

Annual Report

2012-13



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1. Note from the Chairman



I was delighted to have been selected as the new Chairman of the LPFA from 1st January 2013 and thus be able to introduce my first Annual Report on behalf of the Board of LPFA.

The results contained within this document highlight that LPFA is in a strong position but there are always improvements that can be made. Our triennial valuation results will be available in early 2014 although the good news is that we have already received an indicative funding level of 95%. We will continue to implement an investment strategy to achieve fully funded status as soon as possible.

On the administration side I was pleased to see a reduction in cost per member from 2011-12 and an improvement in the time it takes us to complete your queries. However we will continue to focus on reducing our operational costs.

LPFA has recently become a member of the Institute of Customer Service which is an excellent reflection of the service provided to members. The introduction of the new LGPS in April 2014 will provide a challenge for all concerned but a project team is in place to ensure a smooth transition.

A further document that you might be interested in is our Strategic Policy Statement 2013-16. You will see contained in that document an emphasis on reviewing LPFA's investment strategy and on managing the key liabilities in the fund. It is vital that we focus on the key risk areas which could impact the employers, members and tax payers.

Achieving value for money is a primary objective and this has manifested itself in the short term via a review of the way we hold our investments and the associated fees, and in the longer term through wider fund pooling. We see the amalgamation of the management and administration of LGPS and other public sector funds as being key to helping

the public sector achieve some of the efficiencies it has been asked to find. We should be able to help save many millions by reaping the benefits of scaling up the investment management capability and combining administration. We can then free up many hundreds of millions of pounds for much-needed investment into infrastructure and housing; and from unique liability analysis and management capability reduce the risks of unexpected funding shocks in the years to come. We will continue to push for urgent progress.

We have immediately started to implement better risk measurement. It is crucial that we have the necessary tools to hand to assess liabilities and risks in real time. The practice of triennial valuations dates back to the era of the slide rule. No pension board or trustee can claim to be properly discharging its fiduciary obligation if it does not know how its liabilities are changing. If we can add the ability to manage the unrewarded risks of inflation and longevity to the strong asset management culture that is already in place at the LPFA, then we can markedly improve the probability that we can grow assets faster than liabilities. And thus restore the LPFA and other public sector funds under our control to being fully funded. Otherwise the taxpayer faces an ever-deepening financial hole and risks inter-generational conflict.

It is vital that we examine our own competencies. I have been impressed to date with the expertise shown by the pensions administration function and see LPFA as a centre of excellence in this area. The LGPS is changing and becoming more and more complex. LPFA will ensure it is working with employers and members to make a smooth transition to the New LGPS 2014 and Fire Scheme 2015 and will offer that expertise to other public bodies. We will achieve this with a focus on customer care and communication, enhanced by investment in improved systems.

Edmund Truell
LPFA Chairman

2. Note from the Interim Chief Executive



Having announced his decision to retire Mike Taylor stood down from his role as Chief Executive in August 2013. This is a decision Mike had not taken lightly, but believed the timing was now right for him to hand over the reins to lead the business through the next phase of its development. We would like to take this opportunity to thank Mike for

his contribution to the LPFA and the wider LGPS over the last 7 years.

This past year was full of changes for both the Local Government Pension Scheme (LGPS) and the way LPFA was delivering its services. Mike's aim throughout was to ensure that we offer you a first class service and grow your fund for the future. Under his command, the fund grew by £427m during 2012-13.

The key administration change this year was putting you in control of your pension, which was a key initiative for LPFA. The functionality of our member self-service system has been greatly enhanced. You can now elect to view newsletters and annual reports online and for active members we have issued Annual Benefit Statements online for the first time in 2013.

Substantial projects, such as merging the two sub funds, were critical steps to managing the fund in a more effective way. Mike also contributed to the cultural change in our organisation by shifting the focus to managing the liabilities of the scheme. He welcomed the new Chairman, Board members and members of the Corporate Management Team, who, with their extensive knowledge of the financial markets and expertise in investments, will be able to make the changes happen.

During his last year of service, Mike put a particular emphasis on the benefits that could be achieved

from pooling pension fund assets and managing liabilities in a more effective way. Many of his efforts are reflected in discussions LPFA continues to hold with central government.

During 2012/13 the Fund was recognised by achieving the following awards and accreditations:

- ▶ Investors in People Bronze status confirmed
- ▶ Institute of Customer Service accreditation achieved
- ▶ Retained accreditation in Information Technology (ISO 27001) and Environmental Management (ISO 14001)
- ▶ Best Trustee Training Initiative award at the Engaged Investor Trustee Awards 2013

Please join me in thanking Mike and wishing him a healthy and happy retirement.



Susan Martin
LPFA Interim Chief Executive



Mike Taylor
Former Chief Executive

3. Fund Management and Advisors

LPFA BOARD MEMBERS

| | |
|--------------------------------|---|
| Edmund Truell | Chairman (from 1 January 2013) |
| Sir Merrick Cockell | Deputy Chairman |
| Anthony Dalwood | Board Member |
| Dermott "Skip" McMullan | Board Member (from 17 April 2013) |
| Kerry Adby | Board Member (from 17 April 2013) |
| Mike O'Donnell | Board Member |
| Michael Cassidy | Board Member |
| Sarah Smart | Board Member |
| Stephen Alambritis | Board Member |
| Stephen Brooker | Board Member (from 1 January 2013) |
| Anthony Mayer | Chairman (retired from post on 31 December 2012) |
| Bill Roots | Deputy Chairman (retired from post on 31 December 2012) |
| Angela Pober | Board Member (retired from post on 31 December 2012) |
| Icki Iqbal | Board Member (retired from post on 31 December 2012) |
| Michael Deakin | Board Member (retired from post on 31 December 2012) |

LPFA OFFICERS OF THE FUND

| | |
|--------------------------|--|
| Mike Taylor | Chief Executive (retired from post on 16 August 2013) |
| Susan Martin | Deputy Chief Executive (Interim Chief Executive from 17 August 2013) |
| Alex Gracian | Chief Investment Officer |
| Mike Allen | Director of Pensions |
| Janice Watts | Commercial Director |
| Adrian Bloomfield | Director of Finance (resigned from post on 12 July 2013) |
| Luke Webster | Director of Finance (on secondment from the GLA from 27 August 2013) |

LPFA ADVISORS AND SERVICE PROVIDERS

| | |
|-------------------------|--------------------|
| Fund Actuary | Barnett Waddingham |
| Bankers | Lloyds TSB |
| Custodian | J P Morgan |
| Internal Auditor | PWC |
| External Auditor | Audit Commission |
| AVC Provider | Prudential |
| Legal Advisors | Eversheds |
| | Bevan Brittan |
| | Stewart Law |
| | Travers Smith |

4. Introduction to the Fund and Fund Statistics

The London Pensions Fund Authority (LPFA) is a leader in the provision of pension administration for the Local Government Pension Scheme (LGPS). LPFA has its own pension fund with assets of over £4.6bn and also assists other local authorities with all aspects of LGPS administration. Dedicated teams deliver the Fire Pension Scheme.

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

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

LPFA'S STRATEGIC OBJECTIVES

Organisational Excellence - to have best in class levels of core asset and liability management and administration competency whilst ensuring competitive levels of efficiency

Investment Returns - to actively manage investments to meet our liabilities - through the application of investment beliefs, continual monitoring of investment performance and assessment of risks

Corporate Social Responsibility - to manage LPFA's investment and business processes to produce an overall positive impact on stakeholders and society

Market Focused - to effectively communicate with the marketplace to ensure the delivery of value to customers and a positive return to the pension fund

Valuing our People - to enhance our workforce capability and align incentives and working practices to the needs of the business

Value of the Fund

£4.69bn

Employers in the Fund

319

Total Scheme Membership

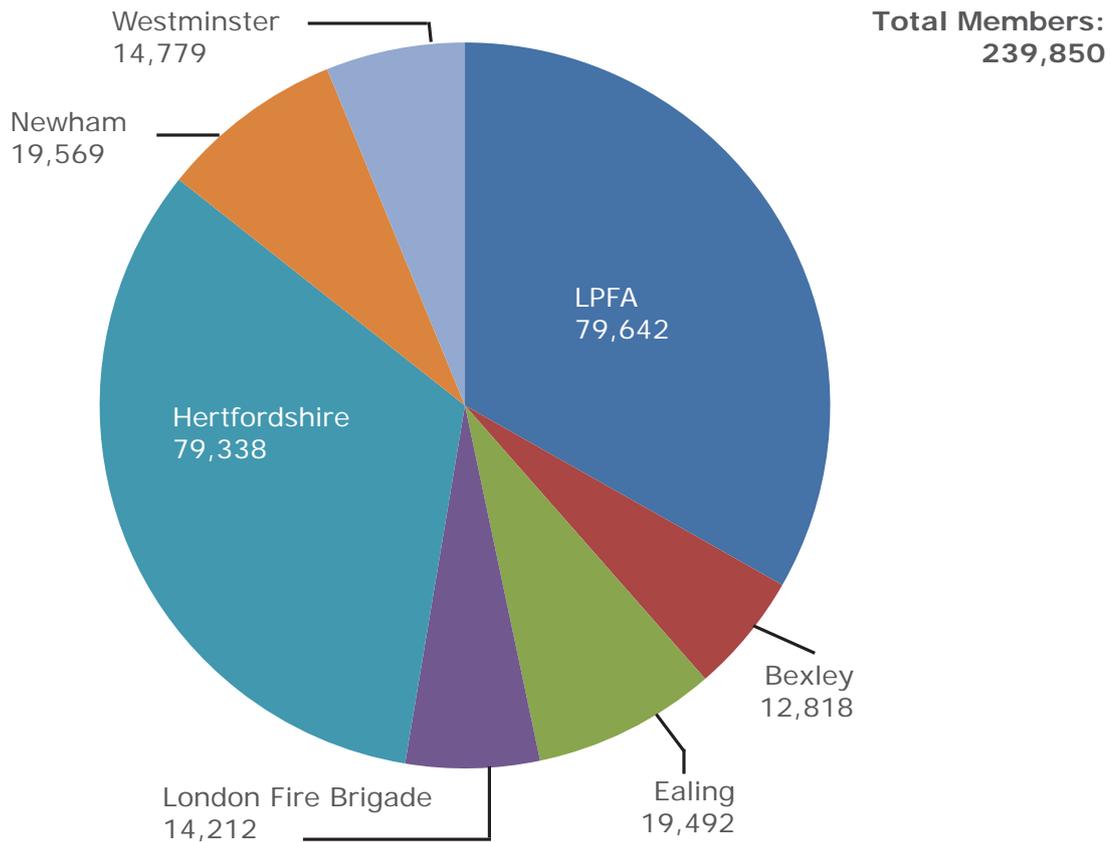
79,642

Scheme Membership

- ▶ Active Members = 16,459
- ▶ Deferred Members = 25,501
- ▶ Pensioners and Dependants = 35,071
- ▶ Undecided leavers & frozen refunds = 2,611

TOTAL MEMBERSHIP UNDER ADMINISTRATION

As well as managing the LPFA fund, administration services are provided to four London Boroughs, Hertfordshire County Council and London Fire Brigade.

