valuations alongside potential scheme changes relating to the cost cap and McCloud cases. We will monitor the situation closely and work with our stakeholders should any changes result.

We were pleased to welcome three new Board members during the last financial year. Councillor **Tony Newman** is Leader of the London Borough of Croydon and Councillor **Ruth Dombey** is Leader of the London Borough of Sutton. Both bring substantial experience of economic regeneration and housing and have leading roles in London's local government. **Christina Thompson** is the Strategic Director, Finance and Investment at the London Borough of Lambeth and brings expert knowledge of all areas of local government finance. The collective knowledge and expertise of Tony, Ruth and Christina will add to the resilience and diversity of thought on the Board. It is great to have them as part of the team.

Their arrivals follow the retirement of three long-term LPFA Board members: Mike O'Donnell who latterly chaired the Audit and Risk Committee, Anthony Dalwood, Chair of the Investment Panel and Stephen Alambritis who was key to the formation of LPP. We thank Mike, Anthony and Stephen for their significant service.

We were also delighted to see that the partnership we created with LCC continued to develop during the year. The Royal County of Berkshire Pension Fund (RCBPF) has joined LPP as an investment management client, increasing LPP's ability to achieve economies of scale.

Working closely with LPP, we continue to ensure that wider environmental, social and governance (ESG) factors are incorporated into investment decision-making processes. This year we saw the implementation of our climate change policy with a view to completion within our 2020 target.

Investment highlights

Infrastructure remains a strategic focus for us as we look to diversify the Fund, while at the same time supporting growth in the communities we represent. In the last year we have increased our asset allocation in infrastructure from 7.5% to 10% of our assets, while we have also seen expansion of GLIL, the £1.8bn infrastructure investment platform we originally established with Greater Manchester Pension Fund back in 2015.

We continue to make progress in pooling our investments. Local Pensions Partnership Investments (LPPI) manages our assets on our behalf. These have been gradually transitioned into pooling vehicles over the last two years and this has enabled us to realise the savings anticipated when we launched the partnership. Details of these savings are published later in this report on page 23. The most recent Fund LPP launched was the Diversifying Strategies Fund and more information can be found on our website on all the funds in which we invest. Meanwhile our direct participation in the housing market – in the shape of the Pontoon Dock housing development, overlooking the Thames Barrier – is nearing completion. With the support of LPPI, further opportunities to invest in rental housing projects in the near future are being explored.

LPP evolution

We continue to work closely with our partner LCC to provide appropriate oversight of our joint ownership of LPP. We are supporting LPP in their work to strengthen operational governance and resilience, while future-proofing their capabilities to support LPFA in implementing our new ambitions and priorities. We support the work to refine LPP's pension administration operating model so that it focuses on and delivers increased operational efficiency for us and their other clients. This includes tailored and effective member communications, sophisticated risk monitoring and data management.

At the end of 2019 I will have completed nine years on the LPFA Board, the last four as your Chairman, and will be stepping down. Through a period of continuous change, I am proud that we remain, at heart, a Pension Fund committed to ensuring we meet the long-term responsibilities of both our members and employers.

I thank you for your support and look forward to another successful year ahead for LPFA.

Sir Merrick Cockell
LPFA Chairman

➜ Through a period of continuous change, I am proud that we remain, at heart, a pension fund committed to ensuring we meet the long-term responsibilities of both our members and employers.

1. Overview continued

1.2 Report from the Managing Director

➜ I'm keen to promote direct and effective engagement with our members, supporting your needs with robust service levels and high-quality communications.

Well, time flies. A year has passed already since I became Managing Director of LPFA, and what a year it has been! The pooling partnership we established with LCC in 2016 is maturing well and is already delivering some of the benefits we always hoped it would. Overall costs of managing the Pension Fund including investment, liability management and pension administration have steadily decreased, from 100 basis points (bps) in 2015-16, to 84 bps in 2018-19. On the investment side, the Fund has maintained strong long-term outperformance, with returns of 7.8%, well in excess of our 5.7% target. Our net assets under management (AUM) have grown by 7.1% from £5.65bn to £6.05bn, while our funding level as measured on the Local Government Pension Scheme (LGPS) 2016 actuarial basis, updated for market conditions, is showing a surplus at year-end. The funding level on the LGPS 2016 actuarial basis was 96%. The 2019 actuarial valuation is currently in progress and the valuation basis and results at 31 March 2019 will be finalised as at the end of 2019.

During 2018-19 our pension administration services, managed by LPP, went through a transformation programme. This included transferring some services to a contact centre. Whilst the service has recovered well at the time of writing, I was disappointed that the services we expected were not provided in the first six months of the year. Further details are set out later in this report, but I am pleased to see an improving picture of stability.

I mentioned in my comments last year that we were embarking on a Member Engagement programme, to provide members with more tailored and up-to-date information, as well as online access to their pensions. I am pleased to inform you that we continue to see active members are using our online self-service. The enhancements we made to our online self-service now offer greater support and improved functionality for members to access their pensions information such as P60s and other helpful guides 24/7. Our annual Fund Member Forum continues to be well-received, this year attracting more than 600 members. It is a strategic focus of mine, and something I care deeply about, that the Fund Member Forum remains a useful and successful event. I'm keen to promote direct and effective engagement with our members, supporting your needs with robust service levels and high-quality communications. I feel as though we are building on the successes we've had over the year in this area, although there's still work to be done. Your input and feedback is always welcome.

I am also pleased to report that we've made progress on our Employer Engagement activities. Our latest annual Employer Forum attracted over 50 senior level attendees. This year the theme focused on our preparation for the upcoming triennial valuation, and our insights on topical employer issues such as Reporting and The Pension Regulator's new approach to workplace pensions. Our Practitioners Forum, a new initiative this year, gave us a chance for more hands-on employer staff to come together and discuss the pensions work they are carrying out. Next year, we would like to roll out sector-specific employers' workshops, to aid understanding and give attendees the chance to share best practices with peers.

We continue to explore new ways of engaging with our employers, to support them in what will be a crucial, triennial valuation year. I hope you have noticed an increase in information on the LPFA website to include recent events and issues, more Twitter feeds and more colour to the content of the various newsletters we issue. I am also pleased to report our increasing commitment to the wider LGPS, pensions and LG community through attendance and participation in conferences, and membership of the Pensions and Lifetime Savings Association (PLSA) Local Authority Committee and the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

LPPI has continued to establish itself as a leading provider of pensions services with assets under management of £17bn. These assets are benefiting from lower costs, increased scale and direct investment opportunities, as well as greater collaboration opportunities in sectors such as infrastructure and real estate. The GLIL infrastructure platform is an example of the collaborative work we do with our LGPS partners.

Our investment in the private rented sector housing market, in the shape of the Pontoon Dock housing development, is nearing completion. As Sir Merrick said in his Chairman's welcome, we will be looking for further opportunities to invest in rental housing projects in the near future, working with the Greater London Authority (GLA) and our LGPS partners.

It is imperative that, as a senior management team, we build on the board effectiveness work we've recently begun, so that we continue to operate as a high-performance governance group. We've undertaken workshops, discussions and interactions together across a range of pertinent subjects, which will be supplemented by additional training on pension scheme knowledge, legislation, investments and valuation.

Responsible investment continues to be a high priority for us, as we look to build on the progress we've made with our Climate Change Policy in 2018. Our proactive approach to addressing ESG issues in our investment policies has been developed over many years and has been instrumental in the development of LPPI's approach to stewardship of its investments, as our provider of advisory and investment management services. I am particularly pleased that our efforts in this area has been independently acknowledged by reports published in the last 12 months by organisations such as Friends of the Earth and Unison/ ShareAction.

Our strategic focus

We continue to review and develop the strategic focus of LPFA based on our experience over the last 12 months and the challenges facing us in the longer term. With this in mind, the LPFA Strategic Policy Statement 2019-2022 has recently been published. In addition to our existing programme of improved member and employer engagement, my main focus this year and in the years to come will be to deliver the following:

- **Evolving the investment and liability management.** We continue to monitor the implementation of our revised Strategic Asset Allocation and that it is fit for the purpose of meeting the long-term funding needs of our employers and members. To provide further clarity and support to this we will be

1. Overview continued

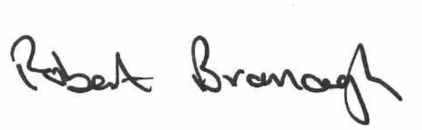
1.2 Report from the Managing Director

shortly publishing more detail on our Risk Framework and Appetite We will continue to develop our approach to ESG, while sharing more of our activity on our Climate Change Policy.

- **Working in partnership and wider collaboration**. LPFA has a proud history of collaboration, something that comes naturally to an organisation that is in partnership with LCC as co-owners of LPP and came into existence by bringing together a number of different London organisations in the past. We look forward to working with LGPS partners to ensure the needs of members and employers continue to be met, while ensuring we prioritise the common goals and benefits that pooled investment management brings. We aim to increase our investment in London's infrastructure and housing sectors and are determined to build an extensive internal and external communications plan around sustainable investing and collaboration.

- **Building stronger operational efficiency and robust shareholder activity.** Alongside LCC as fellow shareholder, we will ensure LPP is delivering efficient and quality pension administration services. We will ensure LPP is compliant with key partnership documentation and SLAs, is robust in its business model, while its financial management will be reviewed and monitored on an ongoing basis. Finally, we will participate in a benchmarking exercise facilitated by LPP to ensure the services we receive from the partnership are at the right levels of quality and cost.

A lot of good work has occurred over the last 12 months. And we have plenty more to do in the coming year. I hope you find this year's Annual Report useful and informative.



Robert Branagh
LPFA Managing Director

2. Fund administration

2.1 Workload, targets, administration

When LPFA outsourced its operations to LPP, service level agreements were agreed upon and expected deliverables were identified. These deliverables are regularly monitored by the LPFA Managing Director, with shareholder oversight from the LPFA Board. As a shareholder, LPFA is entitled to elect a director on the LPP board. Dermot (Skip) McMullan (also an LPFA Board member) has been LPP's Shareholder Director since November 2015. The LPFA Board is regularly updated on LPP's performance.

Pension Administration

LPP introduced the new target operating model (TOM) for the Pensions Administration business which went live at the beginning of April 2018, following extensive planning and significant changes to the way LPP manages our services.

This new operating model created three main service areas:

- Member Services;
- Engagement; and
- Business Development.

In particular, the new operating model was designed to provide greater resilience and ultimately give employers and members an improved service and experience.

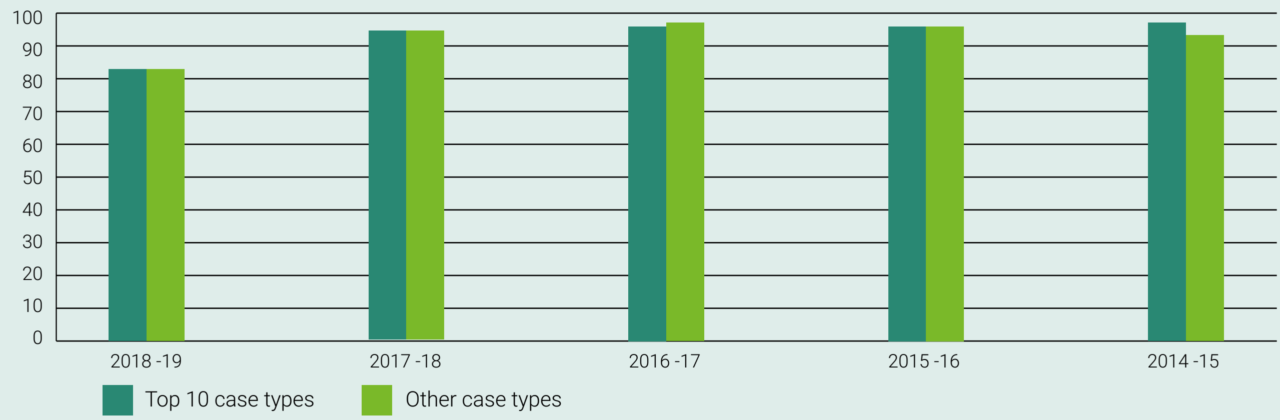
As a result of the volume of change at the start of the new fiscal year, there were some initial challenges and dips in productivity that proved more significant than originally anticipated.

Productivity has subsequently increased, and by Quarter 3 2018, remedial action was taken to address backlogs and contain the situation, including the implementation of an engagement programme to help clients understand the changes. The improvements from Quarter 3 2018 are demonstrated in the table below relating to the time taken to resolve each query:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
Top 10% against SLA	60%	89%	97%	98%	86%
Overall against SLA	64%	88%	97%	98%	87%
Complaints received	64	44	49	37	194
Compliments	2	11	4	9	26

Queries completed on time – yearly comparison

Top 10 case types %



Top 10 case types (**24,257** cases in 2018-19)
All other case types (**14,989** cases in 2018-19)

The 2018-19 figures above appear high compared to previous years; this was due to the transformation programme which has since been stabilised. The Quarter 4 statistics for both the top 10 and all other case types have improved and c.98% were completed on time.

2. Fund administration continued

2.1 Workload, targets, administration continued

Top 10-member enquiries

These indicators demonstrate the approximate time it takes to resolve each query. Members may experience delays while we are waiting on information from employers or the members themselves but the methods for monitoring these indicators, including any advance notification periods, will be refined during 2019-20.

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

A service improvement programme was introduced during 2018-19 to enhance members' and employers' experience through new technology and digital solutions, improved team-learning, and reporting, customer satisfaction surveys and embedding best practice.

In January 2019 the Contact Centre survey was launched and of those eligible to be surveyed and who agreed to take part, 92% members indicated they were satisfied with our service, providing us with an average score of 4.6 out of 5.

Summary of activities

LPP provides a full range of activities for pension administration, which include processing and payment of pensions, transfers in and out of the fund, general record maintenance and dealing with member deaths; the service has also provided a one-off project in relation to Guaranteed Minimum Pension (GMP) reconciliation. We have also worked to improve the member and employer experience by rolling out an updated Member Self Service Portal as well as working to improve member communications, including introducing practitioner conferences for employers and scheme member presentations and one-to-one sessions.

Organisational arrangements

The administration business has several dedicated teams that specialise in defined types of casework, including a dedicated data team which deals with the end of year processes and ensures that data quality is kept in line with The Pensions Regulator requirements under Code of Practice 14 (COP 14). LPP also has a separate contact centre which manages incoming calls and emails, allowing queries to be answered efficiently and helping to alleviate pressure from the casework teams. To further enhance our relationships with member and employers of the Fund, LPP established an Engagement Team. Their role involves the continuous review of reviewing member communications, implementing improvements to self-service portals and delivering practitioner conferences to employers to ensure they are aware of their responsibilities to the Authority, scheme rules, Annual and Lifetime allowance and annual benefits surgeries.

LPFA customer satisfaction

Customer service remains at the forefront of LPP's operation whist delivering pension administration services to LPFA and its clients. LPP continues to be accredited by the Customer Service Excellence standard, with its year three oversight commencing during 2019-20.

LPFA will continue to work with LPP on customer care and improving the member and employer experience, having regard to employer and member feedback over the last year. Additionally, the LPFA Local Pension Board has provided valuable insight and suggestions to LPP to enhance communications and share the member voice when dealing with LPP administrative communications. The below table highlights key indicators of customer satisfaction in the last five years.

	2018-19	2017-18	2016-17	2015-16	2014-15	Target/ benchmark
% of members satisfied with overall service	**98%**	97%	98%	98%	97.5%	98%
% of members surveyed	**2.61%**	2.37%	1.34%	1.62%	1.27%	1.39%
Number of complaints received	**194^**	61*	35	19	15	<25
No. of complaints categorised as Pension Ombudsman cases	**0**	0	0	0	0	0
No. of Internal Dispute Resolution Procedure cases (IDRP)	**12**	5	11	6	1	<6
Staff fund member ratio – staff engaged on LPFA administration only	**1:172#**	1:3,778	1:2,820	1:2,820	1:2,043	–
Average cases per member of staff	**1409#**	1,057	1,811	1,897	1,244	1,464

* This figure includes complaints related to moving communications online.
^ This figure increased significantly due to the new Administration Target Operating Model; however the quarterly figures are improving.
# From 01 April 2018 LPFA cases were undertaken by the whole of the business as a subset of all schemes in the Authority.

2. Fund administration continued

2.2 Membership

LPFA scheme membership over five years

	2018-19	2017-18	2016-17	2015-16	2014-15
Active contributors	19,489	18,537	17,776	17,264	17,308
Deferred beneficiaries	28,222	26,911	26,370	25,257	24,808
Pensioners and dependants	35,541	34,625	34,321	33,838	33,580
Undecided leavers and frozen refunds	5,536	4,393	3,596	2,620	1,950
Total membership	**88,788**	**84,466**	**82,063**	**78,979**	**77,646**

Member and employer online interactions

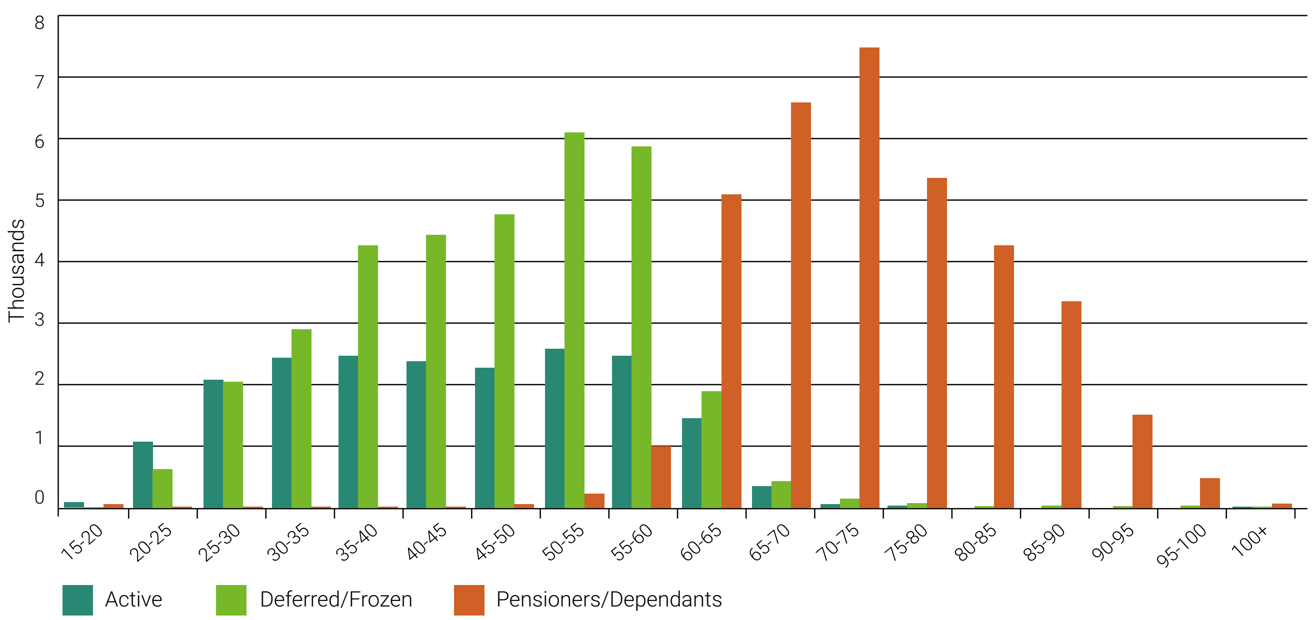
7,778 active members have signed up to member self-service – this represents **40%** of members.

As at 31 March 2019, LPFA held **10,940** active member e-mail addresses. That's **56%** of our active members.

92 of **142** active employers are signed up to our pension administration strategy.

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

Member age distribution as at 31 March 2019



Active	Deferred/frozen	Pensioners/dependants
Average 44 years	47 years	74 years
Maximum 75 years	103 years	109 years
Minimum 17 years	18 years	4 years

Costs per member

Cost per fund member	As at 31 March 2019 (£)	As at 31 March 2018 (£)	As at 31 March 2017 (£)
Administration	21	21	25
Investment	550	528	585
Oversight and Governance	23	16	33
Total	**594**	**565**	**643**

Employer interactions

LPFA Pension Administration Strategy (PAS)

The aim of the PAS is to ensure that both LPFA and its employers are fully aware of their responsibilities under the LPFA scheme (the "Scheme") and to identify acceptable levels of performance. This service is outsourced to LPP under an SLA. The ultimate aim of this strategy is to educate and support employers to provide accurate and timely data to LPP which will improve the service provided to Scheme members.