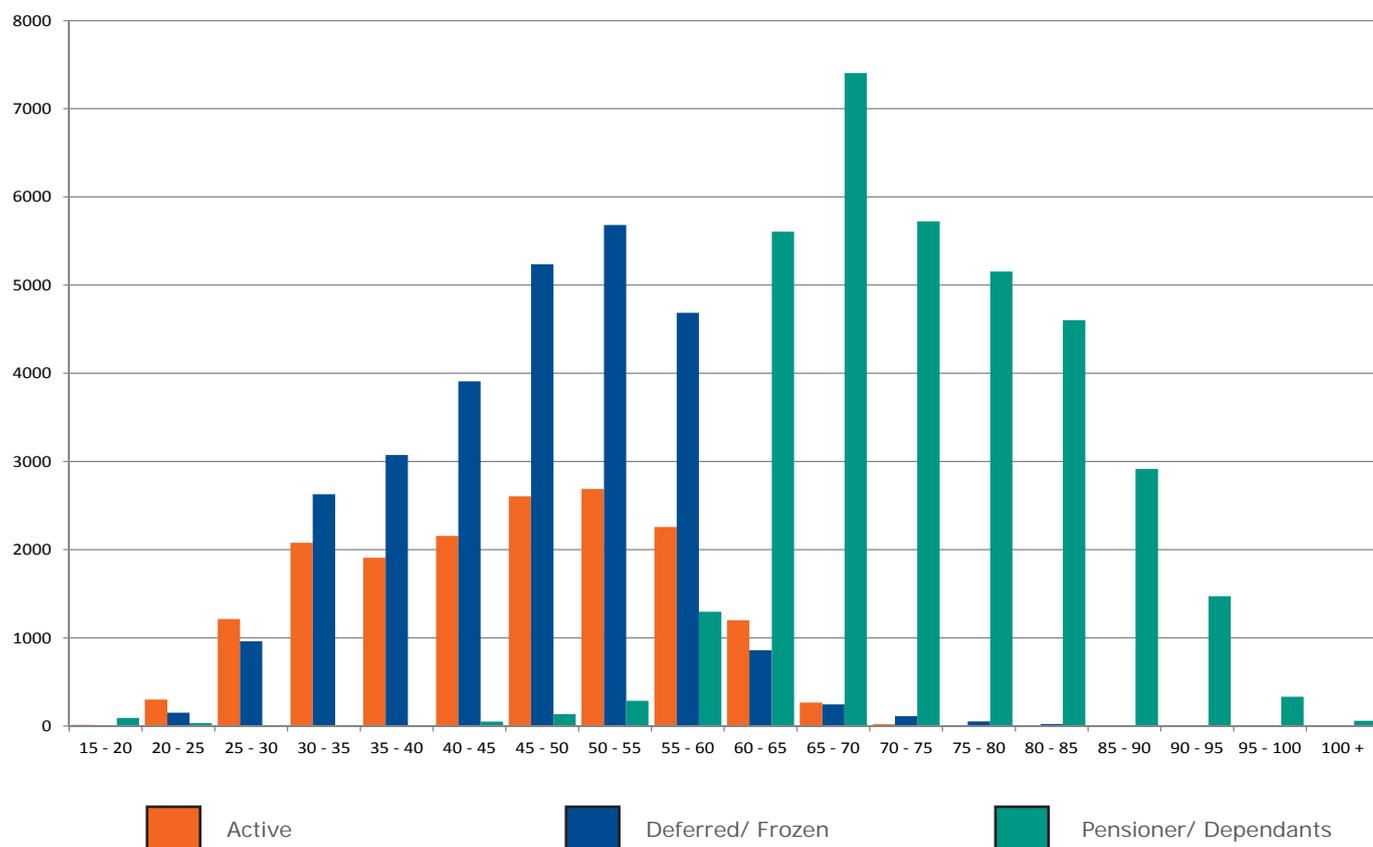


LPFA SCHEME MEMBERSHIP OVER 5 YEARS

| Member type | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Active contributor | 19,920 | 19,648 | 18,698 | 17,115 | 16,459 |
| Deferred Beneficiaries | 23,216 | 23,775 | 24,601 | 25,017 | 25,501 |
| Pensioners and Dependants | 33,474 | 33,911 | 34,265 | 34,650 | 35,071 |
| Undecided leavers and frozen refunds | 0* | 0* | 2,802 | 2,667 | 2,611 |
| TOTAL MEMBERSHIP | 76,610 | 77,344 | 80,366 | 79,449 | 79,642 |

* Undecided leavers and frozen refunds were not reported in these years

AGE OF LPFA SCHEME MEMBERS



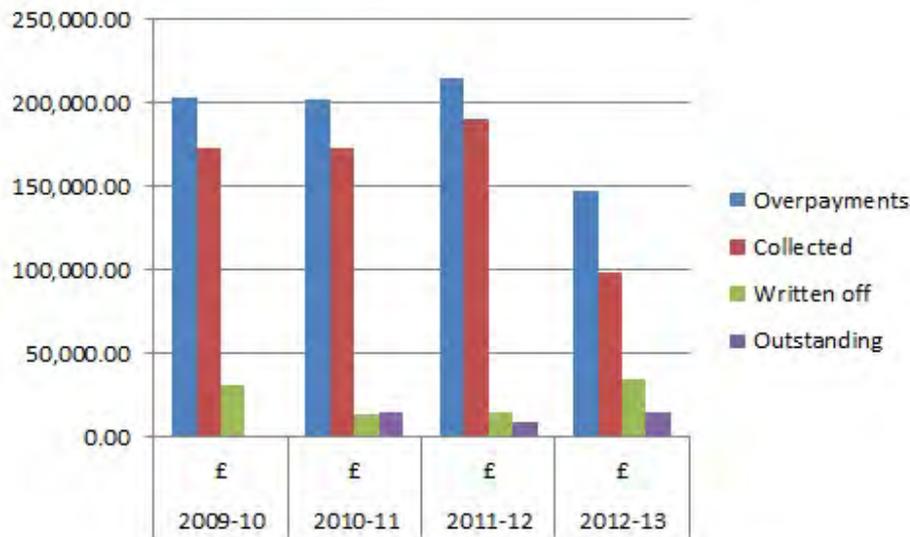
| | Active | Deferred/Frozen | Pensioner/Dependents |
|----------------|------------|-----------------|----------------------|
| Average | 45.5 years | 47.1 years | 73 years |
| Maximum | 74.2 years | 97.4 years | 107.9 years |
| Minimum | 17.3 years | 19.2 years | 1.6 years |

PENSIONERS IN RECEIPT OF ENHANCED RETIREMENT BENEFITS

| | Ill health instances | Early retirement | Redundancy/ Voluntary Early Retirement |
|--------------------------------|----------------------|--------------------|---|
| 2009-2010 | 38 | 19 | 314 |
| 2010-2011 | 40 | 23 | 317 |
| 2011-2012 | 23 | 16 | 339 |
| 2012-2013 | 32 | 12 | 275 |
| TOTAL VALUE FOR 2012/13 | £1,460,151.56 | £645,204.28 | £11,962,073.09 |

ANALYSIS OF PENSION OVERPAYMENTS

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--------------|------------|------------|------------|------------|
| | £ | £ | £ | £ |
| Overpayments | 203,604.94 | 202,385.82 | 215,443.45 | 147,547.50 |
| Collected | 172,488.17 | 173,561.42 | 190,928.97 | 98,078.31 |
| Written off | 31,116.77 | 13,517.03 | 15,225.44 | 34,267.12 |
| Outstanding | 0 | 15,307.37 | 9,289.04 | 15,202.07 |



Amounts due from employer at the year end

- ▶ Employers contributions - £6,892K
- ▶ Employees contributions - £2,148k
- ▶ Cessation Values - £1,492k

Staff numbers and trends

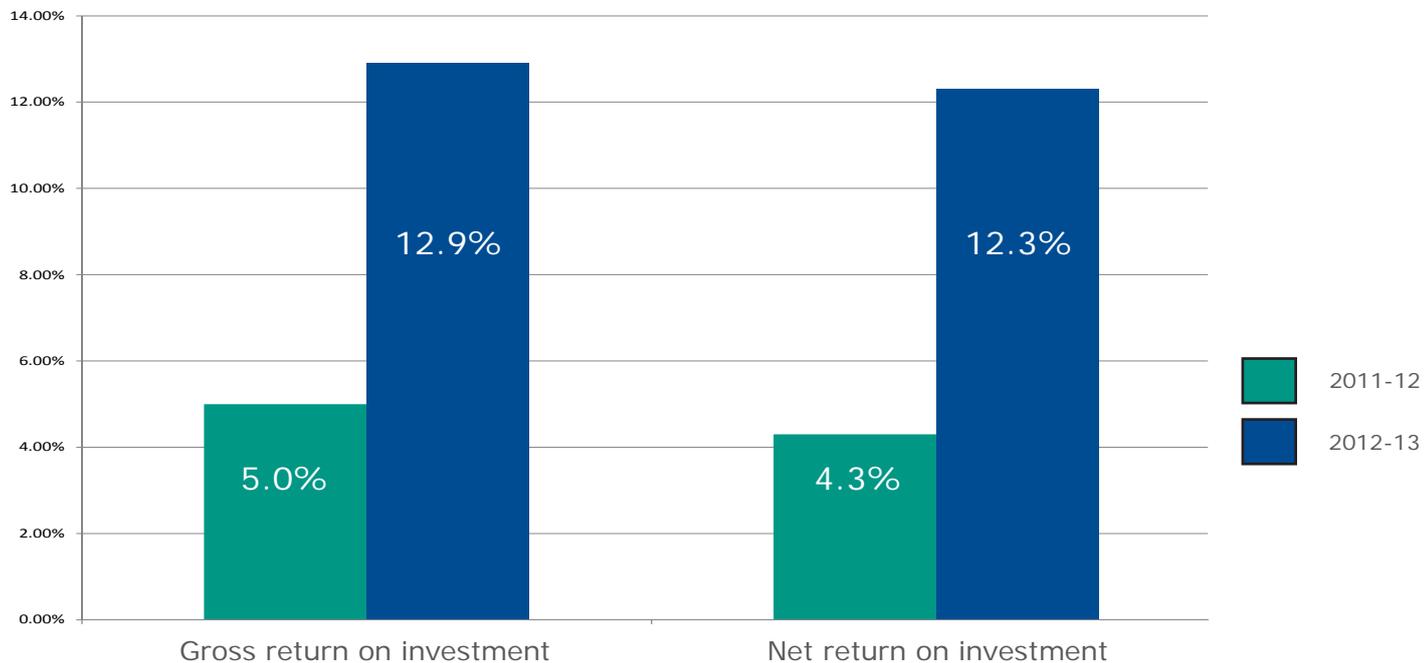
40 staff are employed directly on administration and 4 on investment.

Timeliness of receipt of contributions

99% of contributions were received by the LPFA within 19 days of the following month. There were 31 instances where employers did not pay their contributions on time.

GROSS AND NET RETURN ON INVESTMENTS

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



RISK INDICATORS

LPFA’s aim is to achieve fully funded status on an actuarial basis within five years. These risk controls ensure the main aim is achieved with appropriate risk parameters.

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

=

Historical VaR @ 95% -3.72%

∂ [Equity market] (Sensitivities to changes in the Equity market)

=

Fund Beta relative to MSCI World Net Return (GBP) 0.518

∂ CPI (Sensitivities to changes in UK Inflation expressed as the change in the present value of the liabilities for each 1 basis point (0.01%) change in the inflation rate.)

=

IE01 (As at 31 May 2013)
£14.1m

∂ IR (Sensitivities to changes in the Interest rates expressed as the change in the present value of the liabilities for each 1 basis point (0.01%) change in interest rates.)

=

PV01 (As at 31 May 2013)
£-15.6m

5. LPFA's Administrative Performance

LPFA aims to provide a timely and accurate service. We set ourselves high standards and this past year, again, 99% of queries were completed within our expected timescales. For the first time, this year's annual report provides a summary of these timescales (see right), giving you a better indication of how long it will take LPFA to complete your queries. We have also been working with employers to reduce our expected delivery times, which have continued to drop significantly in recent years.

Over the past year, 99% of LPFA members surveyed were satisfied with our service and we have become ServiceMark accredited with the Institute of Customer Service.

CASES COMPLETED ON TIME PER QUARTER

| | Q1 | | Q2 | | Q3 | | Q4 | | 2012-13 TOTAL | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|
| | Number | % on time | Number | % on time |
| Top 10 Case Types | 4,214 | 99.3% | 4,526 | 99.6% | 4,559 | 99.9% | 4,467 | 99.9% | 17,766 | 99.7% |
| All other Case Types | 4,300 | 98.7% | 3,781 | 99.2% | 3,832 | 99.6% | 3,402 | 99.9% | 15,315 | 99.4% |
| TOTAL | 8,514 | 99.0% | 8,307 | 99.4% | 8,391 | 99.8% | 7,869 | 99.9% | 33,081 | 99.5% |
| Employer Services End of Year Queries | 343 | 99.1% | 970 | 99.9% | 1,172 | 99.9% | 740 | 100% | 3,225 | 99.7% |

MEMBER & EMPLOYER ONLINE INTERACTIONS

As at 31 March 2013, LPFA held 5,342 member email addresses. That's 32% of our active members

96% of employer forms were submitted online via the Yourfund website

4.2% of members signed up to member self-service with a full promotional campaign planned during 2013.