Employer contributions

- The Fund collected normal pension contributions from 142 employers in the year, totalling £75.9m
- Of total normal contributions due, £75.5m (99.49% by value) was collected on time
- 19 employers were late in paying contributions at least once.

The table below provides a further analysis of late payments:

Instances of late payment	No. of employers	Average days delayed	Minimum days delayed	Maximum days delayed	Average value of delayed payment £'000
1	7	3	1	12	69
2	9	12	6	45	16
3	1	16	11	27	0.1
4	2	6	1	10	31

Contributions are actively monitored by LPP's employer risk services. An overview of these services has been highlighted in the Governing Fund Section of the report.

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.

	2018-19	2017-18	2016-17	2015-16	PAS error rate target
Year-end error rate	**8.6%***	17.1	17.2	18.6	10.0%

*With 60% of the 2018-19 annual returns received (as at 08/05/2019), the Scheme's year-end error rate was 8.6%.

Amounts due from employers at the year end

Employers' contributions – £7,252,639
Employees' contributions – £1,971,514
Cessation values – £0

2. Fund administration continued

2.3 Pension payments

Pensioners in receipt of enhanced retirement benefits

	Ill health instances	Early retirement	Redundancy/ voluntary early retirement
2014-15	25	42	121
2015-16	24	8	130
2016-17	27	12	134
2017-18	19	53	116
2018-19	13	33	149
Total value for 2018-19	**£107,319**	**£432,373**	**£1,702,380**

Analysis of pension overpayments

	2018-19 £	2017-18 £	2016-17 £	2015-16 £	2014-15 £
Overpayments	**216,783**	142,821	146,756	144,901	120,731
Collected	**(7,241)**	(11,559)	(13,498)	(16,761)	(72,425)
Written off	**–**	–	–	–	(16,991)
Outstanding	**209,542**	**131,262**	**133,258**	**128,140**	**31,315**

3. Investment review

3.1 Investment performance

The 12 months to the end of March marked a period of gradual slowdown in global economic activity from the strongest level (since 2011) reached in 2017. The deceleration in global GDP was attributable to both the developed and emerging markets, as outlined below.

Macro outlook – the last 12 months
Headline and core inflation in key developed markets (US, UK, Eurozone) reached or exceeded the central banks' 2% target in the first half of 2018; however since, they started to decrease through the first quarter of 2019. Amid this trend of lower growth and inflation, all the major central banks pivoted to a more 'dovish' stance (i.e. accommodative policy) either through their forward guidance and/or their monetary policy tools.

The US Federal Reserve monetary tightening path (rate hikes, reduction of its balance sheet size) until the end of 2018 had contributed to a significant tightening of US and global financial conditions. This contributed to rising market volatility and significant drawdowns of risky assets in Quarter 4 2018. For major developed and emerging market equity indices, Quarter 4's market turbulence led to negative full-year returns for the first time since 2015. In a whipsaw move though, 2019 started strongly for all major equity and credit markets. These trended higher through March buoyed by an improved sentiment and in some cases attractive valuations. In equities, quality outperformed other factors implying that investors positioned their portfolios cautiously and in line with a late cycle stage mentality.

From a regional perspective, the US continued to be the strongest performer among major developed economies, despite a notable slowdown in Quarter 4 2018. The economy has continued to benefit from a tight labour market, with ongoing net employment gains and stronger wage growth – both close to cyclical highs – being a tailwind for consumers' spending (which constitutes the largest part of economy). Following a strong start in the first half of 2018, other areas of the economy, such as manufacturing and industrial production, have since weakened significantly – negatively impacted by a slowdown in global trade, weaker global growth and rising trade tensions. With the pace of expansion mostly unabated in 2018 (full-year growth was c.3%, significantly above the economy's trend growth), the Fed continued its monetary tightening raising rates four times (4 x 25 bps) and reducing the size of its balance sheet. After the severe market drawdown in Quarter 4, the Federal Open Markets Committee (FOMC) announced the roll back of this process with the balance sheet reduction scheduled to end in September 2019. Additionally, it signalled a sustained pause in rate hikes, as its preferred measure of inflation remained below target, and announced a wider review of its monetary policy framework and tools utilised.

In the UK, growth has been somewhat slower in the past 12 months, although GDP grew strongly in Quarter 3 2018 and Quarter 1 2019. Based on the Bank of England's (BoE) assessment, the current pace of expansion (1.8% year-on-year) is marginally above the expected trend growth for the economy. Despite the slowdown, the labour market has remained healthy, with the unemployment rate dipping to lowest level (3.8%) since December 1974. Nominal and real wage gains (when accounting for inflation) were close to cyclical highs at the end of March, providing additional support to consumption. Like other major economies, manufacturing and industrial production have had a difficult period especially between September 2018 and February 2019. The Brexit uncertainty, amid lingering negotiations, was a headwind for business investment and weighed negatively on the residential market prices – where London almost stagnated. Apart from Brexit, constrained supply and years of rapid price growth have also weighed negatively on housing affordability. The BoE raised rates once during this period (25 bps), and although it signalled on various occasions that moderately higher rates will be needed over its three-year forecasts horizon (as inflation remained close to 2%), the moderate economic slowdown and the Brexit uncertainty have deterred it from taking further action.

In the Eurozone, GDP growth decreased significantly in the past 12 months (1.2% year-on-year) with activity in Germany and Italy being the biggest headwind. The former was negatively impacted by new emission tests for its dominant car industry and, combined with the impact of global and Chinese growth slowdown, almost brought about a recession in Quarter 4 2018. In Italy the economy dipped into recession in Quarter 4 2018 (two quarters of negative growth) and has completely stagnated in the past 12 months. Spain, Netherlands and France have performed somewhat better. In aggregate, the labour market has remained healthy, with the unemployment rate declining to the lowest level since 2008 (7.9%). Wage growth was also stronger, but lower than the US and the UK, as the economy is not yet operating at full employment. The European Central Bank (ECB) terminated its quantitative purchase programme in 2018. However, as growth and inflation slowed down (to 1.3% and 0.8% respectively for headline and core inflation in March 2019), it pivoted to a more accommodative stance, signalling that rates will remain at record low levels for some time.

In China, officials have been in the midst of an ongoing trade dispute with the US. After both countries raised tariffs on billions' worth of imports from each other, they started bilateral negotiations that have yet to provide a sustainable solution. With this backdrop, economic activity and sentiment have decreased, although headline growth was better than expected over the last 12 months, buoyed by monetary (increased liquidity and cheaper credit) and fiscal policies (tax cuts and increased government spending).

Performance

LPFA (the Fund) has a long-term investment horizon. LPFA's investment strategy is based on the Fund's objectives of balancing capital growth with capital preservation, maintaining adequate cash flows to cover all liabilities as they fall due. The Fund invests its assets to meet its liabilities over the long term, and therefore performance should be assessed against these objectives and over a corresponding period.

All the performance figures presented below are as at 31 March 2019.
Over the year, the Fund delivered an 8.1% investment return (8.5% including Liability Driven Investments (LDI)), broadly in line with its policy portfolio allocation (strategic weights multiplied by benchmark asset class index returns) and comfortably outperforming its actuarial discount rate (UK RPI + 3%). The value of the Fund's assets at 31 March 2019 was £6.05bn, up from £5,65bn at 31 March 2018.

Over the year, public equities, private equity and real estate were the top contributors from an asset class perspective, whilst infrastructure, credit and fixed income posted moderate gains. Diversifying strategies had a more challenging year, trailing its benchmark.
Longer-term (over a three-year or five-year horizon) the Fund's returns continued to be strong, outperforming its actuarial benchmark and remaining close to or above its policy portfolio. All asset classes, with the exception of diversifying strategies, outperformed their respective benchmarks during this period.

Return metric	1 Year	3 Year**	5 Year**
Return Seeking Assets (Excluding LDI)*	8.1%	9.8%	8.4%
Total return (including LDI)	8.5%	11.2%	7.5%
Actuarial Discount Rate (UK RPI + 3%)	5.4%	6.0%	5.3%
Policy Portfolio	8.2%	10.1%	6.7%

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

** Annualised Returns.

Figure 1: Fund performance at 31 March 2019

LPFA Fund returns – March 2019

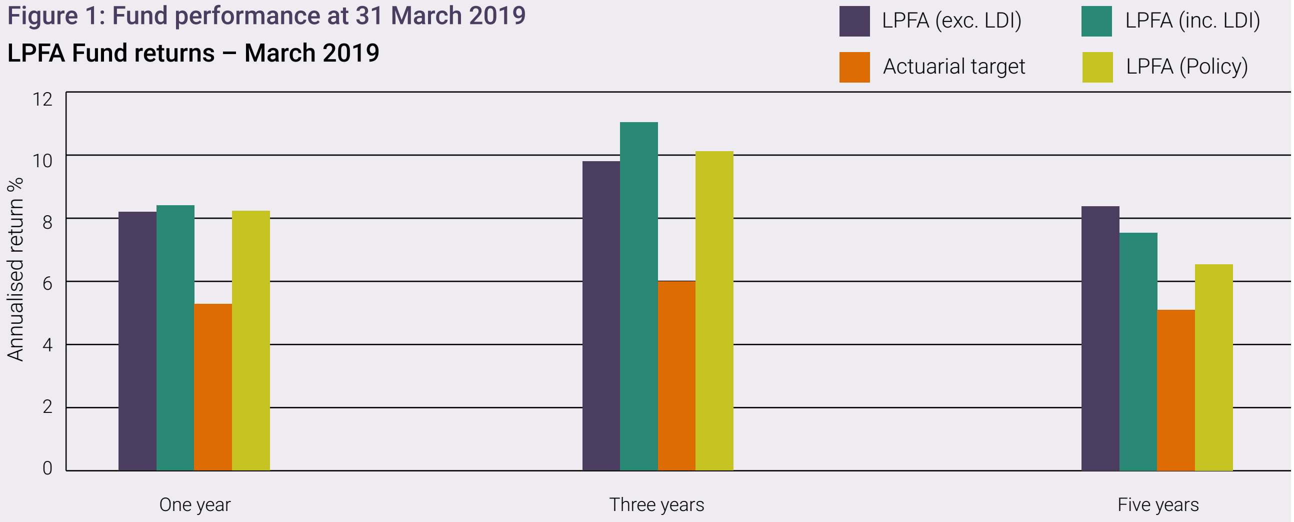


Figure 2: One-year Fund performance by asset class at 31 March 2019

One-year performance by asset class

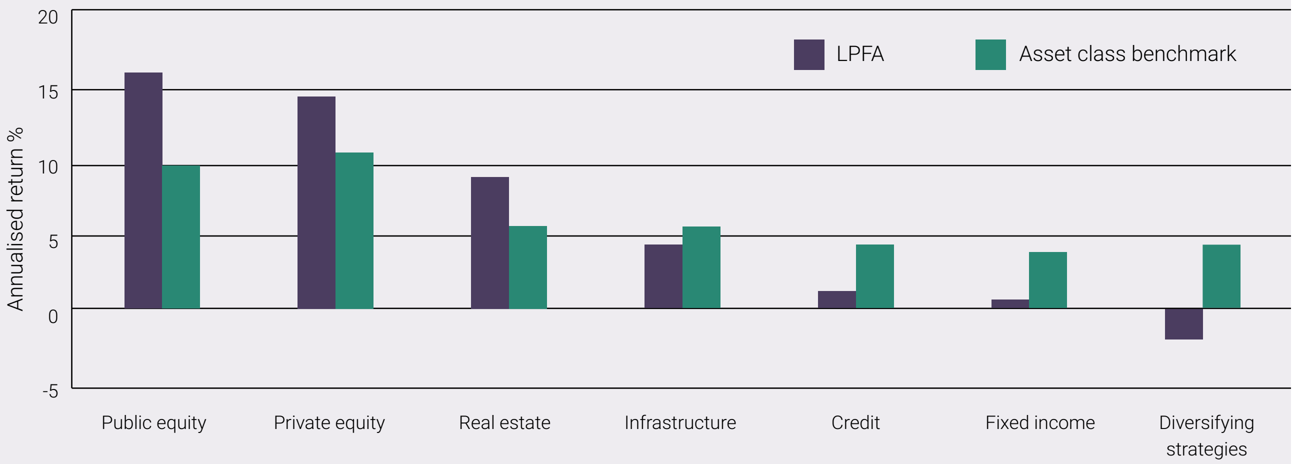
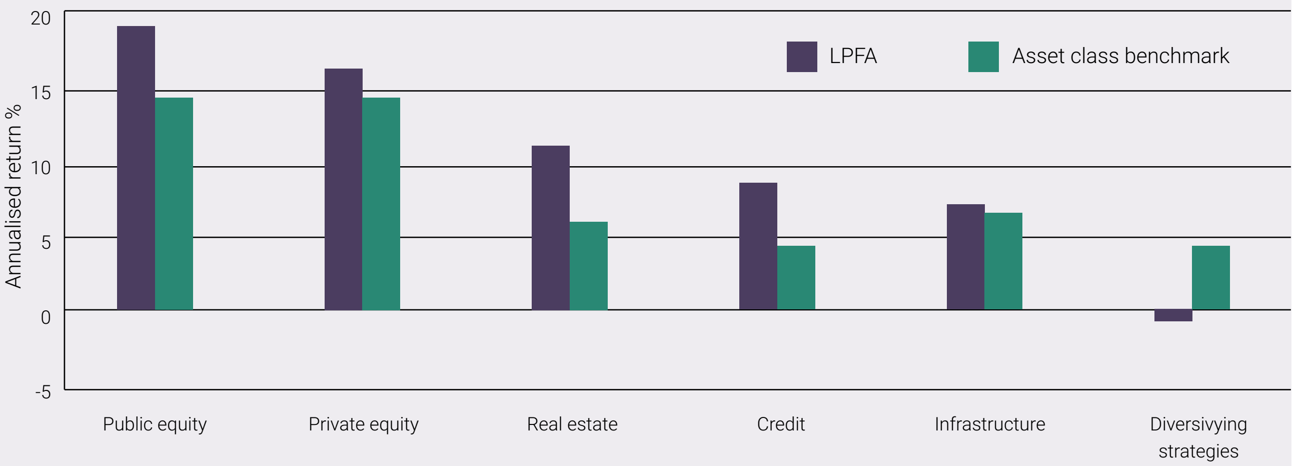


Figure 3: Three-year fund performance by asset class at 31 March 2019

Three-year performance by asset class



3.1 Investment performance continued

Current and strategic asset allocation

In recent years the Fund has focused on reducing its equity risk, increasing allocations to other asset classes such as infrastructure, real estate and credit with the intention to diversify its exposure and to increase its income yielding asset allocation. This was also reinforced with an updated strategic asset allocation (SAA) in Quarter 1 2018, which led to a 2.5% reduction in the SAA target for public equity and private equity (with the latter officially implemented in Quarter 1 2021 due to the time needed for any reduction in investment commitments to impact the net asset value of the asset class).

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

The following table presents LPFA's current asset allocation versus strategic target at the end of March 2019.

	March 2019		March 2018			
Asset class	**Assets (GBP Mil))**	**Allocation (%)**	**Assets (GBP Mil))**	**Allocation (%)**	**Strategic AA(%)**	**Range**
Public Equity	2,483	41.4%	2,401	43.2%	45.0%	35% - 55%
Fixed Income	272	4.5%	601	10.8%	2.5%	0% - 15%
Private Equity	587	9.8%	593	10.7%	7.5%	5% - 15%
Infrastructure	367	6.1%	511	9.2%	10.0%	5% - 15%
Credit	449	7.5%	268	4.8%	9.0%	0% - 12.5%
Real Estate	591	9.9%	523	9.4%	10.0%	5% - 15%
Diversifying Strategies	705	11.8%	–	0.0%	15.0%	0% - 20%
Cash	537	9.0%	655	11.9%	1.00%	0% - 5%
Total	**5,991**	**100%**	**5,552**	**100%**	**100%**	

The allocation of the Fund's assets for the previous financial year has been included for comparison purposes. LPPI advises the Fund on its long-term SAA, but LPFA retains autonomy in deciding how this is finally set. LPPI has discretion to manage LPFA's assets within the asset class ranges set as part of the SAA. The SAA target and range for each asset class has remained unchanged since March 2018. The next SAA review is anticipated in 2020.

Public equity

The LPPI Global Equity Fund (GEF) combines an internally managed portfolio with a variety of external equity managers, which operate with differing and complementary styles of investment selection. During the year LPPI has not changed the composition of external managers within its GEF. The GEF maintains a Quality (factor investing style) bias, however other styles are included to provide diversification. Although the GEF's performance has been strong this year, the full merits of its strategies are better assessed over the longer term (GEF was launched in October 2016). Separately and in addition to the GEF exposure LPFA had c.£326m of equity exposure though MSCI World and MSCI Emerging Markets futures at the end of March 2019.

The GEF's sector and regional exposures compared to its benchmark the MSCI All Country World index (MSCI ACWI) remained broadly unchanged over the year. From a sector exposure perspective, the GEF maintained an overweight to Consumer Staples versus its benchmark, which follows naturally from its Quality style bias. From a regional exposure perspective, Western Europe (which includes the UK) remains the largest overweight position, whilst the Asia-Pacific region is the fund's largest underweight. Overall, the GEF maintains an underweight position to Emerging Markets compared to benchmark.

Figure 4: GEF – factor breakdown as at 31 March 2019

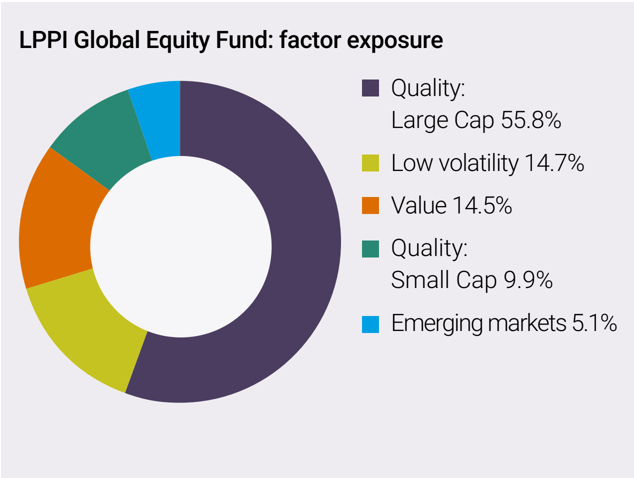


Figure 5: GEF – sector weights versus MSCI ACWI as at 31 March 2019

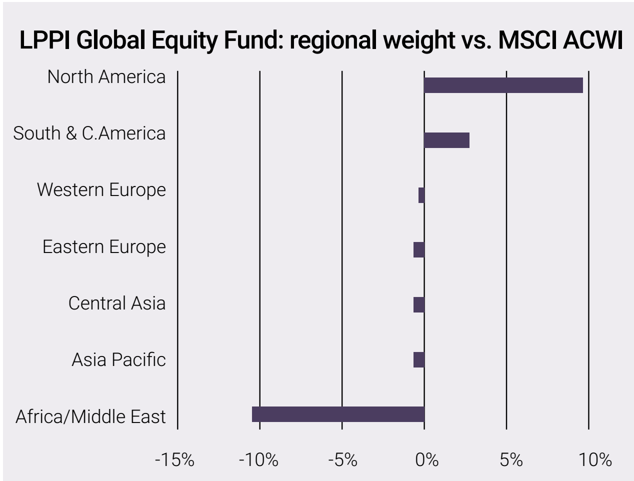
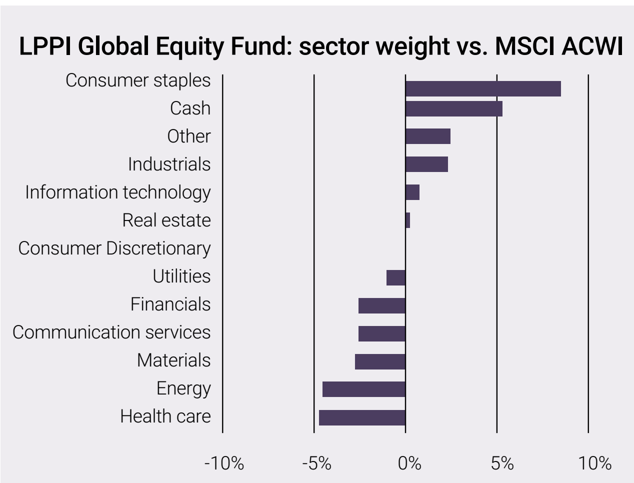


Figure 6: GEF – regional weights versus MSCI ACWI as at 31 March 2019



3. Investment review continued

3.1 Investment performance continued

Fixed income

LPPI's Fixed Income Fund (FIF) was launched in February 2018 and LPFA invested in it on launch day. The FIF currently consists of two complementary managers, one with a 'top down' investment style and the other with a 'bottom up' focus. The FIF's performance since launch has been positive, whilst also providing a 'cushion' for LPFA's returns during the Quarter 4 2018 market downturn.