Our pensions administration strategy covers 86 of our 160 employers - that is over 12,349 of our active membership

COSTS PER MEMBER

Although the costs for individual Authorities are published there appears to be little consistency or independent validation of the figures submitted. Within London for instance the costs of administration varies between £18.59 and £93.23 per member with the average being £50.38. For investment costs figures are between (£8.61) and £292.91. Similar variations exist outside London when comparing costs incurred by County Councils.

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

Given that the LPFA already has the infrastructure and support mechanisms in place we also have the ability to increase our administration capacity while reducing the cost per member. This can be demonstrated by looking at the cost of providing the agency contracts LPFA administer where the cost per member on a marginal basis is in the region of £16. Clients will also have a dedicated team to manage specific employer functions.

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

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

FUND COSTS PER MEMBER

| Fund costs 2012-13 | Absolute | Per fund member | % of Net assets of fund |
|--------------------|---------------|-----------------|-------------------------|
| | £'000 | £ | % |
| Administration | 5,607 | 70.40 | 0.12% |
| Investment | 25,727 | 323.03 | 0.55% |
| TOTAL | 31,334 | 393.43 | 0.67% |

| Fund costs 2011-12 | Absolute | Per fund member | % of Net assets of fund |
|--------------------|---------------|-----------------|-------------------------|
| | £'000 | £ | % |
| Administration | 6,444 | 81.11 | 0.15% |
| Investment | 27,486 | 345.96 | 0.65% |
| TOTAL | 33,930 | 427.07 | 0.80% |

6. Investment Review

The London Pensions Fund Authority (LPFA) Fund was historically divided into two sub funds: Active Sub Fund and Pensioners Sub Fund in 1992.

The Active Sub Fund was designed for employees, deferred and pensioners with employers who were still making contributions to the Fund.

The Pensioner Sub Fund was designed for employers who had ceased making contributions or were defunct. This was to allow the individual Sub Funds to develop their investment strategies to better reflect the specific Sub Fund's requirements.

The dual Sub Fund investment policy was included as part of the Fund's strategy and assets review, performed by the new Chief Investment Officer – Alex Gracian - who joined LPFA in October 2012.

In Q1 2013, the LPFA Board decided to amalgamate the two Sub Funds into one to enable LPFA to meet future challenges, close the funding gap and introduce greater investment flexibility. This investment report has been prepared to provide a historic snapshot of the two Sub Funds, one last time, for the financial year ending 31 March 2013.

From April 2013 onwards, the Fund will exist as a unitary fund with the investment strategy reflecting the requirements of the one Fund. All future reporting will be prepared on this basis.

6.1 Investment Performance

THE LAST TWELVE MONTHS

Globally, the stock markets veered from optimism to pessimism and back to optimism periodically. These "risk on and risk off" periodic swings reflected the general market uncertainties and lack of confidence of market participants due to the many unresolved global economic and financial issues. In many ways, the market behaved remarkably similar to that of 2011.

A good Q1 was followed by a poor Q2 and doldrum returned in Q3, then the world stock markets sprang back to life again as we approached the year end and the cycle was repeated again. The Active Sub Fund, due to its investments in higher return seeking assets i.e. stocks and shares and private equity, has outperformed both its one year composite benchmark and target return by 1.29% and 0.12% respectively.

This solid performance was largely due to a good equity market rally which started in Q4 2012 and continued to Q1 2013. The Pensioner Sub Fund, which has the majority of its assets in fixed income to match its liabilities, also outperformed its one year composite benchmark and target by 3.81% and 2.36% respectively.

LONG TERM PERFORMANCE

As a pension fund, our investment horizon is long term. Our investment strategy is decided based on the Fund's objectives of capital preservation, enough cash flow at the right quantity at the right time and closing the existing deficit gap within the expected time frame.

Assets are managed within an acceptable level of risk. Whilst we also make opportunistic investments, we are long term responsible investors and the Fund's investment strategy is decided in accordance with the Fund's principles and beliefs*.

The performance of the Sub Funds is set out in the table overleaf. The Active Sub Fund outperformed its composite benchmark over 1 and 3 years, whilst the Pensioner Sub Fund outperformed its composite benchmark over the 1yr, 3yr, 5yr and 10yr periods.

Over the long term, as a unitary fund, the Fund's deficit is expected to be eliminated if the Fund can generate an annual return c.8% for the next 20 years.

The caveat is of course no further unexpected market shocks or a repeat of the unprecedented financial and economic meltdown of 2008. To this end, we have strengthened our Board and Investment Committee with a panel of external members who are experts in their own fields**.

We have set up a Risk Committee to ensure that the LPFA has a proper risk culture. We are also building out the Investment Team, developing an in-house quantitative approach and asset and liability modelling ability, together with exploring new investment opportunities and innovative investment techniques.

**See website for Board member biographies

SUB FUND PERFORMANCE AS AT 31 MARCH 2013



PORTFOLIO BREAKDOWN AS AT 31 MARCH 2013

Active Sub Fund

| Investment Manager | Valuation £m | Actual Asset Allocation | Bench Mark Allocation |
|----------------------------|-----------------|----------------------------|--------------------------|
| Global Equity | | | |
| Legal & General | 611.0 | 20% | 18% |
| MFS | 702.1 | 23% | 20% |
| Newton | 499.1 | 16% | 15% |
| Satellite | 89.4 | 3% | 3% |
| Record Hedging | -14.2 | 0% | 0% |
| Private Equity | 367.7 | 12% | 14% |
| Equity | 2,255.1 | 74% | 70% |
| BlackRock | 294.0 | 9% | 10% |
| Diversifying Growth | 294.0 | 9% | 10% |
| Diversifying Assets | | | |
| Brevan Howard | 61.0 | 2% | 2% |
| Global Property | 174.3 | 6% | 6% |
| Commodities | 52.7 | 2% | 3% |
| Infrastructure | 135.3 | 4% | 5% |
| Opportunity | 41.3 | 1% | 2% |
| Diversifying Assets | 464.6 | 15% | 18% |
| Record Alpha | 0.0 | 0% | 0% |
| Cash | 83.5 | 2% | 2% |
| TOTAL | 3,097.2 | 100% | 100% |

PORTFOLIO BREAKDOWN AS AT 31 MARCH 2013

Pensioner Sub Fund

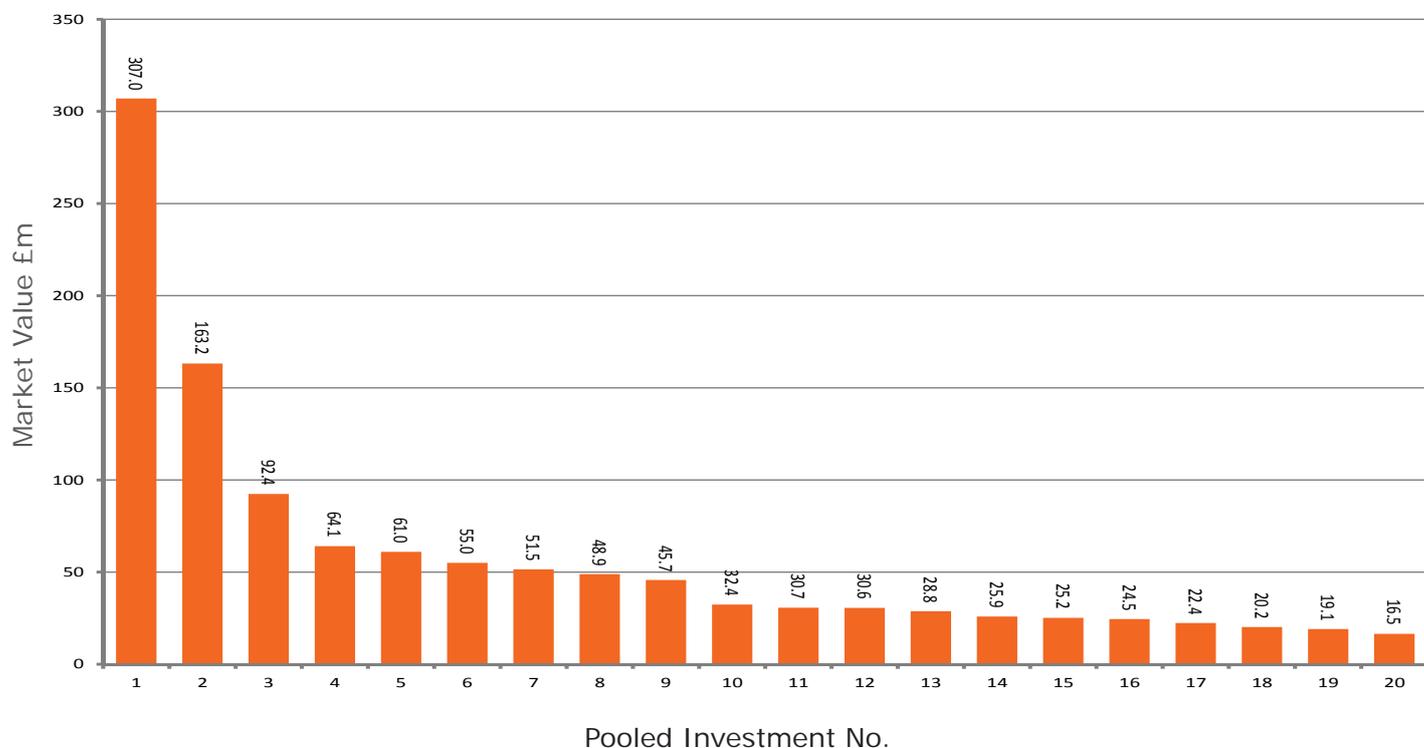
| Investment Manager | Valuation £m | Actual Asset Allocation | Actual Asset Allocation for Active Only | Bench Mark Allocation |
|----------------------------|-----------------|----------------------------|---|--------------------------|
| Active | | | | |
| BlackRock Active | 189.3 | 12% | 18% | 12.5% |
| ECM Active | 271.7 | 17% | 25% | 27.5% |
| Insight Active | 380.9 | 24% | 36% | 40.0 |
| Equity | | | | |
| Legal & General | 40.8 | 3% | 4% | 3.9% |
| Insight Synthetic Equity | 185.8 | 12% | 17% | 16.1% |
| PSF Active | 1,068.5 | 67% | 100% | 100% |
| Diversifying Assets | 33.0 | 2% | - | - |
| LDI | | | | |
| Insight LDI | 459.5 | 28% | - | - |
| M&G UK Fund | 32.4 | 2% | - | - |
| PSF LDI | 491.9 | 30% | - | - |
| Cash | 8.5 | 1% | - | - |
| TOTAL | 1,601.9 | 100% | - | - |

Total Value of the Fund

£4.69bn

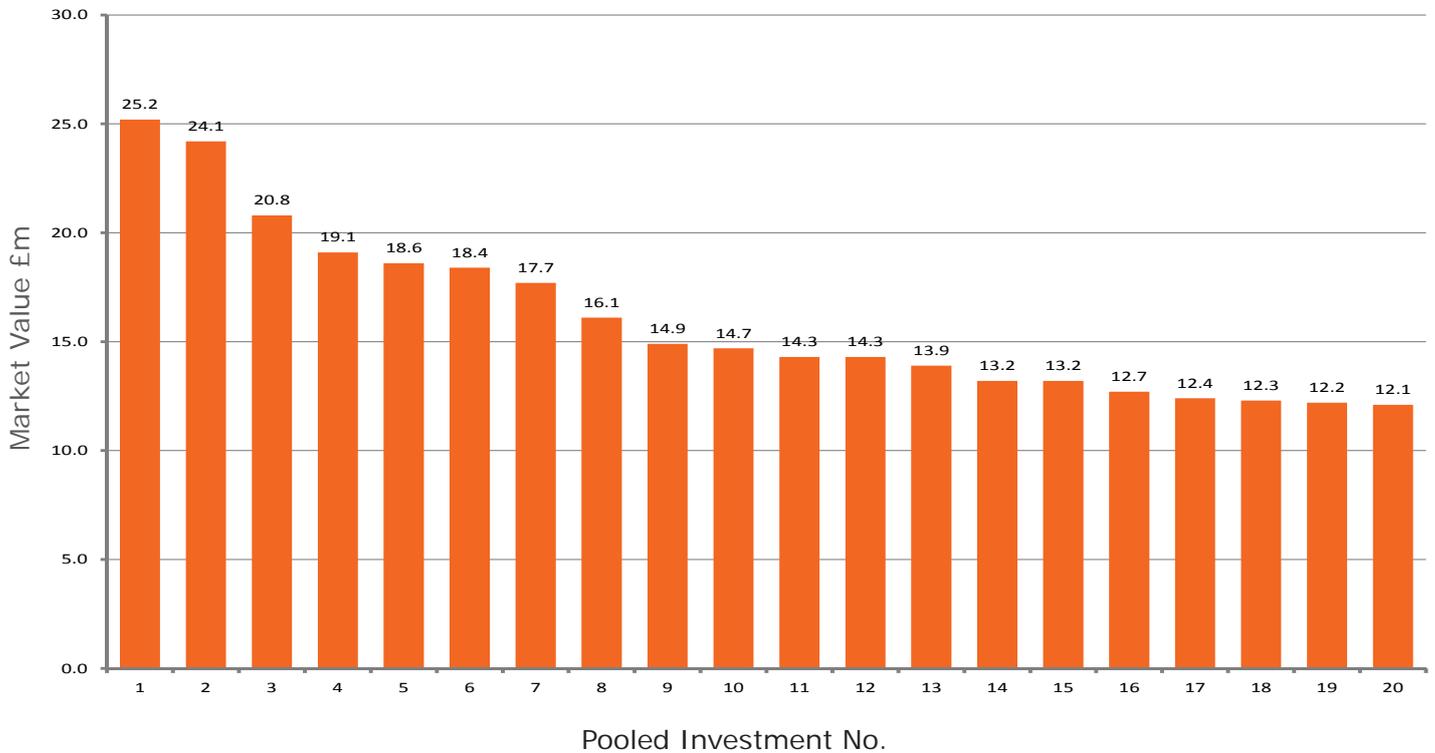


6.2 Top 20 Fund Holdings for the Active Sub Fund



| No. | Pooled Investment | Market Value £ |
|-----|---------------------------------------|----------------|
| 1 | L&G US Index Fund | 307,023,342 |
| 2 | CBRE Global Osiris | 163,241,687 |
| 3 | L&G European Index Fund | 92,401,382 |
| 4 | L&G World Emerging Markets Index Fund | 64,144,097 |
| 5 | Brevan Howard | 60,998,901 |
| 6 | Sarasin Oekosar Equity Global | 54,562,323 |
| 7 | L&G Japan Index Fund | 51,484,006 |
| 8 | L&G UK Index Fund | 48,921,599 |
| 9 | L&G Asia Pac Ex Jap Index Fund | 45,695,695 |
| 10 | M&G UK Companies Financing Fund | 32,426,851 |
| 11 | Semperian | 30,677,571 |
| 12 | SAS Commodity Fund | 30,572,378 |
| 13 | Meridiam Infrastructure | 28,804,289 |
| 14 | Pantheon Asia Fund IV | 25,912,660 |
| 15 | LGT Crown Asia-Pac PE | 25,295,271 |
| 16 | Dover Street VII Cayman | 24,527,926 |
| 17 | LGT Crown European PE | 22,383,444 |
| 18 | Pantheon USA VI | 20,151,074 |
| 19 | Robeco Clean Tech | 19,087,088 |
| 20 | Pantheon USA VIII | 16,465,897 |

6.3 Top 20 Equity Holdings for the Active Sub Fund



| No. | Equity | Market Value £ |
|-----|-----------------------------------|----------------|
| 1 | Impax Asian Environmental Markets | 25,246,760 |
| 2 | Nestle SA | 24,158,712 |
| 3 | Linde | 20,787,696 |
| 4 | Walt Disney | 19,145,440 |
| 5 | Reckitt Banckiser | 18,643,970 |
| 6 | Heinekin | 18,384,663 |
| 7 | Diageo | 17,730,288 |
| 8 | Honeywell | 16,066,032 |
| 9 | Visa | 14,858,226 |
| 10 | Thermo Fisher Scientific | 14,767,646 |
| 11 | Bayer | 14,321,700 |
| 12 | Accenture | 14,254,387 |
| 13 | State Street | 13,889,569 |
| 14 | 31 Infrastructure | 13,240,000 |
| 15 | United Technologies | 13,162,287 |
| 16 | Oracle | 12,678,307 |
| 17 | 3M | 12,420,289 |
| 18 | LVMH | 12,344,716 |
| 19 | Danone | 12,163,350 |
| 20 | Canadian National Railway | 12,135,985 |

6.4 Equity Holdings for the Pensioner Sub Fund

Equity accounted for 20% of the investments in the Pensioner Sub Fund. This included a direct holding of 2.5% in L&G Index Tracker Funds and they were:

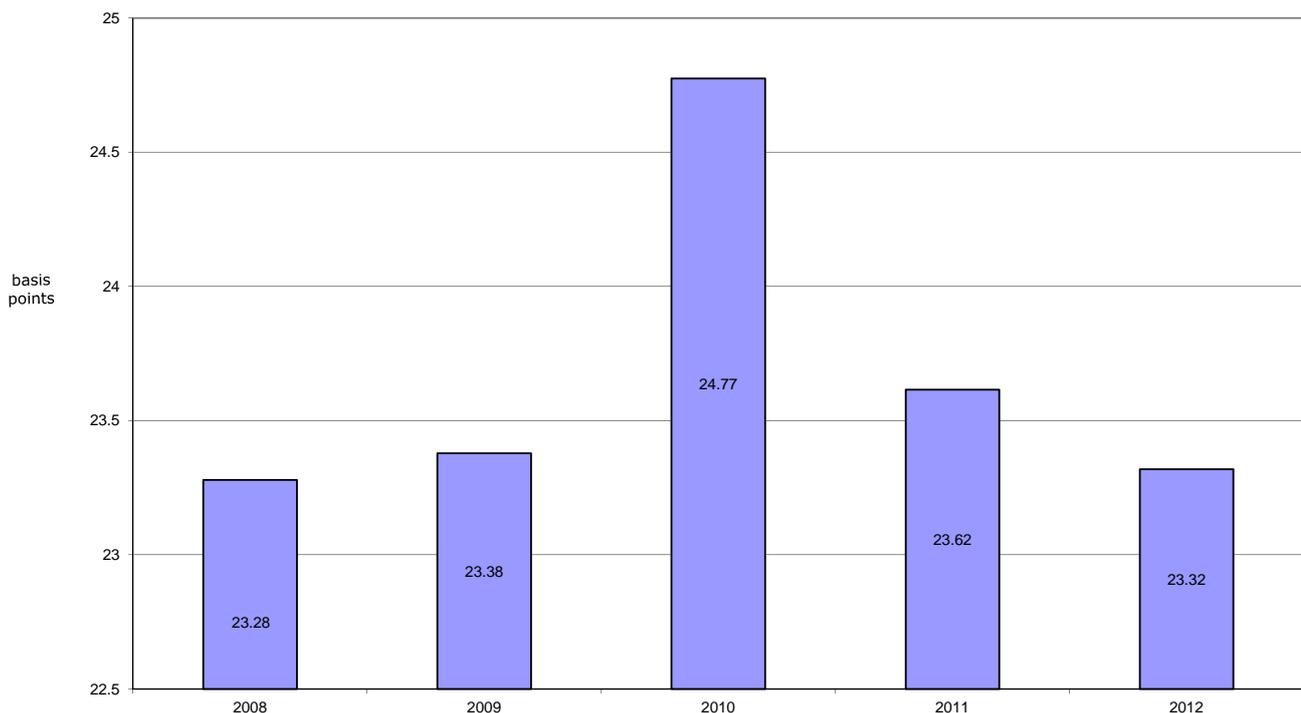
- L&G World Emerging Markets (0.02%),
- L&G AsiaPac (ex Japan) (1.08%) and
- L&G Mid East & Africa (1.40%)

The remaining equity holdings were in equity futures and total return swaps for the developed markets. These synthetic equity holdings were reported on an economic exposure basis and were managed by Insight. The synthetic equity holdings formed part of the Insight LDI management.

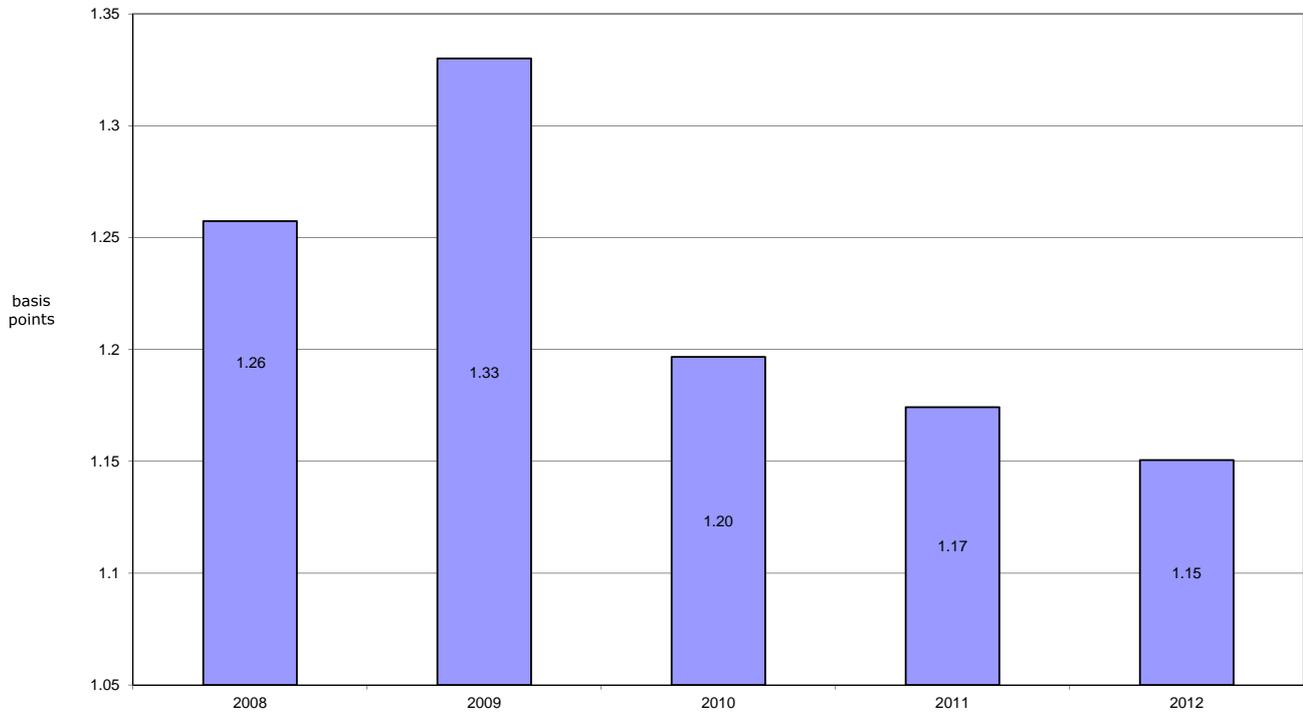
6.5 Fund Management Costs as a % of Assets Under Management (2009-2012)

Investment management, performance and other investment fees are monitored and reported regularly to the Investment Committee. We have regular dialogue with our fund managers and service providers to ensure that LPFA receives value for money. The graphs below and overleaf show the Fund's investment management, performance and other investment fees over the last 5 years.