Over a one-year horizon, the FIF has underperformed its benchmark, the Bloomberg Barclays Global Aggregate Index (Global Agg), but this can be attributed to the significantly lower interest rate exposure (i.e. duration) compared to benchmark. The FIF's lower duration profile is a derivative of its focus on liquidity and capital preservation regardless of the current or future level of interest rates (i.e. it takes limited interest rate risk). Below are three charts, exhibiting the FIF's aggregate positioning as at 31 March 2019. Please note that individual exposures may not total 100% due to derivative contract positions.

Figure 7: FIF – holdings maturity as at 31 March 2019

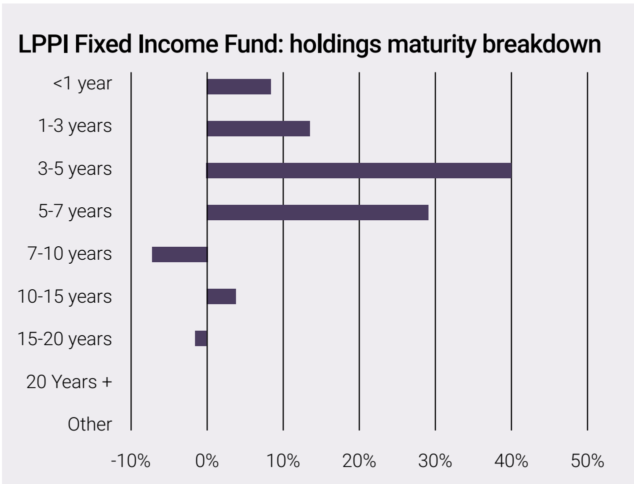


Figure 8: FIF – holdings by credit rating as at 31 March 2019

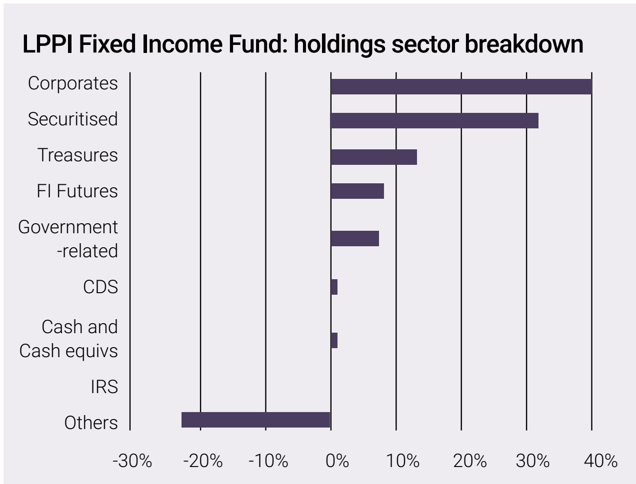
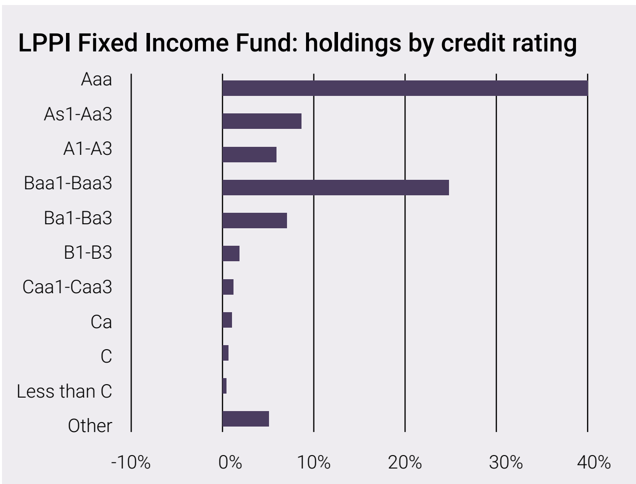


Figure 9: FIF – holdings sector exposure as at 31 March 2019



Private equity

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

The last 10 years have seen favourable conditions for private equity. This has been driven by a rise in valuation multiples, low interest rates and improvement in economic fundamentals. LPFA's private equity portfolio has performed particularly well, consistently outperforming its return benchmark due to a well-diversified allocation to many top quartile managers.

LPFA has reduced the rate of commitment to new private equity funds over the last 12 months in line with its aim of reducing its asset class exposure over the next few years, whilst ensuring that vintage diversification and manager relationships are maintained. A reduction in exposure to large buyouts, where valuations and leverage are currently at high levels has also been ongoing.

Figure 10: LPFA private equity portfolio – investment strategy breakdown as at 31 March 2019

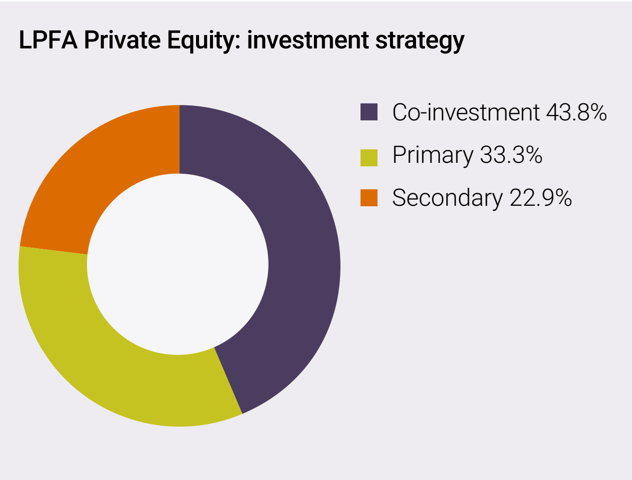
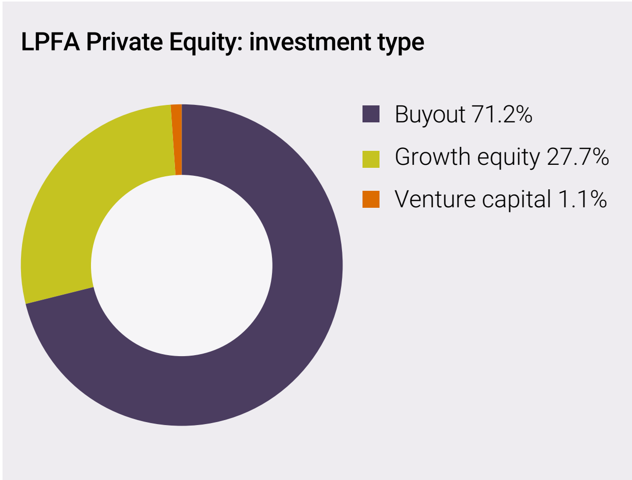


Figure 11: LPFA private equity portfolio – investment type breakdown as at 31 March 2019



3.1 Investment performance continued

Real estate

LPFA's real estate portfolio comprises two investment types: direct and indirect. The direct portion of the portfolio, which forms the majority of the real estate allocation, is managed by Knight Frank and consists of UK commercial property investments. The indirect portion of the portfolio consists of an overseas fund of funds portfolio managed by CBRE and an agricultural fund managed by Brookfield Asset Management.

Real estate plays a strategically important role within LPFA's overall investment portfolio, both because of its diversification benefits as well as the rental income generated that is used to fund member benefits without the need to liquidate other investments. Given the long-term nature of these investments, performance should be assessed over longer time horizons. LPFA's real estate portfolio has produced strong performance over a three-year and five-year horizon, comfortably outperforming its target return over these periods.

Figure 12: LPFA real estate portfolio – investment type breakdown as at 31 March 2019

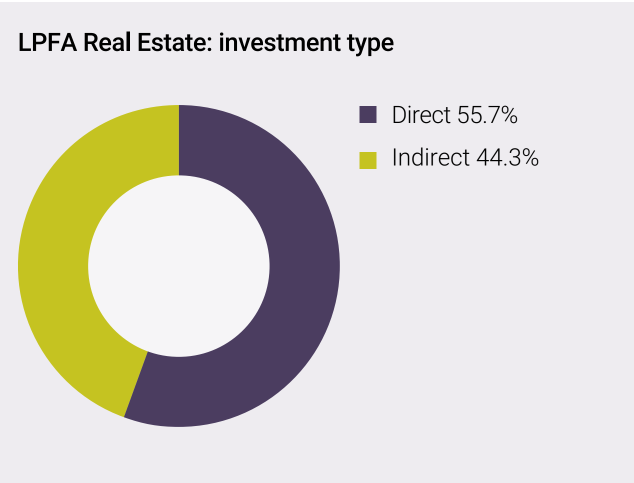
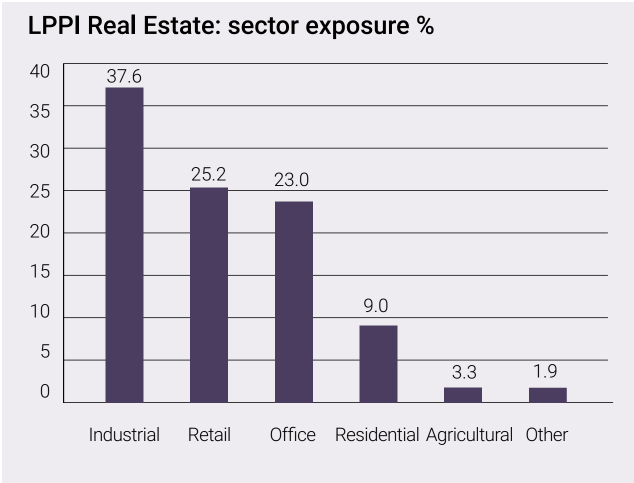


Figure 13: LPFA real estate portfolio – sector breakdown as at 31 March 2019



Infrastructure

The vast majority of LPFA's infrastructure exposure is through LPPI's Global Infrastructure Fund (GIF). This comprises allocations to a variety of global infrastructure funds, and direct investment projects. A key component of the pool is GLIL, a distinctive and credible platform designed to fully align the interests of like-minded investors who wish to exploit the very long-term investment opportunities in infrastructure investing. Through GLIL, LPFA now owns interests in various core infrastructure assets in the UK, including investments in wind-powered electricity generation, water assets, rolling rail stock and ports. LPPI is the appointed Alternative Investment Fund Manager (AIFM) of GLIL.

Infrastructure as an asset class typically offers long-term returns that are aligned to the Fund's investment objectives whilst also providing a source of diversification from other asset classes within the portfolio. As well as investing in infrastructure funds, the GIF has made an increasing number of direct investments in global infrastructure with significant allocations in the renewable energy sector. The scale that the GIF brings enables investments to be made on favourable terms, which reduces fee costs over the investment horizon, and also provides stronger governance rights to protect LPFA's long-term interests. Like real estate, significant initial investment costs may be needed which could impact performance in the short term. From a sector exposure the LPFA's infrastructure portfolio continues to be well diversified.

Figure 14: LPFA infrastructure portfolio – strategy breakdown as at 31 March 2019

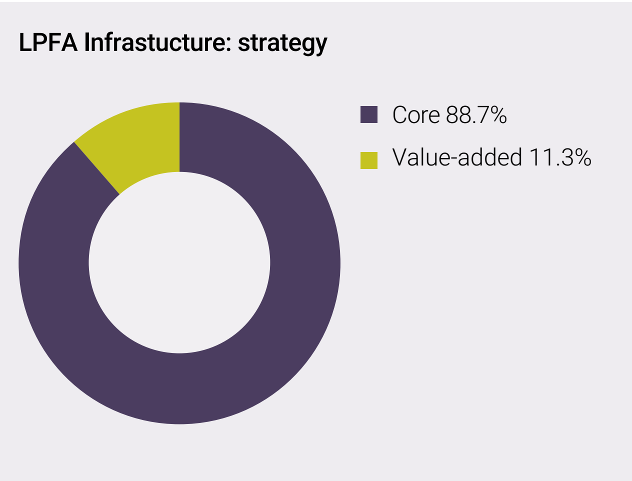


Figure 15: LPFA infrastructure portfolio – sector breakdown as at 31 March 2019

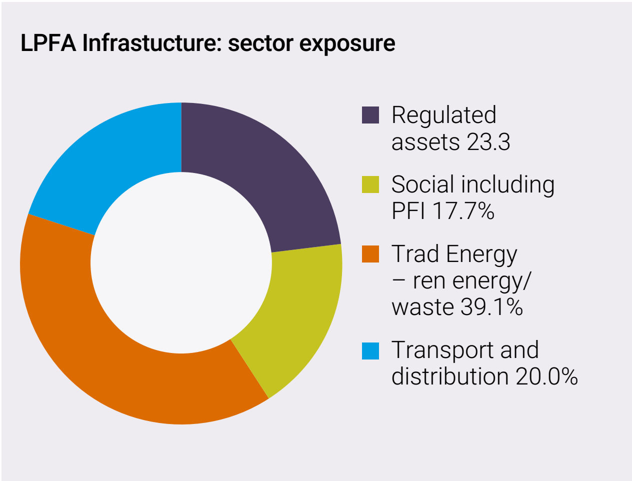
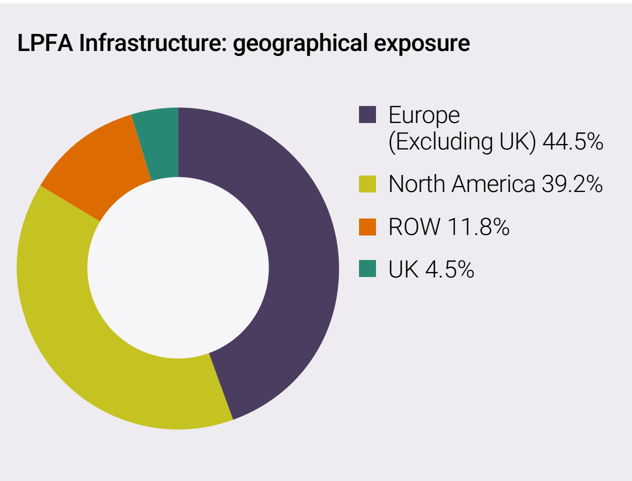


Figure 16: LPFA infrastructure portfolio – geographical breakdown as at 31 March 2019



3. Investment review continued

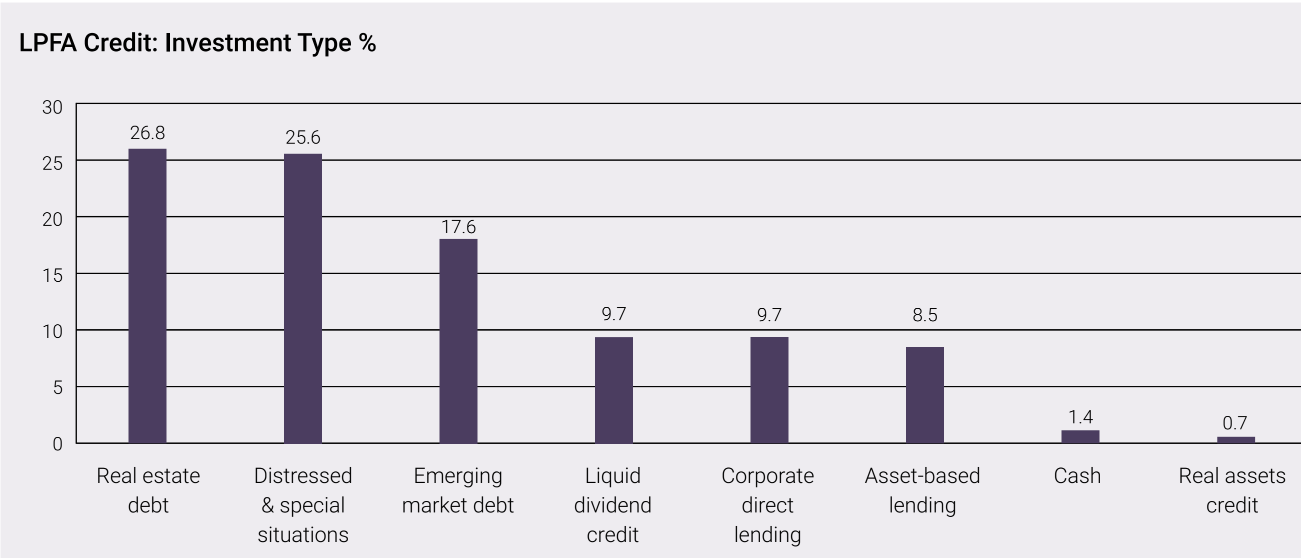
3.1 Investment performance continued

Credit

All LPFA's credit exposure is through LPPI's Global Credit Fund (GCF). The GCF invests in a range of credit-linked assets globally, predominantly in illiquid investments on a buy and hold basis, across the credit ratings spectrum. The income generated from the GCF is a material source of cash to meet liability payments and this is incorporated into the cash flow modelling that LPPI conducts on behalf of the Fund.

2018 was a challenging year for credit markets. The GCF's return over one year lagged that of the benchmark set for the strategy. Over the longer-term, performance remains strong, notably outperforming the benchmark over a three-year period. The broad types of the investments comprising the GCF at 31 March 2019 are included in the graph below.

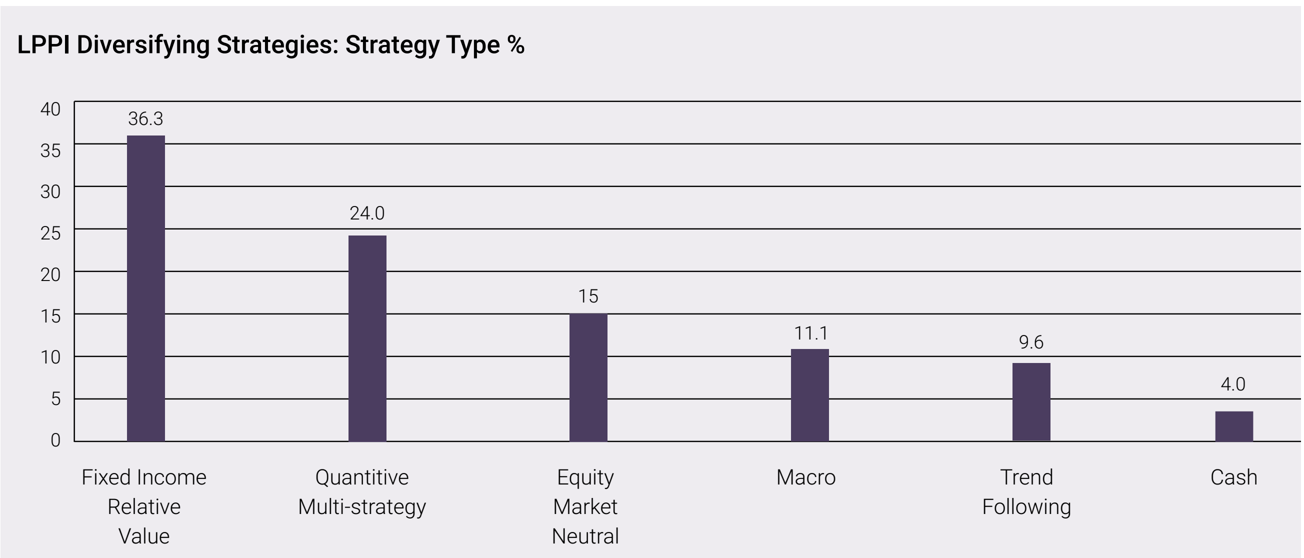
Figure 17: GCF credit portfolio – investment type breakdown as at 31 March 2019



Diversifying strategies

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

Figure 18: DSF – investment type breakdown as at 31 March 2019



Asset pooling disclosures

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

Pool set up costs

	Current year Direct £'000	Current year Indirect £'000	Total £'000	Cumulative £'000
Set up costs:				
Legal	–	283	283	829
Professional fees	–	38	38	331
Other support costs	–	–	–	174
Other costs	–	35	35	199
Total set up costs	**–**	**356**	**356**	**1,533**
Transition costs:				
Transition fees	–	19	19	739
Total transition costs	**–**	**19**	**19**	**739**

The table below compares the fee savings realised from the inception of pooling versus the preceding year, 2015-16. The savings are based on grossed up fees whereas previously fees may have been lower as they may have been netted off against the change in market value. This is consistent with current recommended practice.