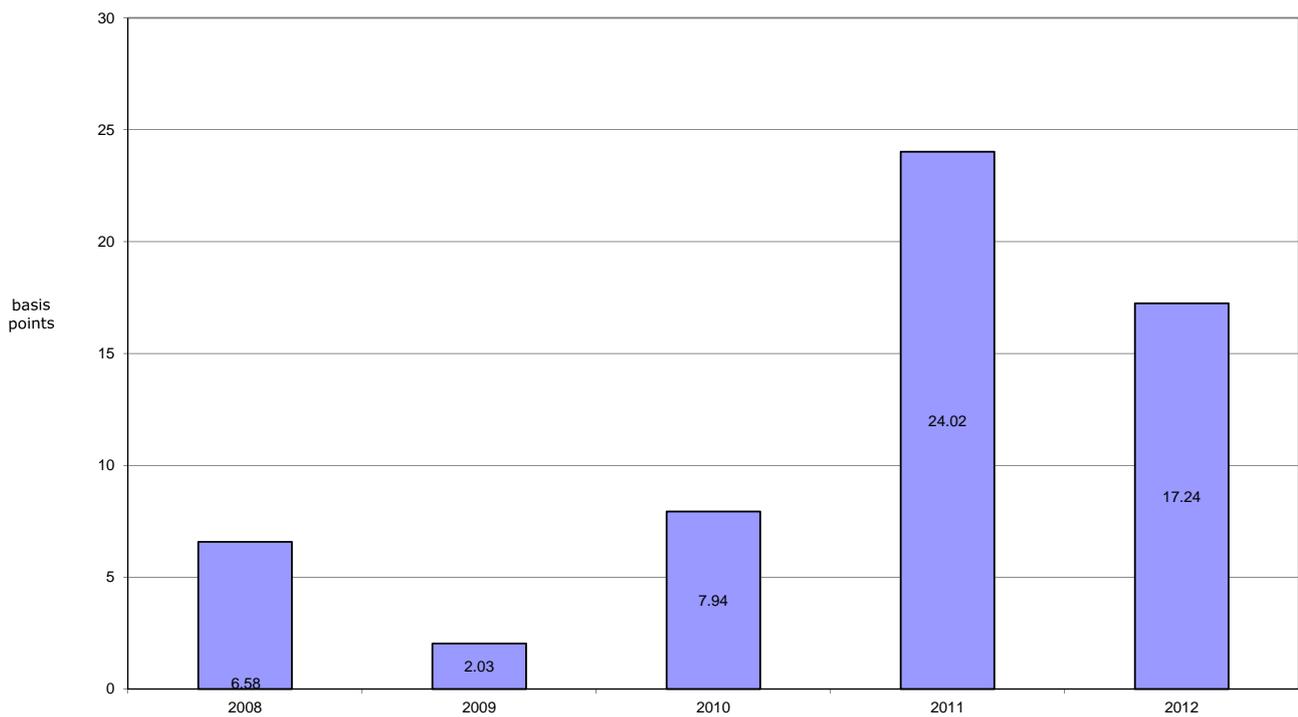
Base fee as a % of assets under management Jan 2008-Dec 2012



Other investment fees as a % of assets under management Jan 2008-Dec 2012



Performance fee as a % of assets under management Jan 2008-Dec 2012



6.6 Risk Management

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

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

Governance is an essential risk management tool; the LPFA governance was reviewed in March 2013 and improved especially in decision making process and accountability, compliance policy and conflicts of interest policy.

At the beginning of 2013, a Risk Committee was established and the monitoring of potential risks to assets and investment forms one of its remits. The Risk Committee meets quarterly to set/review the Fund's risk framework and officers are accountable to the Committee.

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

Whilst some are known and can be anticipated, the greatest threat to the Fund is external unexpected shocks. The Investment Team is in the process of developing an asset liability model. This will further enhance the Fund's dynamic approach to risk, besides facilitating the investment and asset allocation decisions. We hope, in the fullness of time, we will be able to stress test our investment decisions on demand. This will enable us to anticipate events and improve our ability to prepare for the unexpected.

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

6.7 Responsible Investment

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

Over the last few years, the LPFA have worked hard to incorporate ESG in our investments. We have developed a level of understanding and an approach which has taken the ESG issue as far as we believe we need to at this stage. We maintain the expectation that our managers understand it and apply it as part of their core approach.

During the year under review, the LPFA voted in favour of 2,999 resolutions, against 369 resolutions and abstained on 3 resolutions at company meetings. In 128 out of 221 meetings we have cast one or more votes against management.

As a result of an in-depth review of the LPFA's responsible investment activities conducted during 2012/2013, the LPFA took the decision to not renew Robeco's contract as our voting and engagement service provider. This decision reflects changes in the industry that have occurred since Robeco's contract award that resulted in greater benefits to holding our fund managers to greater account for their active ownership activities, versus the added monetary costs of an outsourced voting and engagement approach.

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

Our Statement of Investment Principles including our Myners Compliance Statement can be found on our website: www.lpfa.org.uk

6.8 Compliance with the Myners' Report

Board Members carried out the annual self assessment against the Myners Principles in June 2013. Based on that review the Board was deemed to be in full compliance. The action plan for continuous improvement is included in Annex iii of this Statement. Much of the high level supporting information is contained in this Statement e.g. regarding the Fund governance structure, investment decision-making and responsible ownership.

In preparing the Myners Compliance Statement the Board considered the 2009 guidance provided by CIPFA regarding the application of the Myners Principles in the LGPS. In particular, the Board recognises:

- ▶ The importance of Board members' reporting on their performance against the Myners Principles; and
- ▶ The value of sharing best practice more widely within the LGPS

The detail provided in Annex iii helps to support these wider objectives.

7. Governing the Fund

7.1 Governance Introduction

This section explains how the LPFA governs and runs the LPFA pension fund. It contains governance highlights, the structure of the Board and Committees, and risk management processes. Board member biographies can be found on the website at www.lpfa.org.uk/Who-we-are. Here you will also find details of LPFA's public Board meetings, of which there are five per year.

This is not the only report on governance published by the LPFA. You might also like to read:

- ▶ Local Code of Corporate Governance
- ▶ LGPS Governance Policy Statement

You can find both documents on our website at:

www.lpfa.org.uk/What-we-publish

GOVERNANCE HIGHLIGHTS

- ▶ New Board Members joining from January 2013 with extensive experience in investment management and governance
- ▶ Revised strategic focus on managing LPFA's liabilities and promoting fund consolidations
- ▶ Flexibility introduced into the governance arrangements and best practice in corporate governance applied
- ▶ Committee structures reviewed and a Risk Committee introduced
- ▶ Board training plan carried out in line with both the CIPFA Knowledge and Skills Framework and The Trustee Toolkit
- ▶ Risk Management processes refreshed

- ▶ Conflicts of Interest Policy introduced in relation to investment interests. More detail can be found in LPFA's Local Code of Corporate Governance.
- ▶ New internal and external auditors appointed

7.2 Board and Committees

A NEW BOARD

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

Almost half of LPFA's Board membership changed during 2012-13. The appointment process run by the Mayor led to Edmund Truell becoming Chairman and 3 other Board positions being filled by Stephen Brooker, Kerry Adby and Skip McMullan. Sarah Smart was reappointed for a second term and appointed Chair of the Risk Committee. All Board members are undergoing an induction programme.

The experience these new appointees have brought in pension fund management, infrastructure projects and corporate governance has significantly strengthened the Board in these areas. LPFA's Investment Team has also expanded following the arrival of Alex Gracian, Chief Investment Officer, and two new investment specialists. The range of skills now available within the LPFA Board and Investment Teams has led to a reduction in the need for blanket independent advice. Ad hoc requirements for specialists remain but moving forward LPFA have stronger in-house knowledge.

CURRENT BOARD MEMBERS

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



Edmund Truell
Chairman



Sir Merrick Cockell
Deputy Chairman



Anthony Dalwood



Dermot 'Skip' McMullan



Kerry Adby



Michael Cassidy



Mike O'Donnell



Sarah Smart



Stephen Alambritis



Stephen Brooker

BOARD MEMBER ATTENDANCE

| Board Member | Appointment Period | Professional competence | Committee | Attendance at the Board for the 2012/13 financial year | Attendance at the Committees for the 2012/13 financial year |
|---|----------------------------|----------------------------------|--------------------------------------|--|---|
| Anthony Mayer Chairman to 31 Dec 2012 | 1 Jan 2009 to 31 Dec 2012 | Public Administration | Performance & Administration (Chair) | 3 out of 3 | 1 out of 2 |
| | | | Investment | | 2 out of 3 |
| | | | Remuneration | | 0 out of 0 |
| Michael Deakin | 1 Jan 2006 to 31 Dec 2012 | Actuary Investment Management | Investment (Chair) | 3 out of 3 | 3 out of 3 |
| Bill Roots | 1 July 2001 to 31 Dec 2012 | Accountant | Audit (Chair) | 2 out of 3 | 3 out of 3 |
| | | Public Administration | Performance & Administration | | 2 out of 2 |
| Angela Pober | 1 Jan 2009 to 31 Dec 2012 | Project Management | Performance & Administration | 3 out of 3 | 1 out of 2 |
| | | Management | Remuneration | | 0 out of 0 |
| | | Consultancy | | | |
| Icki Iqbal | 1 Jan 2006 to 31 Dec 2012 | Actuary | Audit | 2 out of 3 | 2 out of 3 |
| | | Financial management | Remuneration (Chair) | | 0 out of 0 |

| Board Member | Appointment Period | Professional competence | Committee | Attendance at the Board for the 2012/13 financial year | Attendance at the Committees for the 2012/13 financial year |
|---|--------------------------------|---|---|--|---|
| Edmund Truell Chairman from 1 Jan 2013 | 1 Jan 2013 to 31 Dec 2016 | Private Equity Pension Fund Asset and Liability Management | Chairman Investment (Chair) | 2 out of 2 | 1 out of 1 |
| Sir Merrick Cockell Deputy Chairman from April 2013 | 1 Oct 2010 to 31 Dec 2016 | International Business Public Administration | Business & Administration (Chair) Remuneration (Chair) | 3 out of 5 | 1 out of 2 0 out of 0 |
| Michael Cassidy | 1 March 2007 to 30 Sept 2013 | Lawyer Public Administration | Investment Committee | 4 out of 5 | 3 out of 4 |
| Sarah Smart | 1 Jan 2009 to 31 Dec 2015 | Accountant Investment Management | Risk (Chair) Investment Audit | 3 out of 5 | 1 out of 1 4 out of 4 2 out of 3 |
| Stephen Brooker | 1 Jan 2013 to 31 Dec 2015 | Accountant Public sector governance | Audit (Chair) Risk Remuneration | 2 out of 2 | 0 out of 0 1 out of 1 0 out of 0 |
| Stephen Alambritis | 1 Oct 2010 to 30 Sept 2013 | Public Administration | Business & Administration Audit | 4 out of 5 | 2 out of 2 0 out of 0 |
| Anthony Dalwood | 1 Oct 2010 to 30 Sept 2014 | Investment Management | Investment Risk | 5 out of 5 | 4 out of 4 1 out of 1 |
| Mike O'Donnell | 1 Oct 2010 to 30 Sept 2014 | Accountant Public Administration | Audit Remuneration | 4 out of 5 | 3 out of 3 0 out of 0 |
| Kerry Aaby | 17 April 2013 to 31 March 2017 | Investment Management Infrastructure Legal | | N/A | N/A |
| Dermott "Skip" McMullan | 17 April 2013 to 31 March 2017 | Investment Management External Pension Fund Chair | | N/A | N/A |

Board positions remain vacant

BOARD STRATEGY

The strategy developed by the Board focused in 2012-13 on implementing a number of business change projects aimed at preparing LPFA for future challenges such as the introduction of the new LGPS 2014 scheme, a push for business growth, and ways to reduce the deficit in the fund.

Following the introduction of the new Board in January 2013 there was renewed impetus on promoting the benefits of fund mergers and on working with other public sector pension schemes to achieve efficiencies. If the LPFA is to play a major role in any revised LGPS structure then the Board see it as vital that the LPFA is delivering an excellent service to current members. This means continuing to be experts in all aspects of LGPS administration and investment. Various strategic improvement projects are in place to achieve this.

A Board Performance Evaluation exercise was carried out in October 2011 and will be repeated in late 2013.

LPFA'S CONSTITUTION AND COMMITTEE STRUCTURE

The Constitutional Document continued to be reviewed and amended where appropriate. Additional flexibility has been included with the introduction of electronic voting for matters that arise in between meetings.

All Committee terms of reference were reviewed between January and March 2013. This reflected the Board's desire to introduce a Risk Committee with a particular focus on the liabilities and major risks facing the Fund.

Much of the substantive work of the Board is now conducted through five standing committees:

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

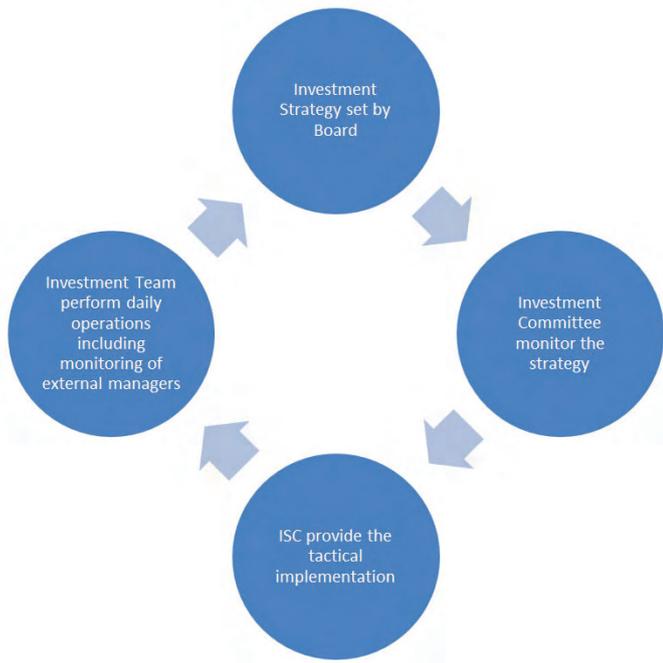
Each Committee is empowered to carry out the specific duties set out in its terms of reference. Beyond these specific delegated powers, the Committees act as an advisory body with no executive powers, but is authorised to investigate any activity relating to or compatible with its terms of reference.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

The terms of reference of each Committee are included in the Constitutional Document, as are items reserved for Board determination.

INVESTMENT COMMITTEE AND INVESTMENT SUB-COMMITTEE BOARD TRAINING

In order to increase the responsiveness and flexibility of governance arrangements LPFA has introduced increased levels of delegation between the Investment Committee and the Investment Sub-Committee (ISC). ISC now hold bi-weekly meetings and are responsible for the tactical implementation of the investment strategy and can invest up to 5% of the fund (2% for riskier assets) providing this is in line with the risk parameters.

The diagram below outlines the delegation process:



All Board members participate in a mixture of individual and group training sessions. A Board training session is held prior to each Board meeting and during 2012-13 sessions were held on:

- ▶ Performance attribution
- ▶ LPFA's social media campaign
- ▶ Pensions administration & LGPS 2014 changes

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

In April 2013 Board Members held a structured offsite Board awayday and investment strategy review. This also included a Board Member only session. The annual event is considered vital to allow Board Members to dedicate time to setting and reviewing all aspects of LPFA's strategic direction.

Board Member appraisals were conducted in late 2012 and the results were fed into the Board Member training plan.

All Board Members participated in conference or training opportunities based on the Trustee Toolkit and CIPFA Public Sector Knowledge and Skills Framework.

7.3 Risk Management

The LPFA identifies and mitigates a wide range of risks. These might be in relation to the LPFA as an organisation, the third party business interests and the risks/liabilities flowing from the pension fund itself. Traditionally the Audit Committee had responsibility for overseeing risk management processes but during 2012-13 a Risk Committee was established. This Committee has already revamped the Corporate Risk Register and is working towards being able to provide real time liability monitoring of the pension fund. LPFA's Corporate Risk Register is divided between scheme risks and strategic risks. It is available on our website, www.lpfa.org.uk/What-we-publish along with actions in place to manage the risk.

Inflation is currently one of the biggest risks facing the LPFA. An unexpected increase in inflation could have dramatic implications on both the funding arrangements and LPFA's liabilities. A hedging strategy is underway to manage this risk.

The LPFA manages risk in the following way:

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

Audit Committee provide assurance to Board that robust risk management processes exist.

8. Pension Fund Accounts

8.1 Auditor's Opinion

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

We have audited the pension fund financial statements of London Pensions Fund Authority for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of London Pensions Fund Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER AND AUDITOR

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

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

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

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

OPINION ON OTHER MATTERS

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

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund's financial statements:

- > give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- > have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Neil Knights - Director

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

Grant Thornton House

Melton Street, London NW1 2EP

September 2013

[Click here](#) for the Audit of Accounts 2012-13 Public Inspection Document.

8.2 Pension Fund Accounts

| Restated 2011/12 £'000 | | Notes | 2012/13 £'000 |
|------------------------------|--|-------|------------------|
| | Dealings with members, employers and others directly involved in the Fund | | |
| 180,212 | Contributions | 5 | 160,865 |
| 20,570 | Transfers in from other pension funds | 6 | 27,015 |
| 200,782 | | | 187,880 |
| | | | |
| 244,725 | Benefits | 7 | 249,131 |
| 40,051 | Payments to and on account of leavers | 8 | 22,831 |
| 6,444 | Administration expenses | 9 | 5,607 |
| 888 | Capital funding cost | 10 | 34 |
| 292,108 | | | 277,603 |
| (91,326) | Net additions/(withdrawals) from dealings with members | | (89,723) |
| | | | |
| | Returns on investments | | |
| 48,166 | Investment income | 11 | 55,142 |
| (1,259) | Taxes on income | 12 | (131) |
| *159,835 | Profit and losses on disposal of investments and changes in the market value of investments | 13a | 540,974 |
| *(27,486) | Investment management expenses | 16 | (25,727) |
| 179,256 | Net return on investments | | 570,258 |
| 87,930 | NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR | | 480,535 |

* Note: The Pension Fund Account for 2011/12 has been restated to reflect private equity investment manager expenses that are charged within their respective investment funds.

Net Assets Statement for the year ended 31 March 2013¹

| 2011/12 £'000 | | Notes | 2012/13 £'000 |
|------------------|---|-------|------------------|
| 4,107,193 | Investment assets | 13 | 4,588,834 |
| 33,752 | Cash held by investment managers | 13 | 46,165 |
| 4,140,945 | | | 4,634,999 |
| 19,074 | Investments in Associate | 13 | 19,153 |
| (4,583) | Investment liabilities | 13 | (31,380) |
| 71,747 | Current assets | 19 | 89,359 |
| (12,722) | Current liabilities | 20 | (17,135) |
| 4,214,461 | NET ASSETS OF THE OF THE FUND AVAILABLE TO FUND BENEFITS AT THE PERIOD END | | 4,694,996 |

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

Movement in Reserves Statement for the year ended 31 March 2013

| 2011/12 £'000 | | 2012/13 £'000 |
|------------------|---|------------------|
| 4,126,531 | Balance at 1 April | 4,214,461 |
| 87,930 | Movement in net assets available for benefits during the year | 480,535 |
| 4,214,461 | BALANCE AT 31 MARCH | 4,694,996 |

8.3 Note to the Pension Fund Accounts

1. GENERAL INFORMATION

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the Local Government Pension Scheme (LGPS) (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009.

Pensions administration (administration expenses in the revenue account) is carried out in-house, while custodial arrangements and fund investment is mainly outsourced to external investment managers (investment management expenses in the pension fund account) under the guidance of LPFA's Investment Committee.

An increase of 5.2% (3.1% April 2011) was applied to pensions in April 2012. This was in accordance with The Pensions Increase (Review) Order 2012.

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

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

The Pension Fund is subject to triennial valuations by an independent actuary. Employers' contributions are determined by the actuary to ensure that in the long term the Pension Fund's assets match its liabilities.

The LPFA's Actuary is Barnett Waddingham, who have supplied an actuarial statement. This is shown on page 66 and should be read in conjunction with these accounts.

The Fund is notionally divided into two sub-funds; the Active sub-fund and the Pensioner sub-fund. Each sub-fund has different characteristics and liability profiles.

The Active sub-fund comprises employers that continue to accept new members and has a younger age profile. As a result the investments are mostly in 'growth assets'.

The Pensioner sub-fund comprises mostly employers that either no longer exist or that no longer provide access to the Fund. The underlying members are mostly deferred beneficiaries and pensioners, so have a higher average age. As a result the investments are mostly in cash flow matching assets, such as bonds.

From the 1 April 2013 the Active and Pensioner sub-funds were merged and the Investment Strategy revised to consider the Fund as a whole.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position as at 31 March 2013. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom based upon International Financial Reporting Standards (IFRS).

The accounts summarise the transactions of the Fund and report on the net assets at the disposal of the Authority. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year.

The actuarial position of the Fund, which does take account of such obligations is dealt with in notes 26 and actuarial statement. The actuarial present value of promised retirement benefits, valued on a basis consistent with IAS19 is disclosed in note 26 of these accounts.

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

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

Contributions

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

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

Employers' deficit funding contributions in respect of London Boroughs in the Pensioner Sub fund are accounted for in accordance with the agreement under which they are being paid for or in the absence of an agreement on a receipt basis.

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

Transfers to and from other schemes

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

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

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

Investment income

All investment income receipts and payments are accounted for on an accruals basis.

Income from pooled investment vehicles accumulation units is not paid but is reinvested automatically.

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

Taxation

The Pension Fund is a registered public service scheme under Chapter 2 of Part 4 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted. Tax deducted in some European countries is recovered. Recoverable income tax is included in investment income and irrecoverable is reported separately in note 12.

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

Benefits

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

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

Investment management expenses

Investment management expenses are accounted for on an accruals basis.

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

Fees are either explicit, being expensed separately to the LPFA, or implicit, being expensed within the fund under management. Where they are implicit an adjustment has been made to the change in market value in order to separately identify the fees charged.

The accounts for 2011/12 have been restated to reflect private equity and infrastructure fees which were previously included in the change in market value of investments.

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

Investment transaction costs

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

Investment Assets

Investment assets are included in the net asset statement on a fair value basis as at the reporting date. The asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value are recognised by the Fund.

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

Fixed interest securities are recorded at net market value based on their current yields.

Unquoted securities are valued by the fund managers at the year end in accordance with generally accepted guidelines. Unquoted private equities are valued by the investment managers using guidelines of the British Venture Capital Association. This includes the use of discounted cash flow models which are independently audited.

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

Accounting for an Associate

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

Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end.

Foreign currency transactions are translated to sterling at the spot exchange rate at the date of the transaction.

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

Derivatives

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

Futures contracts' value is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

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

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

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

Additional Voluntary Contributions (AVCs)

AVCs are not included in the accounts in accordance with S(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulation 1998 (SI 1998 No 1831) but are disclosed as a note only (Note 18). Contributions to AVCs are paid to the AVC providers by employers or contributors and are specifically for the provision of additional benefits for individual contributors.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT

Unquoted Private Equity 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 many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2013 was £503m (£467m at 31 March 2012).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19.

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

4. PENSION FUND INFORMATION

The last full triennial valuation of the LPFA Fund was carried out as at 31 March 2010 in accordance with the Funding Strategy Statement of the fund. The common contribution rate was set at 18.1% of payroll. Details of the Participating employer bodies are set out on pages 77-80. Preparations are now underway for the valuation at 31 March 2013.