As performance fees are included within the calculation of fee savings this may reduce the comparability of LPFA's costs against other pension schemes and pooling structures.

	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Set up costs	(76)	(225)	(449)	(430)	(356)
Transition costs	–	–	(439)	(281)	(19)
Fee savings	–	–	1,606	9,050	9,255
Net savings realised	**(76)**	**(225)**	**718**	**8,339**	**8,880**

Ongoing investment management costs

Investment expenses are shown broken down into their constituent categories and split between those resulting from investments held in the pooled vehicles and those held by LPFA.

	Asset pool Direct £'000	Asset pool Indirect £'000	Asset pool Total £'000	Non-asset pool Direct £'000	Non-asset pool Indirect £'000	Non-asset pool Total £'000	Fund total Total £'000
Management fees	587	27,700	28,287	1,143	11,444	12,587	40,874
Performance	21	5,251	5,272	–	2,155	2,155	7,427
Transaction costs	22	385	407	–	30	30	437
Custody	–	68	68	–	–	–	68
Other	–	46	46	–	–	–	46
Total	**630**	**33,450**	**34,080**	**1,143**	**13,629**	**14,772**	**48,852**

3.2 Responsible Investment

LPFA is committed to the long-term responsible investment (RI) of retirement savings on behalf of Fund members and this section of our Annual Report aims to provide insights into this aspect of our work.

For us, the focus of RI is sustainability. We are seeking to decrease investment risk and improve risk-adjusted returns through making well-informed investment decisions. Whatever sector or asset class, we want our asset managers to evaluate the influences which could affect the value of our investments by incorporating ESG considerations into their analysis. You can read more about our beliefs and approach to RI including ESG integration within our Investment Strategy Statement (ISS) which is available from our website and has recently been reviewed and restated at May 2019 by the Board.

Our commitment to RI is reflected in the standards we hold ourselves and our asset managers accountable to, the policies we have in place, our arrangements for the practical implementation of our policies and the actions we undertake (directly and through our asset managers) as an active and engaged asset owner.

Applying high standards

The pooling of our investments brought practical changes to where responsibilities for day-to-day asset selection and management sit and who they are performed by. Strong arrangements, objective standards and clear expectations are an important foundation for confidence in the delegations needed to accommodate asset pooling. We are using a number of external benchmarks to hold ourselves and LPP to account and to promote transparency.

We are a signatory to the UK Stewardship Code and have been ranked as Tier 1 (highest) by the Financial Reporting Council for our arrangements to ensure the effective stewardship of our investment portfolio. Our Statement of Compliance with the UK Stewardship Code describes in detail how we comply with the best practice principles encompassed by the Code. These include the management of conflicts of interest, monitoring of investee companies, shareholder voting and approach to engagement, and commitment to working collaboratively with other investors.

We are a responsible investor of long standing and since 2007 LPFA has been a signatory to the Principles of Responsible Investment (PRI), the pre-eminent global standard for Responsible Investment practice. In spring 2018, LPFA Board members supported a proposal for LPP to become a PRI signatory in order to direct the reporting focus onto activities undertaken through new, pooled arrangements. LPFA delisted as a PRI signatory in July 2018 and LPP immediately joined and has already begun reporting against the PRI framework. Transparency Reports are accessible from the PRI website describing arrangements and sharing examples of good practice. https://www.unpri.org/signatories/local-pensions-partnership/3478.article.

Identifying our priorities

Within our wider commitment to the sustainability and RI of the Fund's investment portfolio, we have continued to focus on climate change as a key priority during 2018-19. Our prioritisation reflects that we recognise the systemic risk climate change poses and that it will potentially affect every sector and company we invest in over the long-term horizon within which the Fund has liabilities to pay pension benefits.

The LPFA Board approved a policy on Climate Change in 2017 to address our concerns and set requirements and expectations of LPP in the period to 2020. Our policy recognises the range of challenges investors face and is focused on gaining an improved understanding of the risks faced and building improved capabilities to quantify and manage these as an integrated part of investment decision-making and stewardship. The LPFA Board is holding LPP accountable on the implementation of our policy and receiving monitoring reports on a quarterly basis which speaks to the different requirements we have specified. LPFA has also been supportive of the revisions LPP has adopted as part of their revised Responsible Investment policy as it applies to climate change published in August 2018.

LPPI has begun to employ data sets and tools to assist the assessment and quantification of climate change risks. These include Carbon Disclosure Project, Transition Pathway Initiative (TPI) and greenhouse gas emissions data for listed equities. Collectively these sources are contributing to LPPI's evaluation of how effectively companies are recognising and planning for the impact of climate change risks pertinent to their business. Additionally, they are also helping to identify companies for further review and engagement.

Positives arising from work undertaken by LPP in the past year include confirmation of a relatively low level of direct exposure to extractive fossil fuel companies within listed equities (0.4% of our total portfolio of £6.05bn). Efforts are being focused on engaging with companies and continuing to review progress to address risks faced. An additional positive is confirmation that our investment in renewable energy is 2.25% of the total portfolio, the majority being through investments in infrastructure which include wind generation in Portugal, biomass-fired power stations in Australia and onshore UK wind generation through the Clyde Wind Farm (via GLIL). GLIL is an infrastructure partnership with four other local government pension funds (Greater Manchester Pension Fund, West Yorkshire Pension Fund, Merseyside Pension Fund and Lancashire County Pension Fund) through which we are collectively investing in key infrastructure assets, mainly in the UK. During 2018 LPFA has increased its strategic allocation to infrastructure from 7.5% to 10% and whilst this decision was taken on investment grounds it brings the added benefit of an increased scope for positive social outcomes as a corollary to investments in real assets required to meet the daily needs of society.

Active in ownership

LPFA is actively engaging on climate change by identifying appropriate opportunities to encourage efforts by companies, regulators and governments to address the significant challenges faced. Examples of our participation from the last year include:

- the involvement of our Chairman and Managing Director in the C40 Cities Divest Invest Forum;
- our Chairman's statement of support for the adoption of the recommendations of the Financial Stability Board's Taskforce on Climate Related Financial Disclosure (TCFD);
- signatory to the 2018 global investor statement to governments on climate change urging action to achieve the emissions reductions targets under the Paris Agreement, support for improved company reporting in line with the TCFD disclosure framework and accelerated private sector investment in low carbon solutions;
- signatory to an investor letter to power companies in Europe calling on them to demonstrate their fitness for a clean energy future.

These examples are in addition to the efforts of LPPI which incorporate a wider network of investor groups and initiatives.

Active ownership is a key part of our RI approach. LPFA is a member of a range of groups and initiatives which bring investors together to achieve shared outcomes through positive and targeted collaboration. Some are multi-issue forums (Pensions and Lifetime Savings Association, Local Authority Pensions Fund Forum) whilst others are specifically focused on achieving progress on climate change (CDP, the Institutional Investor Group on Climate Change, Climate Action 100+ and C40 Cities).

LPFA is a long-standing member of the Local Authority Pension Fund Forum (LAPFF) which represents and engages with companies on the collective behalf of 80 Local Government Pension Funds and is a powerful example of positive ongoing collaboration. LAPFF's Annual Report for 2018 provides details of the Forum's engagement work on behalf of member funds during the year and illustrates the range of issues and themes covered within 166 engagements across 98 individual companies.

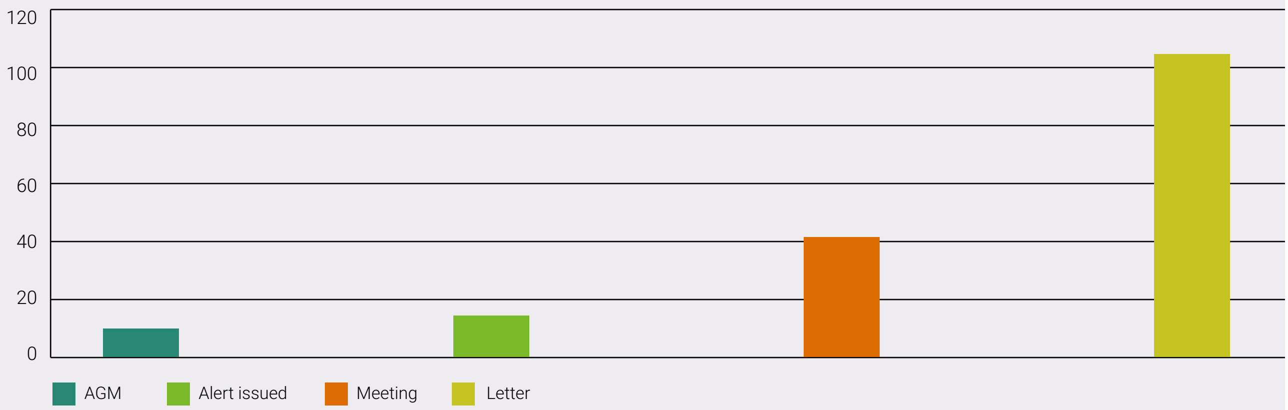
3. Investment review continued

3.2 Responsible Investment continued

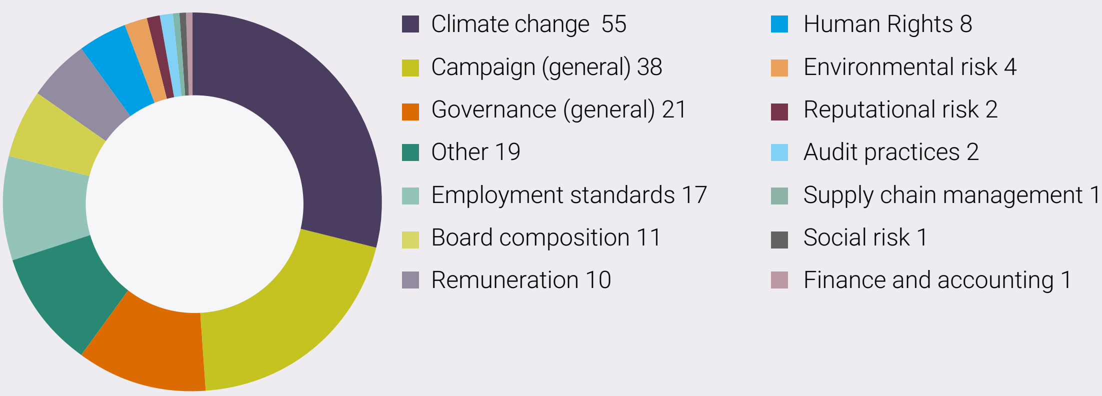
One of the most direct routes for sharing views with companies and urging change or improvement is through exercising the right of shareholders to vote at the annual general meetings of listed companies. Since our investments were pooled, LPFA no longer owns shares in listed companies directly. Our interests in listed equities are through holding units in the LPPI Global Equities Fund.

LPPI votes all shares in the Global Equities Fund directly. LPPI routinely publishes details of all meetings voted, the individual resolutions tabled and whether voting supported or opposed proposals within quarterly reports. These are publicly available from the LPP website where they can be referred to for granular insights.

Types of engagement



Theme of engagement



4. Governing the Fund

4.1 Highlights

LPFA aims to comply with the highest standards of corporate governance. These are reflected in the framework set out in its Local Code of Corporate Governance (the 'Code').

LPFA has published a Governance Compliance Statement pursuant to Section 55 of The Local Government Pension Scheme Regulations 2013, which explains how LPFA is compliant with a set of best practice principles issued originally by the Department for Communities and Local Government. Relevant references to the LPFA and the remit of its standing committee is provided in the statement. This statement is available on the LPFA's website.

- Following a thorough tender exercise, the LPFA reappointed Barnett Waddingham as its Fund Actuary for a further six years
- A Board Effectiveness Review was carried out in July 2018 by an external provider. The review made some recommendations to strengthen the Board's discussions and behavioural dynamics. An action plan to monitor progress on these recommendations has been produced and is reviewed by the Board at each meeting
- Following LPFA's Employer Forum in November 2018, the Fund invited over 70 practitioners to an all-day conference to discuss customer service, engagement, governance, The Pensions Regulator requirements on data, complaints and the upcoming Triennial Valuation
- Three new Board Members were appointed in the Autumn to strengthen the governance of the organisation
- Each year LPFA reviews its governance arrangements to ensure compliance with the Local Code of Corporate Governance and the delivery of good governance throughout the organisation. Several actions are captured in LPFA's Annual Governance Statement to deliver during 2019-20
- A Strategy Away Day was held in September 2018 to review its Governance Structure and Board composition, actuarial update and LPFA's future strategy in respect of working with LPP
- LPFA continues to work closely with the Greater London Authority (GLA) in implementing its Climate Change Policy by 2020. The Board receives regular updates on LPPI's delivery against LPFA's Climate Change Policy. LPFA will be focussing on ESG and RI issues during 2019-20. LPFA will be focussing more on ESG and RI issues during 2019-20 as set out in other areas of this report
- A review on the partnership's financial activities, governance and oversight arrangements took place during the financial year.

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4. Governing the Fund continued

4.2 Board, executive team and committees

The LPFA Board

Appointments

Process: The Mayor of London appoints LPFA's Board members following the provisions of SI No. 1815 which require there to be between seven and eleven members. Of that, one half (excluding the Chair) are to be appointed following consultation with representatives of Local Government in London. Board members are usually appointed for a period of three to four years, with the majority serving two appointment periods. The terms and conditions of appointment are set out in a formal letter which includes the length of term, remuneration, and details of the role and responsibilities.

Independent Non-Executive: All Board members are Independent Non-Executive post holders. Appointments are made on merit, against objective criteria and with due regard to the benefits of diversity on the Board, including gender. The diverse background of the Board is an asset and helps towards effective deliberations and decision-making.

Board composition

The current Board members are set out below:

Board member	Appointment period	Experience	Appointed as part of a London Council	Committee membership
Sir Merrick Cockell Chairman	1 October 2010 to 31 December 2018, extended to 31 December 2019	International Business Public Administration	Yes	n/a
Dermot "Skip" McMullan Deputy Chairman LPP Shareholder Non-Executive Director	17 April 2013 to 31 March 2021	Business and Pension Fund Management Investment Management	No	Investment Panel
Terence Jagger	1 January 2016to 31 December 2023	Public Administration Finance	No	Audit and Risk
Tamlyn Nall Interim Chair of Investment Panel from February 2019	1 January 2016 to 31 December 2023	Finance	No	Audit and Risk Investment Panel
Dr Barbara Weber	30 June 2017 to 31 July 2021	Investment Management	No	Audit and Risk (from June 2018) Investment Panel as part of induction process and interim member from February 2019
Nigel Topping	30 June 2017 to 31 July 2021	Manufacturing Business Climate Change	No	Audit and Risk from June 2018
Cllr Ruth Dombey	19 October 2018 – 31 December 2022	Local Government Administration Finance	Yes	n/a
Cllr Tony Newman	19 October 2018 – 31 December 2022	Local Government Investments	Yes	n/a
Christina Thompson Chair of the Audit and Risk Committee from January 2019	1 January 2019 – 31 December 2022	Finance in Local Government	Yes	Audit and Risk


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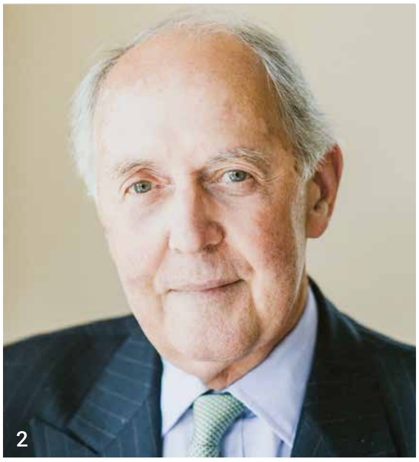
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Current Board members

Full biographies are available to view on our website: www.lpfa.org.uk/who-we-are/board-board-reports.aspx

1. Sir Merrick Cockell
   - Chairman
2. Dermot 'Skip' McMullan
   - Deputy Chairman
   - LPP Shareholder Director
   - Member of the Investment Panel
3. Christina Thompson
   - Chair of the Audit and Risk Committee
4. Cllr Ruth Dombey
5. Cllr Tony Newman
6. Tamlyn Nall
   - Interim chair of the Investment Panel
7. Terence Jagger
   - Member of the Audit and Risk Committee
8. Dr Barbara Weber
   - Member of the Audit and Risk Committee
   - Member of the Investment Panel (interim)
9. Nigel Topping
   - Member of the Audit and Risk Committee

4. Governing the Fund continued

4.2 Board, executive team and committees continued

Board changes: On 19 October 2018, Cllr Tony Newman and Cllr Ruth Dombey were appointed to the Board, each on a four-year term. On 1 January 2019, Christina Thompson was appointed to the Board on a four-year term. Sir Merrick Cockell's term was extended as LPFA's Chairman for a further year to 31 December 2019. Full biographies are available on the LPFA's website.

During the year, the following members retired on conclusion of their terms of office: Cllr Stephen Alambritis (30 September 2018), Anthony Dalwood (31 December 2018) and Mike O'Donnell (31 December 2018).

Matters Reserved

Throughout the year, the Board has operated in accordance with its Matters Reserved. Amongst the matters considered this year, particular emphasis has been placed on ensuring compliance with statutory and regulatory requirements, establishing the Pension Fund's strategy and driving its activities to deliver on the underlying objectives. Risk has also been a key focus with the Board reviewing the Risk Management Framework for Investment & Funding and ensuring a robust system of internal controls. The Board has also ensured that the public policy statements are updated in light of the Fund's operating model.

A Strategy Board Away Day was held on 3 and 4 September 2018, which was an opportunity to review the progress made over the year and refine the operating model to ensure continued alignment with the objectives.

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

Highlights of the work undertaken by the Board during the year	
Reviewed	• Quarterly financial position • Investment and pension administrative performance • Delivery of the LPFA's Climate Change Policy • Oversight of LPP's Governance and Performance • The Constitutional Document
Approved	• LPFA Pension Fund Annual Report & Accounts 2017-18 • Annual Governance Statement 2017-18 • Strategic Policy Statement 2019-2022 • The Medium Term Financial Plan 2019-2022 • Investment Strategy Statement 2018 • The appointment of the Fund's Actuary • The appointment of the Fund's External Auditor • LGPS Governance Compliance Statement 2018 • Local Code of Corporate Governance 2018 • The Fraud Control Framework 2018 • Risk Appetite Statement and Risk Management Framework (Investment & Funding) • Communications Policy Statement 2018 • Audit and Risk Committee's Terms of Reference • Local Pension Board (LPB) Terms of Reference, including the reappointment of LPB Chairman and new members to the LPB
Noted	• Updates on LPP governance • Investments in the pipeline • Ongoing review of the Fund's Risk Register • Annual Audit and Risk Committee report • Report from the Independent LPB Chair

Remuneration and nomination matters

As part of ensuring that the LPFA Board and Committee structure remains efficient and appropriate, it had been decided to terminate the activities of the Remuneration and Nomination Committees and agreed that the whole Board considers remuneration and nomination matters in a Board-only session of each meeting.

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

- Review of the Board's composition and Committee's membership, it was concluded that there was an appropriate mix of skills and experience to provide strong leadership
- Approval of the Managing Director's objectives for the 2018-19 financial year
- Review of the remuneration and service terms of the Managing Director
- Approval of the remuneration proposals (shareholder reserved matter) of the LPP Executive
- Reappointment of the Chair of the LPFA Local Pensions Board for a second term.

The Board members' remuneration is available on LPFA's website.

Insurance

LPFA maintains directors' and officers' liability insurance which provides cover proportionate to the role and responsibilities of the Board members.

Interests

Conflicts of interest are identified and managed as a matter of transparency and good governance. At the start of each meeting, Board members declare any conflicts of interest they may have, and these are formally recorded in the minutes and the conflicts of interest register.

The interests declared by this Board is available for public inspection on LPFA's website. LPFA also publishes its gifts, hospitality and expenses register for Board members and Principal Officers on a quarterly basis on LPFA's website.

Board training

LPFA's Board members are required to complete The Pensions Regulator's Trustee Toolkit upon joining the Board and undergo a detailed induction programme.

Each Board member is required by LPFA to complete a competency statement outlining their skills and experience relevant to the appointment and to undergo regular training. Board Members are requested to complete a skills and knowledge questionnaire on an annual basis as part of their individual performance meetings. Board members also participate in a mixture of individual and group training sessions, based on the Knowledge and Skills Framework principles. Furthermore, after each Board meeting, time is set aside for training on specific topics linked to the Fund's SPS.

During 2018-19, training sessions and specific additional Board meetings were held on:

- Responsible Investment
- Preparation of Triennial Valuation 2019
- LPFA's Risk Appetite Statement
- Walkthrough of LPP offices in Preston, including presentations from Investment Compliance, Responsible Investment and Administration services.

Board members' training requirements are reviewed on an ongoing basis throughout the year, with tailored programmes following the Board appraisal process.

Board evaluation

The Board conducted an externally facilitated evaluation during the year and built on this review to help ensure that it continued to operate as a high performing governance group for the Fund. The review concluded that the Board was operating effectively.

Governance

The Board members abide by the high governance standards set out in the LPFA Constitutional Document, in particular by the Code of Best Practice setting out principles in respect of openness, transparency and accountability. In terms of reporting, there is regular and proactive engagement between LPFA and the Mayor of London.

4. Governing the Fund continued

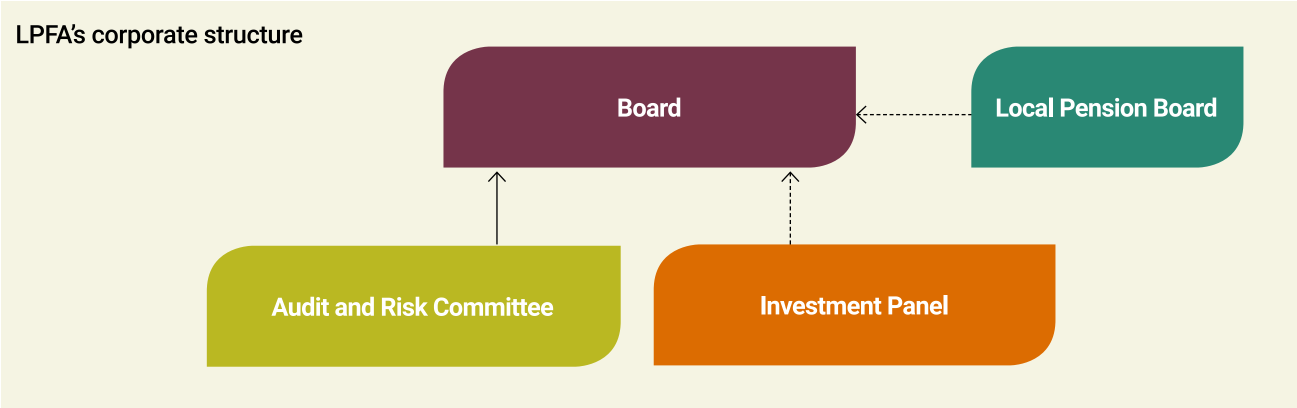
4.2 Board, executive team and committees continued

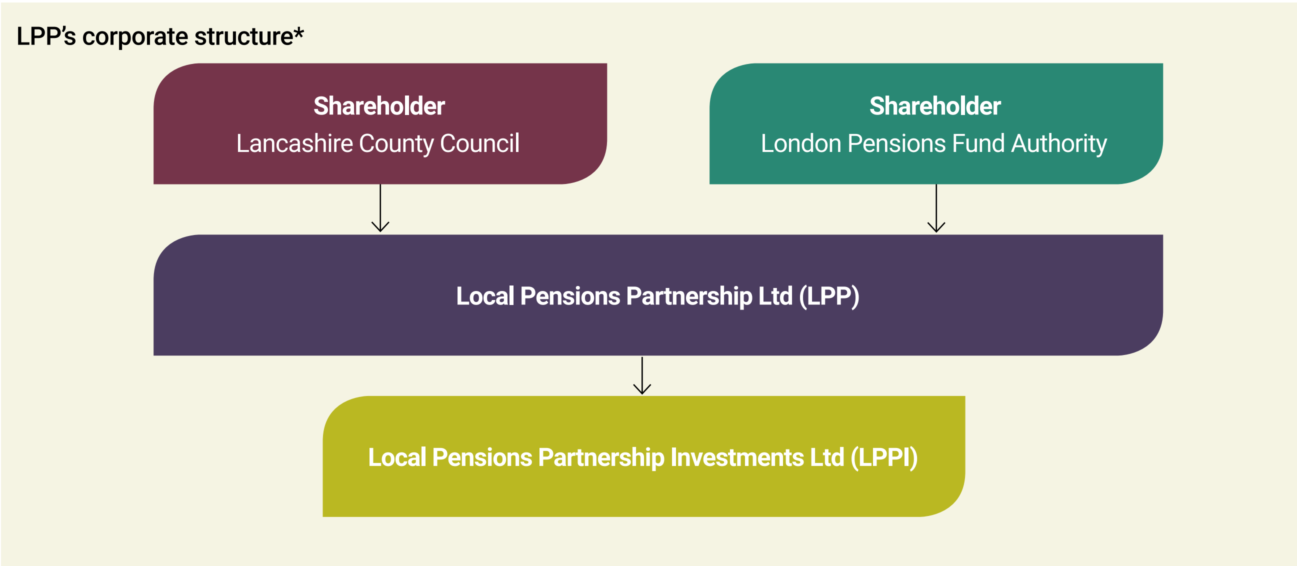
Board member attendance

This financial year, there were a total of 16 Committee and Board meetings, including the Board Strategy Away Day. An overview of Board members attendance is set out below:

Board member	Board attendance (excluding the away day)	Committee membership	Committee attendance
Sir Merrick Cockell	5 out of 5	n/a	n/a
Dermot "Skip" McMullan	5 out of 5	Investment Panel	4 out of 5
Terence Jagger	4 out of 5	Audit and Risk	4 out of 5
Tamlyn Nall	5 out of 5	Audit and Risk	5 out of 5
		Investment Panel (Interim Chair from January 2019)	5 out of 5
Dr Barbara Weber	5 out of 5	Audit and Risk (from June 2018)	4 out of 4
		Investment Panel (induction process and interim member from January 2019)	2 out of 2
Nigel Topping	5 out of 5	6 out of 6	4 out of 4
Cllr Ruth Dombey	2 out of 2	6 out of 6	n/a
Cllr Tony Newman	2 out of 2	5 out of 5	n/a
Christina Thompson	1 out of 1 (observed 1 meeting as part of induction process)	Chair of the Audit and Risk Committee from January 2019	1 out of 1

LPFA's corporate structure diagram





* LPP comprises a holding company, Local Pensions Partnership Ltd (LPP Ltd), and an investment management subsidiary LPPI which is authorised and regulated by the Financial Conduct Authority. Local Pensions Partnership Administration Ltd remains a subsidiary of LPP, however it is non-trading.

Audit and Risk Committee (advisory body): The function of the Audit and Risk Committee (the 'Committee' or 'ARC') is to monitor the operation of the LPFA's internal control, governance, compliance and risk arrangements and to make appropriate recommendations to the Board.

The 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. The Committee also receives reports on LPP's risk management activities.

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

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

The attendance at Committee meetings is set out on page 32 and the terms of reference of the Committee are available on the LPFA website. and the terms of reference of the Committee are available on the LPFA's website.

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

4.2 Board, executive team and committees continued

Highlights of the ARC work during the year:	
Reviewed	• Quarterly financial updates • Internal Audit Findings report, and progress made against the recommendations, including robustness of internal controls • External Audit Findings report, and progress made against the recommendations • LPP's performance against SLA • LPP's Budget 2019 (shareholder reserved matter) • The appropriateness of the whistleblowing policy and anti-bribery policy
Approved	• The revised three-year Internal Audit Plan for 2019-20 • The External Audit Plan for the year ending 2018-19 together with the audit fee • The Annual Audit and Risk Committee report for presentation to the Board
Recommended to the Board	• The Pension Fund Annual Report 2017-18 • The Medium Term Financial Plan 2019-22 • The Risk Appetite Statement and Risk Management Framework (Investment & Funding) • The appointment of LPFA External auditor • The appointment of the LPFA's Actuary • The Fraud Control Framework 2018 • The Committee's Terms of Reference • The Local Code of Corporate Governance 2018
Noted	• Risk Management Updates • Updates on LPP Governance and Performance • Compliance against policies • Treasury Management activity • Employer Covenant and Liability Risk updates

The Committee Chair reports formally to the Board on its proceedings after each meeting and maintains a dialogue with key individuals involved in the Fund's governance outside of the formal meeting programme.

On an annual basis, the Committee submits a report to the Board on the discharge of its responsibilities. This report is published on the website.

Investment Panel (advisory body): LPFA also operates an Investment Panel (IP) whose role is to review the performance of the assets and whether these are compliant with the ISS. The IP also monitors whether investment activities are aligned with the Funding Strategy Statement (FSS) to ensure that the core risk of not being able to pay pension funds when they fall due is effectively mitigated. This panel promotes a constructive dialogue on the quality of investments. It is comprised of LPFA Board members and LPPI representatives and meets on a quarterly basis.

The Chair of the Panel reports to the Board on the activities of the IP.

Local Pension Board (LPB) (advisory body): The role of this Board, which comprises representatives of both members and employers, is to assist the LPFA Board with the oversight and the efficient management of the Fund. Its membership and details of its activities can be found on page 43 and its Terms of Reference on the website. During the year, two new LPB members were appointed, Jenny Lo and Prashant Solanky. Joint training was also undertaken with the LPFA Board with a view to increasing collaboration and sharing experiences. The LPB members have also been actively involved in the Fund's engagement activities, such as the Employer Forums and the Practitioners Conference.

An overview of the activities undertaken by the LPB, as well as training received during the year, can be found on page 43. The LPB meets quarterly, and details of the attendance at those meetings is on page 43.

The Independent Chair of the LPB attends the Board meeting annually to report on the LPB activities.

LPFA Principal Officers

LPFA's Principal Officers consist of the Managing Director, s151 Officer and the Monitoring Officer.

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

LPFA's s151 Officer: monitors financial processes, liaises with external and internal auditors, and advises the Board on all financial and investment matters, particularly concerning their duties under the Regulations.

LPFA's Monitoring Officer: monitors statutory and regulatory compliance and reports to the Board on any action which in their opinion would be contrary to law. The Monitoring Officer is also responsible for the administration of the Code of Conduct for Board members and managing any conflicts of interest. This role is outsourced by the GLA.

LPFA's Managing Director: oversees the performance of LPP ensuring that high standards of service delivery are maintained, the implementation of strategic programmes and compliance with the relevant statutory requirements. The Managing Director is the key point of contact with the GLA and the co-Shareholder LCC, and the wider pensions and LGPS communities.

Each year LPFA reviews its governance arrangements to ensure compliance with the Local Code of Corporate Governance and the delivery of good governance throughout the organisation.

Constitutional Document

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

4. Governing the Fund continued

4.3 LPFA Strategy

Board strategy 2018-19

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

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

Strategic objectives

LPFA has three primary strategic objectives addressing:

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

Objective 1: Evolution of investments and liability management

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

This objective is translated into:

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

LPFA has a Funding Strategy Statement which establishes a clear and transparent fund-specific strategy identifying how employers' pension liabilities are best met. This statement is available on the website.

Triennial valuation

In anticipation of the 2019 Actuarial Valuation, increased time and effort will be invested in engaging with the Scheme employers to ensure that they receive the required level of support in terms of funding and contribution considerations.

Investments

To contribute towards a sustainable and healthy funding level, the Fund has developed an ISS, which seeks to maximise returns from investments whilst keeping risk within acceptable levels and ensure that liquidity requirements are met. The latest ISS is available on the website.

The implementation of the ISS has been delegated to the LPPI, which is authorised by the Financial Conduct Authority. Investment performance is subject to thorough review at each Board meeting and specifically via the Investment Panel to ensure that the portfolio can meet the long-term funding, income and liquidity needs of the Fund.

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

LPPI has assessed LPFA to be an elective professional client following the implementation of MiFID II Regulations in 2018. This means that LPFA is deemed suitable to continue to invest in a broad range of asset classes under its agreement with LPPI.

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

– Complete transition of assets to LPPI's pooling vehicles to benefit from economies of scale.

 ✓ We achieved: LPPI has launched the sixth of the seven investment pooling vehicles that LPFA is invested in. The Diversified Strategies fund was launched on 28 September 2018 with the final Real Estate pooled fund planned for 2019.

– Effective implementation of the revised Strategic Asset Allocation to ensure long-term funding needs are met.

 ✓ We achieved: strong outperformance with returns in excess of our targeted 5.7% per annum (over the long term) bringing the total value of investment assets to £6.05bn.

– Focus on investment risk, including ESG and increased engagement with other stakeholders.

 ✓ We achieved: refinement of the LPFA Climate Change Policy, joint discussions with the Responsible Investment Working Group of Lancashire County Pension Fund to discuss approaches to future responsible investment, and commitment to supporting the C40 best practice.

ESG initiatives

LPFA has a long-standing commitment to long-term responsible investment. The Fund's proactive approach to addressing ESG considerations in its investment policies has been developed over a number of years and continues to evolve. The Fund is a member of a range of investor groups including the Institutional Investor Group on climate change.

Objective 2: Operational efficiency and robust shareholder activity

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

Since April 2016, the majority of LPFA's functions have been outsourced to LPP under an SLA, seeking operational efficiency via economies of scale. LPP is a pension services business formed through collaboration between LPFA and LCC. LPP is the vehicle to which LPFA has delegated all aspects of pension fund management. LPPI is specifically contracted to provide investment management and asset pooling. LPPI is the operator of the pooled funds.

These outsourced functions include pension administration, investment and risk management services. As a shareholder and a client, LPFA has an essential and important role in ensuring that LPP remains accountable and provides the necessary assurance to LPFA. Formal agreements are in place between LPFA and LPP to manage the delivery of these functions.

During the period under review, LPFA has continued to use its position as an active shareholder to ensure that the strategic objectives associated with the partnership are achieved, whilst providing appropriate guidance to promote its growth.

Highlights of the activities undertaken in pursuance of a robust shareholder role:

- Regular meetings between the Managing Director and LPP are in place to review performance
- LPP's performance is monitored at LPFA Board meetings, with updates on the progress made against key performance indicators by LPP representatives
- Quarterly shareholder meetings held between LPFA and LPP during the year to provide further details on LPP's achievements and its strategic direction for the future
- LPFA is represented on the LPP Board via its Shareholder Non-Executive Director, who provides a biannual report to the LPFA Board on matters progressing at LPP
- The Managing Director is an observer on the LPP Board.

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

LPP's new target operating model for its administration business has had some initial challenges when it went live in April 2018. The model has been strengthened leveraging on technology, enhanced processes and internal controls, and driven by a culture of continuous member services improvement.

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

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

  ✓ We achieved: ongoing formal review points to provide support and challenge to ensure continued high levels of service delivery in line with agreed key performance indicators and SLAs. Oversight of key projects such as the refreshed administration model to ensure its robustness.

– Continue to work with GLA to identify specific functions and responsibilities where closer co-operation might result in improved efficiencies.

– LPP won the 'Pool of the Year' award at the LAPF Investments Awards in September 2018. The award recognises that LPP has implemented best practice, and demonstrated leadership for both member funds and within the LGPS as a whole.

Objective 3: Partnership working and wider collaboration

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

4. Governing the Fund continued

4.3 LPFA Strategy continued

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

– Continued collaboration with the wider LGPS, including working with LPPI to identify suitable opportunities for investment in London's infrastructure.

  ✓ We achieved: we have increased our asset allocation to infrastructure and are keen to move beyond our housing investment, which is near to completion, at Pontoon Dock into further large rental housing opportunities.

– Enabling LPP to continue to develop value added business offerings to existing and new clients across all areas of pension fund management based on an appropriate business case.

  ✓ We achieved: with the support of LPP's shareholders, the RCBPF became an investment client of LPPI in June 2018.The London Borough of Brent has been onboarded as a pension administration client of LPP.

– Promoting LPFA's approach within the LGPS sector with a view to seeking greater engagement and collaboration.

  ✓ We achieved: our engagement programme has been refreshed with varied activities. These include: the annual Member Fund Forum, Employers Forum and Practitioners Forum all aimed at providing better support to members and employers.

As set out earlier in the report, GLIL is an infrastructure partnership with four other local government pension funds (Greater Manchester Pension Fund, West Yorkshire Pension Fund, Merseyside Pension Fund and Lancashire County Pension Fund) through which we are collectively investing in key infrastructure assets, mainly in the UK.

GLIL was awarded the 'Collaboration' award at the LAPF Investments Awards in September 2018.

LPFA continues to build its learning and experiences with government representatives on the broader pooling agenda and is a member of a number of professional bodies.

Communications

LPFA has established clear channels of communication with all stakeholders on its strategic aims, objectives and performance, with procedures in place to monitor effectiveness. A Communication Policy Statement is available on LPFA's website.

Overview of the communication channels used with stakeholders:

- Members of the scheme – newsletters, guides and the website
- Employers of the scheme – newsletters, guides and the website
- GLA – two-way communication is facilitated by regular meetings and the submission of the SPS for comment
- Wider pensions community – LPFA has representation on national and local forums: Local Government Pensions Committee (LGPC), Officers Advisory Group to the LGPC, CIPFA Pensions Panel, CLASS Management Team, London Pension Managers Group, and the PLSA Local Authority Committee.

Looking forward – initiatives:

- Ongoing monitoring of the Fund's investment strategy to ensure that it reflects the Fund's investment beliefs
- Increased focus on ESG risk factors consideration, building on the progress made on our Climate Change Policy
- Oversee the operation of a robust pension administration model at LPP
- Continue shareholder activities to ensure efficient and high-quality service delivery by LPP across all outsourced areas of activities
- Continued engagement and co-operation with the wider stakeholder community.

LPFA's website is an essential communication tool for our members, employers and the wider stakeholders group. It provides information on LPFA's history, organisational and governance structures, services and support. All relevant statutory and regulatory publications pertaining to LPFA and the Fund are available on the website.

4.4 Risk management

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

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

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

Risk services

Under an SLA, LPP supports LPFA in identifying, measuring and monitoring the risks in the Fund and reporting these regularly to the ARC. The main risk areas supported by LPP include asset and liability risk, operational risk, investment risk and employer risk.

Insights into the risk management process

In light of the evolving statutory and regulatory landscape, LPFA with the support from LPP regularly identifies and mitigates a range of risks arising from the external environment (immediate and longer term). The risk register ensures any new risk, including administrative management of the partnership are identified and the correct controls are in place to manage these risks effectively. The ARC focuses on both strategic and operational risks, including the management of the Fund's Assets and Liabilities.

The risk register is regularly monitored by the Managing Director to ensure that any new risks are identified and captured and that controls remain appropriate. The risk register is also scrutinised by the ARC, which will then issue recommendations to the Board, providing an additional layer of assurance to the risk oversight.

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

The annual report from the ARC is published on the LPFA's website and provides an insight into the work undertaken by the ARC during the 2018-19 financial year.

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

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

Risk oversight

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

The table below summarises the medium risk areas identified during 2018-19, mitigating actions in place and officer responsibilities.