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

| Year to 31 March 2012 Pay Range | Year to 31 March 2013 Pay Range | Contribution Rate |
|------------------------------------|------------------------------------|-------------------|
| £0 – 12,900 | £0 – 13,500 | 5.50% |
| £12,901 – £15,100 | £13,501 – £15,800 | 5.80% |
| £15,101 – £19,400 | £15,801 – £20,400 | 5.90% |
| £19,401 – £32,400 | £20,401 – £34,000 | 6.50% |
| £32,401 – £43,300 | £34,001 – £45,500 | 6.80% |
| £43,301 – £81,100 | £45,501 – £85,300 | 7.20% |
| > £81,100 | > £85,300 | 7.50% |

The fund membership was as follows:

| Fund Membership | 2011/12 | 2012/13 |
|---------------------------|---------|---------|
| Active Members | 17,115 | 16,459 |
| Deferred Members | 27,684 | 28,112 |
| Pensioners and Dependents | 34,650 | 35,071 |

Total Scheme Membership at 31 March 2013*

79,642

*figure includes undecided leavers and frozen refunds

5. CONTRIBUTIONS

By category

| | 2011/12 £'000 | 2012/13 £'000 |
|--------------------|------------------|------------------|
| Employers - normal | 142,751 | 125,153 |
| Members – normal | 37,461 | 35,712 |
| TOTAL | 180,212 | 160,865 |

By authority

| | 2011/12 £'000 | 2012/13 £'000 |
|---------------------------|------------------|------------------|
| Scheduled bodies | 112,833 | 104,363 |
| Admitted bodies | 64,976 | 53,294 |
| Community Admission Body | 1,532 | 1,140 |
| Transferee Admission Body | 814 | 2,022 |
| Resolution body | 57 | 46 |
| TOTAL | 180,212 | 160,865 |

Additional deficit contributions

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

Total contributions paid into the fund at 31 March 2013

£160,865,000

6. TRANSFERS IN FROM OTHER PENSION FUNDS

| | 2011/12 £'000 | 2012/13 £'000 |
|----------------------|------------------|------------------|
| Group transfers | 7,068 | 14,744 |
| Individual transfers | 13,502 | 12,271 |
| TOTAL | 20,570 | 27,015 |

7. BENEFITS

By category:

| | 2011/12 £'000 | 2012/13 £'000 |
|--|------------------|------------------|
| Pensions | 199,067 | 210,371 |
| Commutation and lump sum retirement benefits | 41,476 | 34,643 |
| Lump sum death benefits | 4,182 | 4,117 |
| TOTAL | 244,725 | 249,131 |

By authority

| | 2011/12 £'000 | 2012/13 £'000 |
|---------------------------|------------------|------------------|
| Scheduled bodies | 192,802 | 194,809 |
| Admitted bodies | 51,338 | 52,901 |
| Community Admission Body | 81 | 24 |
| Transferee Admission Body | 420 | 1,348 |
| Resolution Body | 84 | 49 |
| TOTAL | 244,725 | 249,131 |

8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2011/12 £'000 | 2012/13 £'000 |
|---|------------------|------------------|
| Refunds to members leaving service | 66 | 40 |
| Payments for members joining state scheme | 8 | 12 |
| Group transfers | 6,399 | 4,364 |
| Individual transfers | 33,578 | 18,415 |
| TOTAL | 40,051 | 22,831 |

9. ADMINISTRATION EXPENSES

| | 2011/12 £'000 | 2012/13 £'000 |
|---|------------------|------------------|
| Administrative costs charged to the Pension Fund account by the operational account comprising of a share of board member and staff salaries, premises rental, supplies and services and IT | 6,222 | 5,378 |
| Other administration expenses charged directly to the fund | 222 | 229 |
| TOTAL | 6,444 | 5,607 |

The costs charged directly to the pension fund include actuarial charges, legal fees and bank charges. The administration cost for 2011/12 included £343k in respect of in-house investment costs. These are now charged directly to the fund under investment expenses.

10. CAPITAL FUNDING

| | 2011/12 £'000 | 2012/13 £'000 |
|----------------------|------------------|------------------|
| Capital Funding Cost | 888 | 34 |

The LPFA maintains a separate bank account for the pension fund. As part of managing this requirement the funding for capital expenditure from 2011/12 onwards is transferred to the operational account in the year assets are purchased (and held in a reserve), but with charges to the pension fund, from the operational accounts, as the assets are used (depreciation charge). The charge made for 2011/12 includes an amount of £821k which relates to the cost for prior years.

11. INVESTMENT INCOME

| | 2011/12 £'000 | 2012/13 £'000 |
|--|------------------|------------------|
| Fixed interest securities | 2,291 | 3,679 |
| Equity dividends | 26,610 | 27,013 |
| Pooled property investments | 795 | - |
| Pooled Investments - Unit trusts and other managed funds | 12,910 | 18,594 |
| Cash deposits | 751 | 534 |
| Private equity income | 4,299 | 5,004 |
| Other | 510 | 318 |
| TOTAL | 48,166 | 55,142 |

12. TAXES ON INCOME

| | 2011/12 £'000 | 2012/13 £'000 |
|---|------------------|------------------|
| Withholding Tax - Fixed Interest securities | (87) | (154) |
| Withholding Tax - Equities | (1,170) | 85 |
| Withholding Tax - Pooled Investments | (2) | (62) |
| TOTAL | (1,259) | (131) |

13. INVESTMENTS

| | Market Value 31 March 2012 £'000 | Market Value 31 March 2013 £'000 |
|--|--|--|
| Investment assets | | |
| Fixed interest securities | 332,629 | 90,451 |
| Equities | 1,119,113 | 1,339,123 |
| Pooled investments | 1,903,770 | 2,375,065 |
| Pooled property investments | 164,303 | 174,396 |
| Private equity/infrastructure | 484,929 | 516,605 |
| Commodity funds | 48,531 | 52,696 |
| Liquidity fund (Time deposit) | 11,576 | 10,085 |
| Futures | 1,490 | 1,842 |
| Forward currency contracts | 9,646 | 4,123 |
| Purchased/written options | 635 | 1,070 |
| Cash held by investment managers | 33,752 | 46,165 |
| Investment income due | 6,381 | 6,617 |
| Amounts receivable for sales | 24,190 | 16,761 |
| Total investment assets | 4,140,945 | 4,634,999 |
| Investment in associate | | |
| Investors in the Community – Guernsey Unit Trust | 19,074 | 19,153 |
| Investment liabilities | | |
| Futures | (207) | (126) |
| Forward currency contracts | (676) | (17,794) |
| Purchased/written options | (633) | (720) |
| Amounts payable for purchases | (3,067) | (12,740) |
| Total investment liabilities | (4,583) | (31,380) |
| NET INVESTMENT ASSETS | 4,155,436 | 4,622,772 |

13. INVESTMENTS (CONTINUED)

Net Investment assets

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

*Included in the sales of Fixed interest securities (£276,395k) and Pooled investments (£1,685k) is a reclassification of assets with a corresponding amount included in the purchases of Equities (£6,350k) and Pooled investments (£271,730k).

** accounted for as an associate

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

| | Market value 1 April 2011 £'000 | Purchases during the year and derivative payments £'000 | Sales during the year and derivative receipts £'000 | Change in Market Value during the year £'000 | Market value 31 March 2012 £'000 |
|--|--|--|---|---|--|
| Fixed interest securities | 348,854 | 1,416,031 | (1,415,055) | (17,201) | 332,629 |
| Equities | 1,183,056 | 356,859 | (409,295) | (11,507) | 1,119,113 |
| Pooled investments | 1,832,181 | 90,043 | (181,744) | 163,290 | 1,903,770 |
| Pooled property investments | 154,191 | 2,198 | (563) | 8,477 | 164,303 |
| Private Equity/infrastructure* | 420,480 | 102,278 | (56,511) | 18,682 | 484,929 |
| Liquidity fund (Time Deposits) | 18,280 | 4,502,539 | (4,509,161) | (82) | 11,576 |
| Commodity funds | 36,145 | 16,977 | - | (4,591) | 48,531 |
| Futures | 1,149 | 11,705 | (9,791) | (1,780) | 1,283 |
| Purchased/Written Options | 570 | 807 | (2,933) | 1,558 | 2 |
| Forward currency contracts | (352) | 43,878 | (42,014) | 7,458 | 8,970 |
| Investors In the Community - Guernsey unit trust ** | 18,762 | 14,551 | (14,551) | 312 | 19,074 |
| | 4,013,316 | 6,557,866 | (6,641,618) | 164,616 | 4,094,180 |
| Other Investment Balances: | | | | | |
| Cash held by investment managers | 12,850 | | | (4,781) | 33,752 |
| Amount receivable for sales of investments | 2,741 | | | | 24,190 |
| Investment income due | 7,608 | | | | 6,381 |
| Amounts payable for purchases of investments | (2,656) | | | | (3,067) |
| | | | | | |
| NET INVESTMENT ASSETS | 4,033,859 | | | 153,048 | 4,155,436 |

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

** accounted for as an associate

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £652k (£777k in 2011/12). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

13B. ANALYSIS OF INVESTMENTS

| | 31 March 2012 £'000 | 31 March 2013 £'000 |
|--|------------------------|------------------------|
| Fixed Interest Securities | | |
| <u>UK</u> | | |
| Public sector quoted | 301 | 433 |
| Corporate quoted | 5,598 | 7,762 |
| <u>Overseas</u> | | |
| Public sector quoted | 932 | 587 |
| Corporate quoted | 325,798 | 81,669 |
| | 332,629 | 90,451 |
| Equities | | |
| <u>UK</u> | | |
| Quoted | 200,111 | 185,179 |
| <u>Overseas</u> | | |
| Quoted | 919,002 | 1,153,994 |
| | 1,119,113 | 1,339,123 |
| Pooled Funds - Additional Analysis | | |
| <u>UK</u> | | |
| Fixed income unit trust | 965,291 | 1,026,083 |
| Unit trusts | 104,311 | 125,568 |
| <u>Overseas</u> | | |
| Fixed income | 165,708 | 461,084 |
| Unit trusts | 597,671 | 685,586 |
| Hedge funds overseas equity | 6,118 | 6,403 |
| Hedge Funds overseas fixed interest | 64,671 | 70,341 |
| | 1,903,770 | 2,375,065 |
| Pooled property investments | 164,303 | 174,396 |
| Private Equity / Infrastructure | 484,929 | 516,605 |
| Commodity funds | 48,531 | 52,696 |
| Liquidity fund (Time deposit) | 11,576 | 10,085 |
| Investors In the Community - Guernsey unit trust | 19,074 | 19,153 |
| Futures* | 1,283 | 1,716 |
| Forward currency contracts* | 8,970 | (13,671) |
| Options* | 2 | 350 |
| TOTAL | 4,094,180 | 4,565,969 |

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

13C. INVESTMENTS

Analysis of Derivatives

The large majority of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the Investment Management Agreement agreed between the LPFA and the various Investment Managers.

Futures

Outstanding exchange traded futures contracts are as follows:

| Type | Expires | Nominal value £'000 | Market value 31 March 2012 £'000 | Nominal value £'000 | Market value 31 March 2013 £'000 |
|--------------------------|--------------------|------------------------|-------------------------------------|------------------------|-------------------------------------|
| Assets | | | | | |
| UK equity | Less than one year | (36,289) | 594 | (11,766) | 285 |
| UK equity | One to five years | 2,945 | 313 | 2,173 | 236 |
| Overseas equity | Less than one year | - | - | 12,860 | 314 |
| Overseas equity | One to five years | 5,927 | 516 | 5,610 | 963 |
| Overseas fixed interest | Less than one year | (9,227) | 67 | 6,998 | 44 |
| Total Assets | | | 1,490 | | 1,842 |
| Liabilities | | | | | |
| UK equity | One to five years | 703 | (100) | | - |
| UK fixed interest | Less than one year | (1,822) | (10) | (2,316) | (60) |
| Overseas fixed interest | Less than one year | 4,275 | (97) | (2,090) | (66) |
| Total Liabilities | | | (207) | | (126) |
| NET FUTURES | | | 1,283 | | 1,716 |