Risk areas identified	Mitigation	Officer Responsibility
Operational risks		
The introduction of the European Directive Markets in Financial Instruments Directive (MiFID II) resulted in a restriction of the Fund's investment options and an increase in costs.	LPFA has successfully been opted-up as an elective professional under the enhanced MiFID II / FCA rules. Monitoring is in place to ensure the Fund remains opted up and receives assurance statements from LPPI that appropriate governance arrangements are in place to track progress and compliance.	Managing Director
The introduction of EU General Data Protection Regulations 2018 (GDPR) due to the significant amount of personal data that is handled to administer the pension scheme.	LPP appointed an Information Governance Officer to oversee compliance of GDPR regulations for LPFA. The Managing Director receives regular updates from LPP on the compliance of GDPR, which is also reported to the ARC.	Managing Director
Transition risk		
There is a risk to the Fund of central government intervention, should the partnership not grow in line with the original government pooling aspirations for LGPS funds.	LPP continues to maintain a proactive dialogue and engagement with the government, regulators and industry organisations to keep them abreast of progress and to note any potential changes to their agenda	Managing Director
Inappropriate or untimely decision making due to poor stakeholder engagement.	The Shareholder agreement enforces a number of reserved matters that LPFA formally agrees upon. A formal governance structure has been established which enforces decision making at the right levels. There is LPFA representation on the LPP Board via the Shareholder Non-Executive Director providing transparency at LPP Board meetings. The Managing Director also attends LPP Board meetings as an observer. Quarterly shareholder meetings are scheduled, including an annual LPP shareholder event to align strategic direction of the partnership.	Managing Director

Risk areas identified	Mitigation	Officer Responsibility
Administrative risks		
Fund and individual communications are inadequate, leading to members making badly informed decisions and/or lose out on potential benefits which could result in legal claims being made against the Fund.	LPP has established a dedicated engagement team and set up an initial action plan to improve service levels to members in 2019-20.	Managing Director

Employer risk

The Fund has 142 active employers and others who have left but still have financial commitments. Employers range from large tax-backed organisations to small charities, and there is an ongoing monitoring of the employers' ability to meet their commitments to the Fund. Monitoring is carried out by a continuous review of the employers' covenants and implementing risk mitigation strategies such as the provision of security. Covenant monitoring also entails categorising employers' risk profiles in accordance with the FSS, which ultimately determines the level of contribution they are required to make to the Fund.

The employer landscape is subject to ongoing changes – for example, due to mergers and acquisitions. These corporate events are subject to scrutiny to ensure that any risks identified are adequately mitigated.

Asset and liability risk

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

Over the last year, the LPFA's Investment Panel and ARC have further developed the risk appetite statement for the LPFA Fund. The statement covers warning levels and limits for a range of measures, along with possible responses to these if they are reached, and covers four key areas:

- Liquidity/Cash flow Capacity
- Asset Allocation
- Contributions
- Triennial Valuation Basis Funding Level.

Operational risk

The Fund has developed a risk register to monitor its strategic and operational risks. These include risks in relation to internal processes, people and systems, and external risks. The register is used to monitor the internal controls established, manage and mitigate the risks identified, assess the effectiveness of these controls together with any further actions required, and to quantify the potential impact following risk assessments. The register is updated on an ongoing basis and reviewed at each ARC meeting.

Investment risk

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

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

LPP has retained the Information Security 27001 accreditation in September 2018 and the Cyber Essentials Accreditation in March 2019.

4. Governing the Fund continued

4.5 LPFA advisors and service providers*

EVERSHEDS
Legal advisor

CLIFFORD CHANCE
Legal advisor

Deloitte.
Internal audit

Grant Thornton
External audit

Barnett Waddingham
Fund actuary

PRUDENTIAL
Additional Voluntary Contributions (AVC) provider

LLOYDS BANK
Bank

National Fraud Initiative
Fraud support

BNY MELLON
Custodian

KPMG
Other independent advisor

pwc
Other independent advisor

LPP Local Pensions Partnership
Investment manager

Insight INVESTMENT
Investment manager

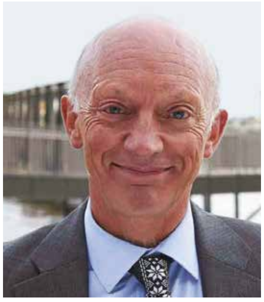
Knight Frank
Investment manager

Brookfield
Investment manager

LPP Local Pensions Partnership
Scheme administrator/ employer risk services

* Please see annex iiii on p83 for contact details

4.6 Statement from the Local Pension Board



➜ The LPFA's ability to fulfil its fiduciary duty and thereby pay pensions in full and on time depends critically on LPP providing an effective service to it.

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

When they were set up in 2015, LPBs were new bodies and it has taken time to establish how we should fulfil our duties without duplicating the Board's role. There is a wide variation in their effectiveness across the country and the national Scheme Advisory Board will this year be conducting a survey into how they operate.

We work from a work plan, which is approved each year, to ensure that we are methodical in our activities. The core of our duties is to review the reports and compliance assurances which support the Fund's governance, and comment on them to the Board. If we believe something requires particular attention, we may make a formal recommendation, which requires a response. However, we are always aware that our role is to assist the Board and a good relationship between the two bodies is absolutely essential.

During the year we made one formal recommendation, that the Board consider providing more governance resource to the Managing Director so that he is able to verify the various reports and assurances provided to him in more detail. I give more information on this further down.

In this report, I will start by reminding readers of the mechanics of the LPB, cover the training we undertake and, finally, comment on our activities over the past 12 months, noting where we expect to focus our efforts in the next year.

Membership of the LPB

The LPB has nine members, four Employer representatives, four Scheme Member representatives and I act as the Independent Chair. Members serve up to two four-year terms and we chose to stagger the initial appointments to avoid wholesale change. Apart from the Chair, none are remunerated other than for expenses incurred in attending meetings or training.

There have been some changes to the LPB's composition during the year. Simon Steptoe and Jamie Ratcliffe resigned during the year, and I would like publicly to thank them both for their considerable contributions during the first three years of the LPB's operation. Following an advertisement, we welcomed in their place Jenny Lo and Prashant Solanky as new Scheme Member representatives. Sean Brosnan and Omolayo Sokoya's first terms came to an end, and I am delighted they have both agreed to serve a

4.5 Statement from the Local Pension Board continued

The table below shows members attendance at Board meetings.

LPB Members	Total attendance
William Bourne	4 out of 4
Jamie Ratcliff	Retired on 31 October 2018 – Two meetings were attended during the year
Peter Scales	3 out of 4
Simon Steptoe	Retired on 14 September 2018 – one meeting attended during the year
Omolayo Sokoya	3 out of 4
Frank Smith	3 out of 4
Adrian Bloomfield	3 out of 4
Amy Selmon	4 out of 4
Sean Brosnan	4 out of 4
Jenny Lo	Appointed on 26 February 2019 attended one meeting during the year
Prashant Solanky	Appointed on 26 February 2019 attended one meeting during the year

further term. Finally, I have been reappointed by the Board to serve as Chair for up to a further four years.

The LPB meets four times a year and we additionally create informal groups if we feel they are needed. We hold training sessions ahead of our meetings and I report to the Board on the LPB's activities once a year. Information about the LPB, including minutes and public papers, are available on the Fund website. There is no internal budget, but costs are approved by the Authority and paid by the Fund. In this year, these amounted to £2,414.

Training

The LPB is under a legal obligation to maintain its levels of knowledge and understanding through regular training. We conduct a gap analysis of training needs once a year as part of our own annual appraisal, which becomes an agenda item at our next meeting, and we have all committed to completing the online training modules from The Pension Regulator's Public Service toolkit.

During the year, we held internal training sessions either before or after each meeting. We aim to make the topic relevant to the meeting agenda, and during the year covered the Authority's overall governance processes, responsible investment and climate change, internal audit and the upcoming triennial fund valuation. Members are also notified of and encouraged to attend external training conferences to extend their knowledge and meet LPB members from other funds. In 2019 we expect to hold at least one joint session with the Board.

Activities during the year

A year ago, I expected the focus to be largely on the LPB's core reviewing role. In particular, I said we would monitor improvements expected from the Administration Transformation Plan, as well as the governance processes over LPP, the entity created with the LCC to perform the Authority's investment and administration activities). The LPFA's ability to fulfil its fiduciary duty and thereby pay pensions in full and on time depends critically on LPP providing an effective service to it.

In practice, we have spent more time than we had envisaged on the changes to the administration service. The LPB was fully supportive of the concept behind the plan but did in June 2017 ask that it be included in the internal audit's risk assessment ahead of implementation. With the benefit of hindsight, some of the problems the service encountered in the first half of this year might have been mitigated if this had been acted on more promptly.

We have consequently been actively involved during the year in engaging LPP to ensure that client service quality is given priority. We have also been carefully monitoring the recovery of service levels since the implementation of the Transformation Plan. We are aware that there is more work to be done to improve the member experience but, at the same time, remain firmly behind LPP's ambition to use the combination of the two administration services as an opportunity to change things for the better.

Two years ago, we set in place a range of projects to improve communications with members and employers. We have been working together with LPP staff on the Annual Benefit Statements to make them clearer and more useful. There will be further improvements in 2019 but we hope you will have noticed the difference in the most recent ones published.

Our focus at the moment is on the website and the online self-service portal. We made a series of recommendations two years ago to make the website more relevant and easier to use. These are now being implemented by LPP's engagement team and we have provided an advisory group to trial the online self-service portal and provide feedback. Again, we hope you will soon notice changes for the better.

We have also spent time on communications with employers and members. During the year LPB members Sean Brosnan and Omolayo Sokoya spoke at the Employers' Forum and the Practitioners' Forum respectively. With the next valuation due at 31 March 2019, this area will remain at the forefront of our work in the next year. Valuations almost always involve changes to employer contributions and effective communication to manage expectations is essential.

I noted last year an external review of LPP's effectiveness, which had been commissioned after two years' operation to provide third-party assurance that it is indeed cost-effective for its shareholders, including the LPFA. The report by PwC was duly delivered but was perhaps too early in LPP's life to provide a definitive answer to the question. The LPB will remain vigilant on this front because LPP's role is so important to the smooth running of the Fund.

The work of reviewing both performance through Key Performance Indicators (KPIs), and compliance with the regulations through assurance and other reports, remains at the core of what the LPB does. At every meeting, we look at any breaches of the regulations and at the KPIs in detail. During the year we made suggestions for improvements to the latter to ensure they properly reflect the experience of Fund members. This will help us in our aim of assisting the Board in monitoring LPP's performance effectively.

During the year we also reviewed and commented on a wide range of documents. These included statutory documents such as the Administration, Investment and Governance Strategy statements, as well as policies such as that on RI and climate change, fraud control and data protection.

We also reviewed compliance with The Pension Regulator's COP14 and CIPFA's guidance, as well as internal and external audit requirements. In doing this, we are largely reliant on assurance statements provided by LPP. Our concerns about our ability to verify these led to our recommendation to the Board to provide more resources to the Authority's Managing Director. We have received verbal confirmation that this has been accepted, and additional staff are being recruited.

Looking forward to the next year, we expect to spend our time continuing our work on communications and engagement, whilst fulfilling our basic task of reviewing compliance with the statutory and other requirements made of the Authority. The regulations governing the LGPS are complex and varied, and the LPB's second pair of eyes provides the Board with a valuable support to ensure that the Authority is fully compliant.

Finally, the Government Actuarial Department's (GAD) Section 13 report on the LGPS, which was published during the year, highlighted the potential for an increase in contributions at your Fund in the event of a sharp fall in asset valuations. This is an inevitable consequence of the Fund's relative maturity, and readers should not be unduly concerned.

William Bourne

William Bourne
Independent Chair of the LPFA
Local Pension Board

5. Pension fund accounts

5.1 Auditor's statement

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

Opinion

The pension fund financial statements of London Pensions Fund Authority Pension Fund (the 'pension fund') administered by the London Pensions Fund Authority (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2019 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 2018/19 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

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

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 26 September 2019

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

Under the Local Government Pension Scheme Regulations 2013 the Section 151 Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

Auditor's responsibility

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

Use of our report

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

Ciaran McLaughlin, Key Audit Partner
for and on behalf of
Grant Thornton UK LLP,
Local Auditor

London

11 November 2019

5.2 Pension fund accounts

Dealings with members, employers and others directly involved in the Fund

	Notes	2018-19 £'000	2017-18 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	**152,187**	180,904
Transfers in from other pension funds	8	**55,879**	165,434
		208,066	346,338
Benefits	9	**(266,307)**	(245,692)
Payments to and on account of leavers	10	**(14,169)**	(16,828)
Capital funding cost		**448**	–
		(280,028)	(262,520)
Net additions/(withdrawals) from dealings with members		**(71,962)**	83,818
Management expenses	11a	**(52,778)**	(47,779)
Returns on investments			
Investment income	12a	**169,584**	95,158
Taxes on income		**54**	(44)
Profit and loss on disposal of investments and changes in the market value of investments	13a	**354,082**	185,999
Net return on investments		**523,720**	281,113
Net increase in the net assets available for benefits during the year		**398,980**	317,152

5. Pension fund accounts continued

5.2 Pension fund accounts continued

Net assets statement for the year ended 31 March 2019

	Notes	2018-19 £'000	2017-18 £'000
Investment assets	13	**5,820,092**	5,375,018
Total net investments		**5,820,092**	5,375,018
Cash balances	15	**170,421**	176,792
Current assets	17	**69,994**	115,959
Current liabilities	18	**(7,253)**	(13,495)
Net assets of the Fund available to fund benefits at the period end		**6,053,254**	5,654,274

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 2019

	2018-19 £'000	2017-18 £'000
Balance at 1 April	**5,654,274**	5,337,122
Movement in net assets available for benefits during the year	**398,980**	317,152
Balance at 31 March	**6,053,254**	5,654,274

5.3 Notes to the pension fund accounts

1. General information

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

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016
- the LGPS (Amendment) Regulations 2018.

The Pension Fund is subject to Triennial Valuations by an independent actuary. Employers' contributions are determined by the actuary to ensure that in the long term the Pension Fund's assets match its liabilities. The LPFA's Actuary is Barnett Waddingham, who have supplied an actuarial statement. This is shown on page 73 and should be read in conjunction with these accounts.

2. Basis of preparation

The statement of accounts summarises the funds transactions for the 2018-19 financial year and its financial position at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 24 to these accounts.

3. Accounting standards issued, but not yet adopted

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

4. Summary of significant accounting policies

General principles

The Pension Fund Statement of Accounts summarise Fund transactions for the 2018/19 financial year and its position as at 31 March 2019. 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 the 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 22 and actuarial statement under IAS26.

The financial statements and accounts have been prepared on a going concern basis.

Contributions

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis.

Member contributions are made in accordance with the LGPS (Amendment) regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate recommended by the Actuary, in the payroll period to which they relate.

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

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

Transfers to and from other schemes

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

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

Bulk transfers in and out, where the receiving scheme has agreed to accept the liability before receipt, and the necessary employee consents have been obtained, are accounted for following the bulk transfer terms signed by qualified actuaries who have been 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.

Property-related income consists primarily of rental income.

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

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

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

Benefits
Members can choose whether to take their benefits as a full pension or as a lump sum with a reduced pension. Retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised. Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Fund as appropriate.

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

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

Administration expenses consist of the following:

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

Oversight and governance expenses consist of the following:

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

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

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

Financial assets

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

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

Market-quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market.

Fixed interest securities are recorded at the net market value based on their current yields. Unquoted securities are valued by the fund managers at the year-end following generally accepted guidelines. Unquoted private equities are valued by the investment managers using guidelines of the British Private Equity & Venture Capital Association (BVCA). 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.

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

Financial liabilities

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

Property valuation

Directly held freehold properties are included at the open market value as at the year-end. The directly held property was valued at open market value at 31 March 2019 by an independent valuer, Avison Young. The Properties have been valued individually on the basis of Fair Value, in accordance with the RICS Valuation – Global Standards 2017. VPGA 1 – Valuations for inclusion in financial statements which adopts the definition of Fair Value adopted by the International Accounting Standards Board (IASB) in IFRS 13. This is an internationally recognised basis and is defined as: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date."

Avison Young regards Fair Value as Identical to Market Value, defined within the Global Valuation Standards as:

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Cash and cash equivalents

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

Foreign currencies

Assets and liabilities in foreign currencies are expressed in Sterling at 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 the Black Scholes pricing model. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Fund managers invest on behalf of the LPFA in accordance with the Investment Management Agreement and the Investment Strategy Statement, 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 16). 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.

Actuarial present value of promised retirement benefits

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 22).

5. Critical accounting estimates and judgement

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 2019 was £954m (£1,104m at 31 March 2018). 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 IAS 19 and IAS 26. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuarial Statement on page 73 of this report. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

6. 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. The rates are determined for each employer by the actuary to be sufficient to fund the annual cost of benefits and to clear the deficit.

Details of the participating employer bodies for the year ended 31 March 2019 are set out on page 78. Employees pay contributions determined by their full-time equivalent pay at the rates set out below:

Year to 31 March 2019	Year to 31 March 2018	Year to 31 March 2019	Year to 31 March 2019
Pay Range	**Pay Range**	**Contribution Rate**	**50/50 Section**
£0 - £14,100	£0 - £13,700	5.50%	2.75%
£14,101 - £22,000	£13,701 - £21,400	5.80%	2.90%
£22,001 - £35,700	£21,401 - £34,700	6.50%	3.25%
£35,701 - £45,200	£34,701 - £43,900	6.80%	3.40%
£45,201 - £63,100	£43,901 - £63,100	8.50%	4.25%
£63,101 - £89,400	£61,301 - £86,800	9.90%	4.95%
£89,401 - £105,200	£86,801 - £102,200	10.50%	5.25%
£105,201 - £157,800	£102,201 - £153,300	11.40%	5.70%
£157,801 and above	£153,301 and above	12.50%	6.25%

The Fund membership was as follows:

Fund Membership	2018-19	2017-18
Contributors	**19,489**	18,537
Deferred members	**28,222**	26,911
Pensioners and dependants	**35,541**	34,625
Undecided leavers and frozen funds	**5,536**	4,393
Total	**88,788**	84,466

The number of participating employers as at 31 March 2019 was 142 (2018 – 142).

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

7. Contributions

By Category:

	2018-19 £'000	2017-18 £'000
Employers – normal	**75,885**	71,051
Employers – additional	**35,929**	30,801
Employers – one-off deficit payment	**2,000**	38,429
Cessation valuations	**945**	1,527
Members – normal	**37,428**	39,096
Total	**152,187**	180,904

By Authority:

	2018-19 £'000	2017-18 £'000
Scheduled bodies	**59,771**	58,855
Admitted bodies	**90,335**	120,282
Community admission body	**558**	419
Transferee admission body	**1,523**	1,348
Total	**152,187**	180,904

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

8. Transfers in from other pension funds

	2018-19 £'000	2017-18 £'000
Group transfers	**46,117**	154,685
Individual transfers	**9,762**	10,749
Total	**55,879**	165,434

The Group transfers related to London Borough of Redbridge, Kingston College, Carshalton College, Bromley College, Bexley College and North West London College merging their scheme with existing participating employers.

9. Benefits

By Category:

	2018-19 £'000	2017-18 £'000
Pensions	**226,848**	212,289
Commutation and lump sum retirement benefits	**33,348**	30,562
Lump sum death benefits	**6,111**	2,841
Total	**266,307**	245,692

By Authority:

	2018-19 £'000	2017-18 £'000
Scheduled bodies	**165,549**	159,098
Admitted bodies	**98,295**	85,111
Community admission body	**316**	474
Transferee admission body	**2,105**	968
Resolution body	**42**	41
Total	**266,307**	245,692

10. Payments to and on account of leavers

	2018-19 £'000	2017-18 £'000
Refunds to members leaving service	**1,437**	684
Payments for members joining state scheme	**(6)**	–
Group transfers	**–**	2,972
Individual transfers	**12,738**	13,172
Total	**14,169**	16,828

11a. Management expenses

	2018-19 £'000	2017-18 £'000
Investment management	**48,852**	44,614
Administration	**1,862**	1,806
Oversight & Governance	**2,064**	1,359
Total	**52,778**	47,779

5.3 Notes to the pension fund accounts continued

11b. Investment expenses

	31 March 2018-19 £'000	31 March 2017-18 £'000
Management fees	**40,874**	41,555
Performance related fees	**7,427**	2,588
Custodian fees	**68**	181
Transaction fees	**437**	274
Other fees	**46**	16
Total	**48,852**	44,614

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

12a. Investment income

	2018-19 £'000	2017-18 £'000
Income from equity	**–**	1,321
Income from bonds	**–**	450
Private equity and infrastructure income	**86,790**	42,189
Rents from property	**8,443**	5,338
Pooled investments – unit trusts and other managed Funds	**66,954**	43,486
Interest on cash deposits	**1,972**	2,021
Other	**5,425**	353
Total	**169,584**	95,158

12b. Property income and expenses

	2018-19 £'000	2017-18 £'000
Property income	**10,654**	5,868
Property expenses	**(2,211)**	(530)
Total	**8,443**	5,338

13. Investments

	Market value 31 March 2019 £'000	Market value 31 March 2018 £'000
Pooled investments		
– Fixed interest securities	**271,774**	601,145
– Equities	**2,482,565**	2,400,971
– Credit	**449,316**	267,734
– Private equity	**586,895**	592,989
– Infrastructure	**367,435**	510,869
– Diversified	**704,606**	–
Property	**288,757**	328,293
Commodity funds	**33,890**	27,713
Managed funds	**343,680**	408,128
Cash instruments	**–**	10,269
Property	**268,780**	167,360
Other investment balances		
Cash held by investment managers	**21,257**	58,849
Forward exchange contracts	**1,103**	–
Investment income due	**34**	81
Amounts receivable for sales	**–**	617
Net investment assets	**5,820,092**	5,375,018

5.3 Notes to the pension fund accounts continued

13a. Investments

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

13a. Investments (continued)

Net Investment Assets (prior year comparative)

	Market value 31 March 2018 £'000	Change in market value during the year £'000	Sales during the year and derivative receipts £'000	Purchases during the year and derivative payments £'000	Market value 31 March 2017 £'000
Fixed interest securities	**–**	(1,038)	(82,316)	26,705	56,649
Equities	**–**	(3,237)	(42,396)	986	44,647
Pooled investments					
– Fixed interest securities	**601,145**	30,803	(43,000)	388,716	224,626
– Equities	**2,400,971**	(33,413)	(168,581)	196,883	2,406,082
– Credit	**267,734**	3,706	(3,067)	267,095	–
– Private equity	**592,989**	9,474	(1,069,086)	851,781	800,820
– Infrastructure	**510,869**	(19,644)	(670,896)	855,274	346,135
Property	**328,293**	(17,445)	(34,120)	126,811	253,047
Managed funds	**408,128**	209,690	(506,496)	40,597	664,337
Commodity funds	**27,713**	(4,005)	(14,639)	13,174	33,183
Cash instruments	**10,269**	(1,144)	(41,159)	25,141	27,431
Liquidity funds	**–**	–	(9,723)	–	9,723
Direct Property	**167,360**	5,603	–	51,737	110,020
	5,315,471	179,350	(2,685,479)	2,844,900	4,976,700
Derivative contracts					
Forwards	**–**	6,773	(364,525)	353,831	3,921
Options	**–**	(384)	(1,432)	1,673	143
Futures	**–**	260	(5,051)	4,791	–
	5,315,471	185,999	(3,056,487)	3,205,195	4,980,764
Cash held by managers	**58,849**				3,255
Amount receivable for sale of investments	**617**				421
Investment income due	**81**				3,632
Amounts payable for purchases	**–**				(1,027)
Net investment assets	**5,375,018**				4,987,045

Some opening balances have been re-analysed following the change of custodian on 31 August 2017. The overall total remains the same as disclosed in the prior year accounts. During the year certain investments were transferred into new, pooled vehicles. This has had the impact of increasing both purchases and sales to reflect the transfer.

13a. Investments (continued)

	31 March 2019 £'000	31 March 2018 £'000
UK		
Pooled funds – additional analysis		
– Fixed interest securities	**271,774**	135,852
– Credit	**449,316**	267,734
– Private equity	**586,895**	582,261
– Infrastructure	**367,308**	430,989
– Diversified strategy	**704,606**	–
Property	**212,846**	202,799
Cash instruments	**–**	10,269
Direct property	**268,780**	167,360
Overseas		
Fixed interest securities	**–**	465,293
Pooled equities	**2,482,565**	2,400,971
Private equity	**–**	10,728
Infrastructure	**127**	79,880
Property	**75,911**	125,494
Commodity funds	**33,890**	27,713
Managed funds	**343,680**	408,128
Total	**5,797,698**	5,315,471

13b. Geographical analysis of investments

Assets at 31 March 2019	UK £'000	Europe (Ex UK) £'000	Global (Ex Europe) £'000	Total £'000
Pooled investments				
Quoted				
– Fixed interest securities	271,774			271,774
– Equities			2,482,565	2,482,565
Unquoted				
– Credit	449,316			449,316
– Private equity	586,895			586,895
– Infrastructure	367,308		127	367,435
– Diversifying Strategies	704,606			704,606
Property	212,846		75,911	288,757
Managed funds		343,300	380	343,680
Commodity funds			33,890	33,890
Cash instrument	21,257			21,257
Property	268,780			268,780
Forward contracts	1,103			1,103
Other	34			34
Total	**2,883,919**	**343,300**	**2,592,873**	**5,820,092**

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

There were no directly held outstanding exchange traded futures contracts at 31 March 2019 (2018: £nil).

Open forward currency contracts

The net position on open forward currency contracts at 31 March 2019 to a gain of £1,102,321 (2018: loss of £1,130,571). This amount is reflected within the cash balance held by managers.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

13c. Investments analysed by Fund Manager

	Market value 31 March 2019 £'000	**Market value 31 March 2019 %**	Market value 31 March 2018 £'000	Market value 31 March 2018 %
LPPI Global Equities	**2,437,012**	**42.03%**	2,320,391	43.65%
LPPI Diversifying Strategies	**704,606**	**12.15%**	0	0.00%
LPPI Private Equity	**586,511**	**10.12%**	578,913	10.89%
LPPI Credit	**445,947**	**7.69%**	263,069	4.95%
Insight Investment Management (Global)	**388,853**	**6.71%**	712,004	13.39%
LPPI Infrastructure	**330,534**	**5.70%**	279,626	5.26%
LPPI Fixed Income	**271,774**	**4.68%**	135,852	2.56%
Knight Frank	**268,780**	**4.64%**	167,360	3.15%
CBRE Global Investors	**212,846**	**3.67%**	202,799	3.82%
Aeolus Property	**92,307**	**1.59%**	125,494	2.36%
Pontoon Dock	**30,541**	**0.53%**	13,410	0.25%
Brookfield Asset Management	**17,494**	**0.30%**	19,542	0.37%
Infrared Capital Partners	**4,638**	**0.08%**	4,120	0.08%
M&G Investment Management	**3,369**	**0.06%**	4,665	0.09%
Foresight Group	**1,595**	**0.03%**	1,720	0.03%
Impax Asset Management	**384**	**0.01%**	3,348	0.06%
Blackrock Management	**381**	**0.01%**	252,266	4.75%
Standard Chartered	**126**	**0.00%**	4,095	0.08%
Graham Trend	**–**	**0.00%**	32,469	0.61%
GSA Trend	**–**	**0.00%**	43,316	0.81%
LPPI Phaunos	**–**	**0.00%**	8,171	0.15%
Red Kite Mine Finance	**–**	**0.00%**	10,729	0.20%
Winton-EVO	**–**	**0.00%**	132,024	2.49%
Zouk Solar	**–**	**0.00%**	88	0.00%
	5,797,698	**100%**	5,315,471	100%
Cash held by investment managers	**21,257**		58,849	
Forward exchange contracts	**1,103**		–	
Amounts receivable for sales	**–**		617	
Investment income due	**34**		81	
Amounts payable for purchases	**–**		–	
	5,820,092		5,375,018	

13d. Investments analysed by Fund Manager (continued)

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

Security

	Market value 31 March 2019 £'000	**total fund %**	Market value 31 March 2018 £'000	total fund %
Global Equities	**2,437,013**	**40**	2,320,391	41
LPPI Credit	**445,947**	**7.4**	–	–
LPPI Diversifying Strategies	**704,606**	**11.6**	–	–
LPPI Infrastructure	**330,534**	**5.5**	–	–
LPPI PE Investments (No.1) LP	**586,511**	**9.7**	578,913	10.2
Insight Liability Driven Investment (LDI) solutions plus LDI active '1'FD	**343,300**	**5.7**	407,593	7.2
Total	**4,847,911**	**79.9**	3,306,897	58.4

13e. Property holdings

The Fund's investment in property portfolio comprises investment in pooled property funds and a number of directly owned properties which are leased commercially to various tenants. Details of theses directly owned properties are as follows:

	31 March 2019 £'000	31 March 2018 £'000
Opening Balance	**167,360**	110,020
Purchases	**96,503**	51,737
Change in Fair Value	**4,917**	5,603
	268,780	167,360

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

The future minimum lease payments receivable are shown in the next table.

13f. Total minimum lease payments for collection

	31 March 2019 £'000	31 March 2018 £'000
< 1 years	**12,133**	945
1 to 5 years	**32,076**	3,405
> 5 years	**15,141**	5,618
	59,350	9,968

The minimum lease payments relate to rents receivable on properties owned by the Fund. There are no contingent rents as all rents are fixed until the next rent review (generally on five-year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index.

14. Financial instruments

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

The fair values of loans and receivables at 31 March 2019 have been reviewed and were assessed as being the same as the carrying amounts in the net asset statement. Assets are carried at fair value. When an asset or liability is translated at balance sheet date the gain/loss is taken as unrealised but when the asset or liability is settled (i.e. received/paid) the gain/loss becomes realised.

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

Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

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

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

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

14. Financial instruments (continued)

Fair value levels

Value at 31 March 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit or loss	**3,548,345**	**1,229,888**	**1,019,465**	**5,797,698**
Net financial assets	**3,548,345**	**1,229,888**	**1,019,465**	**5,797,698**

Reconciliation of level 3 assets

	Market value 1 April 2018 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	**Market value 1 April 2019 £000**
Level 3	**1,012,797**	**185,889**	**(163,856)**	**(15,365)**	**1,019,465**

Value at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss	3,278,721	1,023,953	1,012,797	5,315,471
Net financial assets	**3,278,721**	**1,023,953**	**1,012,797**	**5,315,471**

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

5.3 Notes to the pension fund accounts continued

14. Financial instruments (continued)

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

Category

Financial assets – fair value through profit and loss (continued)	**Market value 31 March 2019 £'000**	Market value 31 March 2018 £'000
Pooled investments		
– Equities	**2,482,565**	2,400,971
– Fixed interest securities	**271,774**	601,145
– Credit	**449,316**	267,734
– Private equity	**586,895**	592,989
– Infrastructure	**367,435**	510,869
– Diversified	**704,606**	–
Property	**288,757**	328,293
Managed	**343,680**	408,128
Commodities	**33,890**	27,713
Cash instruments	**–**	10,269
Total – fair value through profit and loss	**5,528,918**	5,148,111

Loans and receivables – at amortised cost		
Cash held by investment managers	**21,257**	58,849
Forward exchange contracts	**1,103**	–
Investment income due	**34**	81
Amounts receivable for sales	**–**	617
Cash balances	**170,421**	176,792
Current assets	**69,994**	115,959
Total – loans and receivables – amortised cost	**262,809**	352,298

Finance liabilities – at amortised cost		
Current liabilities	**(7,253)**	(13,495))
Total Financial Liabilities – amortised cost	**(7,253)**	(13,495)
Grand total	**5,784,474**	5,486,913

14. Financial instruments (continued)

Nature and Extent of Risks Arising from Financial Instruments

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

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

– by formally adopting the requirements of the Code of Practice;

– by approving annually in advance prudential indicators which limit the LPFA's overall borrowing;

– by following treasury management guidelines; and

– by approving an investment and funding strategy.

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

Market Risk

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

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

Market risk – sensitivity analysis

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

The expected volatility over a 1-year time horizon is used as one risk measure for the Fund and is measured as a one standard deviation movement in the returns for each of the major asset classes in which the Fund is invested. The expected volatility provides a measure of the potential largest change in the value of the Fund in around 2/3rds of the time. The total fund volatility considers the expected interactions between the different asset classes, based on underlying volatilities and correlations of the assets.

14. Financial instruments (continued)

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

Asset class

	2019 One-year expected volatility (%)	**2019 % of fund**	2018 One-year expected volatility (%)	2018 % of fund
Global equities	**17.4**	**45.0**	19.3	49.0
Private equity	**25.7**	**9.8**	24.0	10.3
Property	**20.5**	**9.0**	20.7	7.5
Fixed income	**3.3**	**4.5**	3.3	2.5
Infrastructure	**18.0**	**5.7**	17.3	5.0
Credit	**8.4**	**7.6**	8.4	5.1
Total return	**4.5**	**13.3**	4.6	15.2
Cash and LDI	**0.0**	**4.6**	0.0	5.4
Total fund volatility	**11.8**	**100.0**	11.9	100.0

The value of the Fund as at 31 March 2019 was £6,054m (2018: £5,654m) and the expected volatility was 11.8% (2018: 11.9%). Given these figures, we would expect that in roughly two-thirds of outcomes the value of the Fund would lie between £6,768m (2018: £6,327m) and £5,340m (2018: £4,981m) in 12 months' time, expressed in today's equivalent present value.

Interest Rate Risk

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

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

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

Currency Risk

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

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

14. Financial instruments (continued)

Currency risk sensitivity analysis

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

The expected standard deviation of the Fund's significant currency exposure is based on 12 month market implied volatilities as at 31 March 2019. The following tables summarise the Fund's currency exposure and expected 12 month volatility by currency as at 31 March 2019 and as at the previous period end:

Value at 31 March 2018 (£m)	Implied volatility %	Currency	Value at 31 March 2019 (£m)	Implied volatility %
1,436	8.6	USD	1,481	9.3
55	10.3	JPY	43	10.7
440	7.2	EUR	447	8.1
121	7.8	CHF	88	9.0

Credit risk

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

Credit risk also arises with LPFA deposits held with banks and financial institution. During 2013-14 the LPFA joined a Group Investment Syndicate (GIS), operated by the GLA, under the supervision of the participants; the GLA, the London Fire Commissioner, 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's.

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

The LPFA believes it has managed its exposure to credit risk and has had no experience of default and uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2019 was £151.3m (2018: £57.5m).

Liquidity risk

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

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

The LPFA defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2019, the value of illiquid assets (private equity, infrastructure, credit and real estate) was £1,920m, which represented 32.1% of the total LPFA assets (31 March 2018: £1,543m which represented 27.9% of the total LPFA assets).

All financial liabilities at 31 March 2019 are due within one year.

5. Pension fund accounts continued

5.3 Notes to the pension fund accounts continued

15. Cash balances

	31 March 2019 £'000	31 March 2018 £'000
Short-term deposits	170,421	176,792
Pooled deposits placed by investment managers	21,257	58,849
Total	**191,678**	235,641

16. AVC investments

	Market value 31 March 2019 £'000	Market value 31 March 2018 £'000
Prudential	12,810	12,464

AVC contributions of £1.52m (2018: £1.73m) were paid directly to Prudential during the year.

17. Current assets

	31 March 2019 £'000	31 March 2018 £'000
Contributions due – employees	1,972	3,438
Contributions due – employers	7,253	4,545
Transfer values receivable	43,961	106,842
Sundry debtors and prepayments	16,808	1,134
Total	**69,994**	115,959

18. Current liabilities

	31 March 2019 £'000	31 March 2018 £'000
Sundry creditors	1,539	10,729
VAT	1,119	0
Other taxes	2,931	2,745
Benefits payable	1,664	21
Total	**7,253**	13,495

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

19. Related party transactions

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

Mike O'Donnell (Board member) is the Executive Director of Corporate Services at the London Borough of Camden. The London Borough of Camden paid employer contributions of £119k (2018: £287k) during the year. Ruth Dombey (Board member) is the Vice Chair of London Councils. The London Councils paid employer contributions of £645k into the scheme. Christina Thompson (Board member) is the Director of Finance and Property at the London Borough of Lambeth. The London Borough of Lambeth paid employer contributions of £183k. Stephen Alambritis (Board member) is the Leader of the London Borough of Merton. No contributions were paid by the London Borough of Merton during the year (2018: nil). The London Councils are Admitted bodies in the Fund, whereas the three boroughs are Scheduled bodies in the Fund.

The Mayor of London reviews and comments on the LPFA annual budget and the Greater London Authority is a participating employer of the pension scheme and paid employer contributions of £5,345k (2018: £4,526k) during the year.

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 Local Pensions Partnership Ltd (LPP) and its subsidiaries on 19 October 2015. LPP is a related party of LPFA. The 50% share of LPP is consolidated within the operational accounts, using the equity method of accounting.

20. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2019 totalled £646.2m [2018: £614.8m] based on:

Currency	Commitment	Exchange rate	£
USD	358,759,398	1.303	275,333,306
CHF	7,030,000	1.298	5,416,025
EUR	100,769,359	1.160	86,870,136
GBP	278,577,484	1.000	278,577,484
Total			**646,196,951**

These commitments relate to outstanding call payments due on unquoted Limited Partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are both irregular in size and timing over a period of between four and six years from the date of each original commitment.

21. Post balance sheet events

There were no material events after the balance sheet date.

22. 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 2019 for the Fund was £8,465m (2018: £8,083m). The net liability for the Fund at 31 March 2019 was £2,480m (2018: £2,552m).

Key assumptions used

Life expectancy from age 65 (years)	31 March 2019	31 March 2018
Retiring today		
Males	**20.4**	21.4
Females	**23.3**	24.3
Retiring in 20 years		
Males	**22.2**	23.8
Females	**25.2**	26.6

- 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 2019 % p.a.	31 March 2018 % p.a.
RPI increases	**3.45**	3.35
CPI increases	**2.45**	2.35
Salary increases	**3.95**	3.85
Pension increases	**2.45**	2.35
Discount rate	**2.40**	2.55

These assumptions are set with reference to market conditions at 31 March 2019.

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 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 24 March 2017.

This statement gives an update on the likely progression of the funding position to 31 March 2019 and comments on the main factors that have led to a change since the full valuation as at 31 March 2016.

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 (secondary rate)
- The assumptions used for each employer in setting these contributions varied based on the period that they were expected to continue in the Fund and the assessed strength of their covenant
- 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.

Updated position

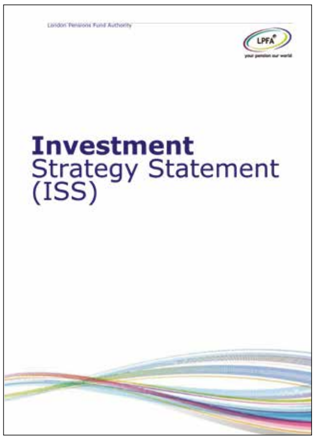
Using an approach consistent with the 2016 valuation, the funding position at 31 March 2019 is projected to have improved, primarily due to strong Fund asset returns and payment of deficit contributions. However, the primary rate is likely to have increased due to changes in market conditions.

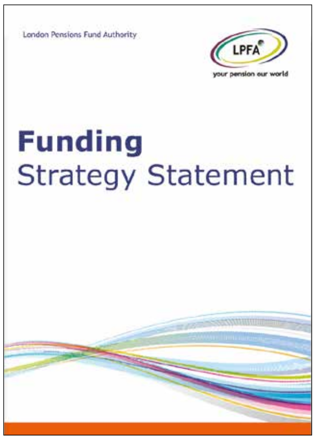
The 31 March 2019 actuarial valuation, which will set contribution rates to be paid by employers from 1 April 2020, is currently underway, and we are in the process of agreeing assumptions and methodologies with the Fund. In addition, there is uncertainty surrounding the future benefit structure of the LGPS, and the cost cap management process which was meant to bring in any revised benefit changes from 1 April 2019 has been paused. Therefore, we cannot provide an indication of possible results of the 2019 valuation at this stage.

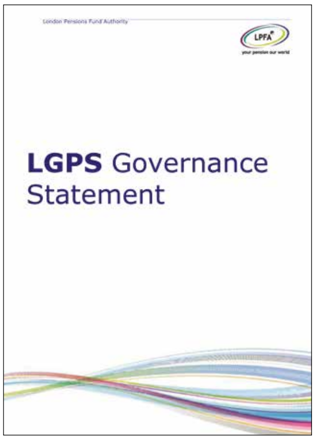
Ross Anderson FFA
Associate, Barnett Waddingham LLP

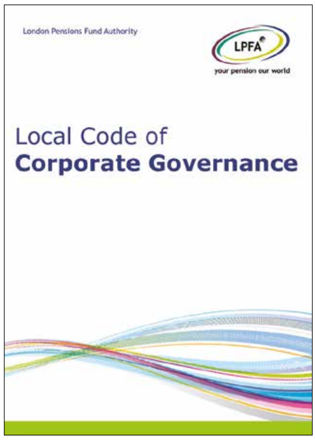
6. Public policy statements

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







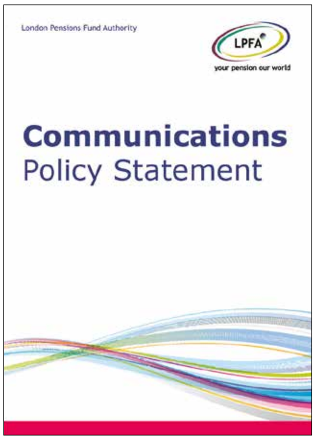


Investment Strategy Statement (ISS)
The Investment Strategy Statement (formerly known as the Statement of Investment Principles) provides an overview of the responsibilities, process and conduct in the management of the LPFA pension fund investments.

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.

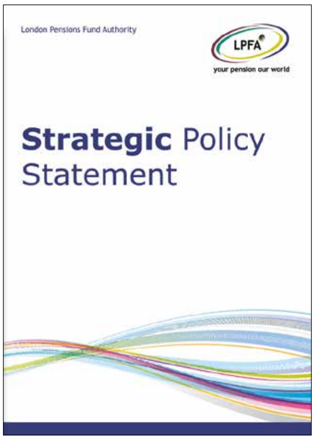
LGPS Governance Statement
The LGPS Governance Statement sets out how the administration of the Fund is governed. Each administering authority is required to publish a governance statement and explain their compliance with a set of best practice principles issued by The Department of Communities and Local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

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.


London Pensions Fund Authority

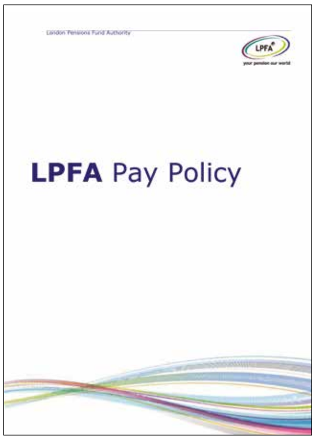
LPFA your pension our world

Communications Policy Statement


London Pensions Fund Authority

LPFA your pension our world

Strategic Policy Statement


LPFA Pay Policy

Communications Policy Statement

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

Strategic Policy Statement

The Strategic Policy Statement was submitted to the Mayor of London setting out LPFA's objectives and plans over the three-year period from April 2018 to March 2021 in accordance with section 402 of the Greater London Authority Act 1999.

LPFA Pay Policy

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.

6. Annexes

i Reporting and controls

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

External review

The Local Audit and Accountability Act 2014 introduced a new local audit regime in England, abolishing the Audit Commission. The Commission had previously commissioned the auditing of most local public bodies; however under the new framework, Public Sector Audit Appointments Ltd (PSAA) were specified as an appointed person under the Act. Following the transitional arrangements during 2017-18. PSAA proposed to reappoint Grant Thornton (UK) LLP to audit the accounts of LPFA for a further five years from 2018-19 with effect from 1 April 2018. The Board approved the reappointment of Grant Thornton as LPFA's external auditors. An Annual Governance Report provides their opinion on the financial statements and a value for money conclusion for 2018-19. LPFA's external auditor is Grant Thornton.

Internal review and control

Deloitte LLP was appointed as LPFA's internal auditors in November 2017 for three years. They report to the Audit and Risk Committee. Their audit reviews take place on a phased basis throughout the financial year and their recommendations are reported and monitored at each Committee meeting with progress against each recommendation.

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 FSS, the ISS and the Communications Policy Statement. The Authority publishes all these documents online at the LPFA's website www.lpfa.org.uk/What-we-publish

Fraud control

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

LPFA's Fraud Control Framework is reviewed annually by the Audit and Risk Committee and serves to increase awareness amongst stakeholders of actions taken to mitigate the risk of fraud.

National Fraud Initiative (NFI)

LPFA participated in the National Fraud Initiative in January 2019, which is expected to be completed at the end of December 2019. The results will be reported to the Audit and Risk Committee and to the Board.

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 reduction in death overpayments reduces the amount of administrative work. In addition to ATMOS, LPFA has adopted the Tell Us Once (TUO) service which provides another method of being notified of deaths to help reduce the risk of death overpayments.

Overseas pensioners

ATMOS only picks up on those deaths where the pensioner resided in the UK. To establish the existence of pensioners who reside overseas Western Union, on behalf of LPFA, will be asking all overseas pensioners to complete the Overseas existence process, unlike previous years, when only a select few were sent.

Code of best practice for members

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

The registers of interests declared by Board members and Principal Officers are available for public inspection and are regularly reviewed by the Audit and Risk Committee.

Quality of data

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

Information Security

LPFA's Information Security Compliance Statement predominantly mirrors LPP's Information Security Policy which is reviewed periodically to respond to any significant changes that might have an impact on LPFA's strategy and objectives. LPP is certified by the standard ISO27001 Standard and have implemented an Information Security Management System. The LPP Group and LPFA are committed to preserving the confidentiality, integrity and availability of all the information assets throughout the organisation.

Freedom of Information (FOI) Scheme

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

Equalities objectives

LPFA operates an equality and diversity policy, which has been updated following the transition of assets to LPP.

Exercise of discretions under LGPS

Under the LGPS Administration Regulations 2008, LPFA was required to produce a written statement of its policy in relation to the use of its functions under specific areas of discretion. These have been published on the LPFA's website: www.lpfa.org.uk/Employers/

Health & safety

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

Internal Dispute Resolution Procedure (IDRP)

If an employee has a complaint, they are advised to contact LPFA in writing either by post or email to try and resolve the problem.

In addition to the complaints procedure (www.yourpension.org.uk), 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 LPFA's Internal Dispute Resolution Procedure. This document is a public policy statement which is available on LPFA's website under 'What we publish'. It sets out the channels available for internal and external stakeholders wishing to raise an issue and the timescale in which LPFA is expected to provide a full reply.

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. You may contact The Pensions Advisory Service (TPAS) or, once the IDRP process has been exhausted, the Pensions Ombudsman. All complaints are reported to the LPB and the Board quarterly.

6. Annexes continued

ii Employers contributing to the Fund as at 31 March 2019

Number of employers in the Fund

	Total
Admitted Bodies	86
Community Admission Body	1
Scheduled Bodies	74
Transferee Admission Bodies	6
Grand total	**167**

Employer's name	Contributions	Active
Admitted Bodies		
Affinity Sutton (A3903)	38,790.00	No
Alleyns School	359,882.54	No
Association of Colleges	1,326,087.14	Yes
British Amateur Gymnastic Association	64,286.00	No
British Film Institute	3,092,262.91	Yes
Broadacres Housing Association Limited	114,642.06	Yes
Bromley College	1,753,846.95	No
Brunel University	5,232,590.00	Yes
BUVFC	90,581.50	Yes
CfBT Advice and Guidance Ltd	-496.71	Yes
CfBT Education Trust	208,001.50	Yes
Chartered Institute of Environmental Health	391,560.79	Yes
Chartered Institute of Housing	226,800.31	Yes
City Literary Institute	753,895.84	Yes
City University	3,475,980.60	Yes
Comm for Local Administration in England	1,494,747.07	Yes
Compass Group	15,333.78	Yes
Computacenter Ltd	6,878.07	Yes
Coram's Fields	87,654.78	Yes
Dulwich College	926,269.16	Yes
Dulwich Picture Gallery	179,900.00	No
FHSVSA	28,726.92	Yes
Food Standards Agency	3,910,012.53	Yes
Food Standards Scotland	695,148.83	Yes
Futures Charitable Trust	-642,000.00	No
Gallions Housing Association	23,750.77	Yes
Geffrye Museum Trust Ltd.	133,375.87	Yes
Genesis Housing Group	61,208.39	Yes
GLL (Nexus)	225,833.58	Yes
Goldsmith College	2,727,006.95	Yes
Guiness Partnership Ltd	224,350.79	Yes
Horniman Museum & Gardens	577,576.64	Yes
Ibstock Place School	346,887.05	Yes
Kingston University Service Company Ltd	553,983.68	Yes
Lee Valley Leisure Trust	706,498.08	Yes

Employer's name	Contributions	Active
Lionheart (RICS Benevolent Fund)	34,063.71	Yes
Local Auth. Mutual Investment Trust	0.00	No
Local Pensions Partnership	1,314,165.50	Yes
Local Pensions Partnership Investments	379,508.60	Yes
London Councils	1,019,952.07	Yes
London Metropolitan University	7,606,889.93	Yes
Mary Ward Centre	164,789.56	Yes
Milton Keynes Council	25,300.00	No
Mountain Training Limited	174,054.96	Yes
Myrrh Education & Training	246,144.06	No
N.I.A.C.E.	420,518.62	Yes
N.L. Hospice Group	12,678.13	Yes
Newable Ltd	47,752.32	Yes
Newcastle College Group	1,370,242.98	Yes
OPDC	384,918.39	Yes
Open College Network London Region	59,924.16	Yes
Peabody Trust	2,011,240.87	Yes
Poplar Harca	137,200.95	Yes
Prospects Services Ltd	1,300,603.21	Yes
Radius Trust	-12,464.65	No
Rathbone Training	745,098.56	Yes
Roehampton University	4,358,302.38	Yes
Royal Central School of Speech & Drama	759,493.56	Yes
South London Church Fund and Diocesan Board of Finance	26,057.00	No
S.S.A.F.A. Forces Help	1,523,830.04	Yes
SDP Regeneration Services 2 Ltd	26,040.00	Yes
SENSE	1,250,000.00	No
Sense Scotland	-1.65	Yes
Shenley Leisure Centre Trust Ltd	13,711.51	Yes
Sodexo	0.00	Yes
South Bank College	161,498.09	Yes
South Bank University	7,225,996.18	Yes
South Thames College Group	2,703,776.68	Yes
Sport and Recreation Alliance Limited	108,937.61	Yes
Sport England	669,375.21	Yes
St Christopher's Fellowship	1,328,782.27	Yes
Sutton Centre for Independent Living	-63,000.00	No
Tandridge Leisure Ltd	73,552.71	Yes
The English & Media Centre	26,131.34	Yes
The English Institute of Sport	2,170,907.50	Yes
The Froebel Trust	43,062.24	Yes
The Pioneer Group	8,670.24	Yes
The Sports Council	0.00	No
Trinity Laban	63,021.08	Yes
UAL Short Courses Ltd	779,714.85	Yes
United Kingdom Sport	1,565,110.26	Yes
University of Greenwich	8,360,188.48	Yes
University of St. Mark & St. John	903,462.11	Yes

ii Employers contributing to the Fund as at 31 March 2019 continued

Employer's name	Contributions	Active
University of Surrey	81,773.00	No
University of Westminster	8,969,389.12	Yes
Urban Learning Foundation	342,835.23	No
Total	**90,335,053.34**	
Community Admission Body		
UK Anti Doping	557,802.75	Yes
Scheduled Bodies		
Archbishop Tenison's Church of England GMS	112,773.33	Yes
Bishop Thomas Grant School	166,311.24	Yes
Bouygues ES FM UK Ltd	40,761.44	Yes
Capital City College Group	0.00	Yes
Charlotte Sharman Foundation Primary School	112,289.48	Yes
City of Westminster	10,758.28	Yes
City of Westminster College	2,270,829.41	Yes
Corpus Christi School	76,630.03	Yes
Dunraven School	354,614.21	Yes
Durand Academy – now part of Dunraven	42,086.76	Yes
Ealing, Hammersmith & West London College	1,117,485.45	Yes
East London Waste Authority	87,239.34	Yes
Friars School	44,589.01	Yes
G.L.C. LDS 31.3.86	-34,157.31	No
Greater London Authority	8,961,989.82	Yes
Greater London Council	-860.33	No
ILEA L.D.S.ON OR BEF.30.3.86	-1,327.90	No
Immanuel & St Andrew C of E Primary School	99,550.92	Yes
Julian's Primary School - from January 19	173,340.46	Yes
L.B. of Camden	170,511.90	Yes
L.B. of Enfield	89,462.89	Yes
L.B. of Greenwich	240,016.87	Yes
L.B. of Hackney	72,754.31	Yes
L.B. of Hammersmith & Fulham	55,737.50	No
L.B. of Islington	102,375.52	Yes
L.B. of Lambeth	222,845.47	Yes
L.B. of Lewisham	160,848.37	Yes
L.B. of Southwark	148,529.94	Yes
L.B. of Tower Hamlets	252,239.27	Yes
L.B. of Wandsworth	194,089.33	Yes
La Retraite RC Girl's School	191,168.05	Yes
La Sainte Union Convent School	187,934.12	Yes
Lambeth College	991,817.95	Yes
Lee Valley Regional Park Authority	893,212.71	Yes
Lewisham and Southwark College	-1,981.52	No
London Borough of Haringey	283.72	No
London Borough of Sutton	28,077.00	No
London Fire & Emergency Planning Authority	12,619,935.22	Yes
London Legacy Development Corporation	1,748,713.40	Yes

Employer's name	Contributions	Active
London Metro University	6,000.00	No
London Nautical School	269,611.89	Yes
London Pensions Fund Authority	290,744.32	Yes
London South East Colleges	0.00	Yes
Morley College	414,148.69	Yes
New City College	2,320,855.40	Yes
Notre Dame School	151,502.86	Yes
Orchard Hill College Academy Trust	619,372.74	Yes
R.B. of Kensington & Chelsea	39,716.26	Yes
Raine's Foundation School	197,353.64	Yes
Sacred Heart School	141,859.00	Yes
South Thames College	-37,058.00	Yes
St Andrews RC Primary School	113,359.68	Yes
St Anne's RC Primary School	75,053.29	Yes
St Anthony's School	98,136.03	Yes
St Bede's GM Infant & Nursery School	50,875.74	Yes
St Bernadette's School	76,995.21	Yes
St Francesca Cabrini Primary School	90,539.96	Yes
St Francis Xavier 6th Form College	237,230.07	Yes
St Joseph RC Infant School	82,793.10	Yes
St Joseph RC Junior School	90,621.11	Yes
St Martin in the Field High School	163,275.42	Yes
St Mary's RC Primary School	48,842.37	Yes
St Michael's RC School	119,691.10	Yes
St Thomas the Apostle College	129,481.01	Yes
Surrey Square Primary School	187,902.72	Yes
Transport for London	2,440,536.30	Yes
Turney School	151,019.13	Yes
Turnham Primary GMS School	99,081.32	Yes
University of Arts London	12,404,384.90	Yes
Valuation Office Agency	1,031,740.29	Yes
Valuatuion Tribunal Service	1,510,522.87	Yes
W. London Waste Authority	407,342.25	Yes
W. Riverside Waste Authority	130,245.21	Yes
Westminster Kingsway College	3,614,116.74	No
Total	**59,771,368.28**	
Transferee Admission Bodies		
Babcock Training Limited	58,799.05	Yes
Babcock Critical Services Ltd	162,481.41	Yes
Briggs Marine Contractors Ltd	1,078,325.48	Yes
Churchill Services	1,524.63	Yes
NSL Limited	5,671.43	Yes
SITA	216,503.09	Yes
Total	**1,523,305.09**	

iii Pension Fund budget comparison

	Actual 2018/19 £000	Budget 2018/19 £000	Variance 2018/19 £000
Dealings with members and employers			
Contributions	152,187	145,922	6,265
Transfers in	55,879	11,492	44,387
Benefits payable	(266,307)	(252,975)	(13,332)
Transfers out	(14,169)	(11,492)	(2,677)
Net dealings with members and employers	**(72,410)**	**(107,053)**	**34,643**
Management Expenses			
Investment management *	(47,671)	(39,973)	(7,698)
Administration	(1,862)	(1,862)	–
Oversight & Governance	(2,064)	(2,001)	(63)
Investment services fee	(1,181)	(1,768)	587
Capital funding	448	–	448
Total Management Expenses	**(52,330)**	**(45,604)**	**(6,726)**
Returns on Investments			
Net investment Income	169,584	54,900	114,684
Taxes on income	54	–	54
Change in Market Value*	354,082	253,900	100,182
Total return on investments	**523,720**	**308,800**	**214,920**
Net inflow/(outflow) to the Fund	**398,980**	**156,143**	**242,837**

Dealings with members and employers:

For employer contributions, additional income was received in excess of that budgeted as a result of seven employers that have transferred into the scheme during the financial year, four occurring in the last two months of the year.

Transfers are in excess of the budget as a result of a number of bulk transfers in.

Management Expenses:*

Investment management fees include fees deducted from investment funds and budgeted figures have been amended accordingly to allow for comparison. A corresponding adjustment is reflected in accrual and budgeted Change in Market Value.

Returns on Investments:

Total return on investments were above budget. This increase is due to a significant increase in the returns on global equities.

iiii Scheme advisors and service providers

Name	Contact details
S151 Officer	Abigail Leech, Lancashire County Council, PO Box 78, County Hall, Fishergate, Preston, Lancashire, PR1 8XJ
Monitoring Officer	Emma Strain, City Hall, The Queen's Walk, London, SE1 2AA
Managing Director	Robert Branagh, 169 Union Street, London, SE1 0LL
Eversheds	1 Wood Street, London, EC2V 7WS
Clifford Chance	10 Upper Bank Street, London, E14 5JJ
Deloitte	2 New St Square, Holborn, London EC4A 3BZ
Grant Thornton	30 Finsbury Square, London, EC2A 1AG
Barnett Waddingham	2 London Wall Place, 123 London Wall, London, EC2Y 5AU
Prudential	10 Fenchurch Avenue, London, EC3M 5AG
Lloyds Bank	25 Gresham Street, London, EC2V 7HN
National Fraud Initiative	https://www.gov.uk/government/collections/national-fraud-initiative
BNYM	160 Queen Victoria Street, London, EC4V 4LA
KPMG	160 Queen Victoria Street, London, EC4V 4LA
PwC	1 Embankment Place, London, WC2N 6RH
LPP	2nd Floor, 169 Union Street, London, SE1 0LL
Insight Investment	160 Queen Victoria St, London, EC4V 4LA
Knight Frank	25 Basinghall St, London, EC2V 5HA
Brookfield	One Canada Square, Level 25, Canary Wharf, London, E14 5AA

Further information

Annual Report enquiries
For further information please contact:

LPP Corporate Services
T: 020 7369 6014
E: corporate@localpensionspartnership.org.uk

General enquiries
Pension Services Team
T: 020 7369 6118
E: enquiries@localpensionspartnership.org.uk

Pensions Payroll Team
For pensions payroll enquiries:
Pensions Payroll Team
T: 020 7369 6060
E: pensionspayroll@localpensionspartnership.org.uk

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

www.lpfa.org.uk
www.yourpension.org.uk

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

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

http://axise.yourpension.org.uk
Our member self-service facility which allows members to access information about their pensions securely online.

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

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

Glossary

LPFA	London Pensions Fund Authority	AIFM	Alternative Investment Fund Manager
LCC	Lancashire County Council	GCF	LPPI Global Credit Fund
LPP	Local Pensions Partnership	DSF	LPPI Diversifying Strategies Fund
LPPI	Local Pensions Partnership Investments	RI	Responsible Investment
RCBPF	Royal County of Berkshire Pension Fund	LAPFF	Local Authority Pension Fund Forum
ESG	Environmental, Social and Governance	TCFD	Task Force on Climate-related Financial Disclosure
GLA	Greater London Authority	LPB	Local Pension Board
GLC	Greater London Council	ARC	Audit and Risk Committee
ILEA	Inner London Education Authority	IP	Investment Panel
LAPF	Local Authority Pension Fund	ISS	Investment Strategy statement
LGPC	Local Government Pensions Committee	FSS	Funding Strategy Statement
LGPS	Local Government Pension Scheme	MiFID	Markets in Financial Instruments Directive
PLSA	Pensions and Lifetime Savings Association	GDPR	General Data Protection Regulation
CIPFA	Chartered Institute of Public Finance and Accountancy	LDI	Liability-driven investment
SLA	Service Level Agreement	IFRS	International Financial Reporting Standards
TOM	Target Operating Model	IAS	International Accounting Standards
GMP	Guaranteed Minimum Pension	BVCA	British Private Equity and Venture Capital Association
COP14	Code of Practice – Governance and administration of public service pension schemes	ISAB	International Accounting Standards Board
FOMC	Federal Open Market Committee	OTC	Over the counter
BoE	Bank of England	AVC	Additional Voluntary contribution
ECB	European Central Bank	GIS	Group Investment Syndicate
SAA	Strategic asset Allocation	PSAA	Public Sector Audits Appointments
GEF	LPPI Global Equity Fund	NFI	National Fraud Initiative
FIF	LPPI Fixed Income Fund	IDRP	Internal dispute resolution procedure

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