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Open Forward currency contracts

| Settlement | Currency bought | Local value '000 | Currency sold | Local value '000 | Asset value £'000 | Liability value £'000 |
|---|-----------------|------------------|---------------|------------------|-------------------|-----------------------|
| Up to one month | | | | | | |
| | AUD | 350 | GBP | 234 | 6 | |
| | EUR | 330 | GBP | 278 | 1 | |
| | GBP | 89 | CAD | 137 | 1 | |
| | GBP | 294 | ZAR | 4,087 | 1 | |
| | GBP | 7,217 | SGD | 13,590 | 2 | |
| | GBP | 747 | CHF | 1,068 | 4 | |
| | GBP | 12,595 | HKF | 148,316 | 8 | |
| | GBP | 3,086 | NOK | 27,264 | 11 | |
| | GBP | 10,990 | SEK | 108,139 | 42 | |
| | GBP | 4,085 | DKK | 35,567 | 48 | |
| | GBP | 19,391 | JPY | 2,755,500 | 84 | |
| | GBP | 44,238 | USD | 66,996 | 116 | |
| | GBP | 38,407 | AUD | 55,780 | 183 | |
| | GBP | 19,148 | EUR | 22,180 | 391 | |
| | USD | 8,439 | EUR | 6,502 | 59 | |
| | USD | 1,880 | GBP | 1,169 | 69 | |
| | ZAR | 1,806 | GBP | 127 | 2 | |
| One to six months | | | | | | |
| | GBP | 2,955 | CAD | 4,561 | - | |
| | GBP | 77,461 | USD | 117,380 | 101 | |
| | GBP | 9,909 | CHF | 13,972 | 181 | |
| | GBP | 21,838 | JPY | 3,040,700 | 523 | |
| | GBP | 79,719 | EUR | 92,727 | 1,198 | |
| | USD | 29,004 | GBP | 18,016 | 1,092 | |
| Up to one month | | | | | | |
| | EUR | 2,337 | GBP | 2,005 | | (29) |
| | GBP | 68,429 | USD | 109,650 | | (3,794) |
| | GBP | 14,427 | EUR | 17,883 | | (701) |
| | GBP | 9,178 | CHF | 13,312 | | (84) |
| | GBP | 25,229 | CAD | 39,123 | | (120) |
| | GBP | 1,986 | JPY | 289,757 | | (44) |
| | GBP | 244 | AUD | 377 | | (15) |
| | GBP | 352 | DKK | 3,273 | | (19) |
| | USD | 6,614 | GBP | 4,379 | | (24) |
| | USD | 270 | SEK | 1,755 | | (-) |
| | USD | 615 | EUR | 480 | | (1) |
| | USD | 141 | JPY | 13,292 | | (-) |
| | ZAR | 2,268 | GBP | 163 | | (1) |
| One to six months | | | | | | |
| | EUR | 3,400 | USD | 4,553 | | (122) |
| | GBP | 321,206 | USD | 504,576 | | (11,244) |
| | GBP | 28,432 | EUR | 34,866 | | (1,080) |
| | GBP | 9,723 | CHF | 13,972 | | (10) |
| | GBP | 21,272 | JPY | 3,040,700 | | (49) |
| | GBP | 12,289 | AUD | 18,620 | | (457) |
| | | | | | 4,123 | (17,794) |
| Net forward currency contracts at 31 March 2013 | | | | | (13,671) | |
| Prior year comparative | | | | | | |
| Open forward currency contracts at 31 March 2012 | | | | | 9,646 | (676) |
| Net forward currency contracts at 31 March 2012 | | | | | 8,970 | |

Purchased/written options

| Investment underlying option contract | Expires | Put/ call | Notional holding £'000 | Market value 31 March 2012 £'000 | Notional holding £'000 | Market value 31 March 2013 £'000 |
|---------------------------------------|----------------------|-----------|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Assets | | | | | | |
| Overseas equity purchased | One to three months | Call | 255 | 106 | - | - |
| Overseas index linked purchased | Less than one month | Call | 161 | 14 | - | - |
| Overseas index linked purchased | One to three months | Call | 87 | 39 | 715 | 571 |
| Overseas index linked purchased | Six to twelve months | Call | 60 | 197 | - | - |
| Overseas index linked purchased | Less than one month | Put | 105 | 63 | 207 | 220 |
| Overseas index linked purchased | One to three months | Put | 331 | 216 | 411 | 279 |
| | | | | 635 | | 1,070 |
| Liabilities | | | | | | |
| Overseas equity written | One to three months | Call | (94) | (24) | - | - |
| Overseas equity written | One to three months | Put | (355) | (411) | - | - |
| Overseas index linked written | Less than one month | Call | (130) | (45) | (205) | (171) |
| Overseas index linked written | One to three months | Call | (35) | (14) | - | - |
| Overseas index linked written | Less than one month | Put | (94) | (44) | (79) | (79) |
| Overseas index linked written | One to three months | Put | (204) | (95) | (383) | (470) |
| | | | | (633) | | (720) |
| NET PURCHASED/WRITTEN OPTIONS | | | | 2 | | 350 |

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13C. INVESTMENTS (CONTINUED)

Investments analysed by Fund Manager

| | Market value 31 March 2012 £'000 | Market value 31 March 2013 £'000 |
|--|--|--|
| Record Currency Management | 8,614 | (14,167) |
| Legal & General Investment Management | 557,875 | 651,872 |
| European Credit Management Ltd | 270,976 | 271,730 |
| Insight Investment Management (Global) Ltd | 965,292 | 1,026,083 |
| MFS International (UK) Ltd | 556,680 | 690,792 |
| BlackRock Management | 428,597 | 474,612 |
| Newton Investment Management Ltd | 387,803 | 477,222 |
| 3i Infrastructure | 12,450 | 13,240 |
| BNP Paribas Clean Energy Partners | 13,285 | 16,661 |
| Brevan Howard Asset Management LLP | 56,746 | 60,999 |
| Brookfield Howard Asset Management | 5,256 | 11,867 |
| Foresight Group | 2,668 | 2,837 |
| HarbourVest Partners LCC | 112,468 | 116,462 |
| Henderson Equity Partners | 12,624 | 13,579 |
| Impax Asset Management | 40,838 | 36,840 |
| Infrared Capital Partners | 5,504 | 6,096 |
| HICL Infrastructure | 4,812 | - |
| CBRE Global Investors | 164,303 | 174,396 |
| Mill Asset Management Ltd | 19,074 | 19,153 |
| JP Morgan | 11,576 | 10,085 |
| LGT Capital Partners Ltd | 85,643 | 90,166 |
| M&G Investment Management Ltd | 55,445 | 73,728 |
| Meridiam Infrastructure | 26,557 | 30,691 |
| New Energy Solutions II K/S | 7,626 | 9,978 |
| Pensions Infrastructure Platform | - | 100 |
| Pantheon Ventures (UK) LLP | 108,468 | 124,338 |
| Phaunos Timber Fund Limited | 11,371 | 10,257 |
| Robeco Alternative Investments | 21,539 | 18,838 |
| Sarasin & Partners LLP | 47,794 | 54,562 |
| Schroders Investment Management | 31,905 | 30,572 |
| Semperian PPP Investment Partners | 32,881 | 36,624 |
| Standard Chartered | 8,146 | 10,012 |
| YFM Equity Partners | 1,680 | 1,142 |
| Zouk Capital LLP | 17,684 | 14,602 |
| | 4,094,180 | 4,565,969 |
| Cash held by investment managers | 33,752 | 46,165 |
| Amounts receivable for sales | 24,190 | 16,761 |
| Investment income due | 6,381 | 6,617 |
| Amounts payable for purchases | (3,067) | (12,740) |
| TOTAL | 4,155,436 | 4,622,772 |

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

| Security | Market value 31 March 2012 | % of Total Fund | Market value 31 March 2013 | % of Total Fund |
|--|----------------------------|-----------------|----------------------------|-----------------|
| | £'000 | | £'000 | |
| Insight LDI solutions plus LDI active '1'FD | 575,309 | 13.6 | 593,697 | 12.6 |
| Insight LDI solutions plus bonds plus FD CLS'S'SHS | 363,634 | 8.6 | 380,855 | 8.1 |
| Legal & General North America index | 257,252 | 6.1 | 307,023 | 6.5 |
| European Credit (LU VAR 15/NOV/2015) | 270,976 | 6.4 | 271,730 | 5.8 |

14. SECURITIES LENDING

Securities lending is governed by an agreement between the LPFA and the custodian. All loans are collateralised and subject to daily valuation and calling of collateral. Cash is not accepted as collateral and a maximum of 35% of securities in the fund can be lent.

Securities in the UK amounting to £1.3m (2012:£8.4m) were loaned as at 31 March 2013 against collateral of £1.5m (2012:£9.3m). International securities amounting to £25.1m (2012:£57.1m) were loaned against collateral of £28.0m (2012:£62.8m) as at 31 March 2013.

15. FINANCIAL INSTRUMENTS

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

| Market value 31 March 2012 | Category | Market value 31 March 2013 |
|----------------------------|---|----------------------------|
| £'000 | Financial assets - Fair value through profit and loss | £'000 |
| 332,629 | Fixed interest securities | 90,451 |
| 1,119,113 | Equities | 1,339,123 |
| 1,903,770 | Pooled Investments | 2,375,065 |
| 164,303 | Pooled Investments | 174,396 |
| 484,929 | Private equity/infrastructure | 516,605 |
| 48,531 | Commodity funds | 52,696 |
| 11,576 | Liquidity fund (Time deposit) | 10,085 |
| 1,490 | Futures | 1,842 |
| 9,646 | Forward currency contracts | 4,123 |
| 635 | Purchased/written options | 1,070 |
| 19,074 | Investors in the Community – Guernsey Unit Trust | 19,153 |
| 4,095,696 | | 4,584,609 |
| | Financial liabilities - fair value through profit and loss | |
| (207) | Futures | (126) |
| (676) | Forward currency contracts | (17,794) |
| (633) | Purchased/written options | (720) |
| (1,516) | | (18,640) |
| 4,094,180 | Total - Fair value through profit and loss | 4,565,969 |
| | Finance assests - loans and Receivables | |
| 33,752 | Cash held by investment managers | 46,165 |
| 6,381 | Investment income due | 6,617 |
| 24,190 | Amounts receivable for sales | 16,761 |
| 71,747 | Current Assets | 89,359 |
| 136,070 | Total - Loans and Receivables | 158,902 |
| | Finance liabilities - At amortised cost | |
| (3,067) | Amounts payable for purchase | (12,740) |
| (12,722) | Current liabilities | (17,135) |
| (15,789) | Total - Loans and Receivables | (29,875) |

The Fund held collateral of £29.5m at 31 March 2013 (2012: £72.1m).

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 2013 have been reviewed and were assessed as being the same as the carrying amounts in the net asset statement. Assets are carried at fair value. When an asset or liability is translated at balance sheet date the gain / loss is taken as unrealised but when the asset or liability is settled (i.e. received / paid) the gain / loss becomes realised.

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

Valuation of financial instruments carried at fair value

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

Level 1

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

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 and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the LPFA has invested.

| Value at 31 March 2013 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|-------------------------|-------------------------|-------------------------|-----------------------|
| Financial assets at fair value through profit or loss | 2,315,034 | 1,661,563 | 608,012 | 4,584,609 |
| Financial assets at fair value through profit or loss | (18,640) | | | (18,640) |
| Loans and receivables | 158,902 | | | 158,902 |
| Financial liabilities at amortised cost | (29,875) | | | (29,875) |
| NET FINANCIAL ASSETS | 2,425,421 | 1,661,563 | 608,012 | 4,694,996 |

| Value at 31 March 2012 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|-------------------------|-------------------------|-------------------------|-----------------------|
| Financial assets at fair value through profit or loss | *1,981,976 | *1,566,279 | 547,441 | 4,095,696 |
| Financial assets at fair value through profit or loss | (1,516) | | | (1,516) |
| Loans and receivables | 136,070 | | | 136,070 |
| Financial liabilities at amortised cost | (15,789) | | | (15,789) |
| Net financial assets | 2,100,741 | 1,566,279 | 547,441 | 4,214,461 |

*Note the comparative has been restated as the assets of £965,292k held by Insight Investment Management (Global) Ltd were incorrectly classified as Level 1 rather than as a Level 2 investment.

Nature and extent of risks arising from financial instruments

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

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

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

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

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

The LPFA also holds some pension fund assets in cash and these are held in line with treasury management guidelines agreed at the Cash Management Meeting and reported to the Audit Committee. Further details on this are provided below. For the year ending 31st March 2013, the Authority has undertaken no repurchase or early settlement of borrowing, incurred no premiums and discounts, entered into no financial guarantees, not defaulted on any loans and not held or pledged any collateral (apart from collateral held as part of the securities lending programme) in respect of the repayment of any loans.

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

Market risk

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

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisers, the LPFA has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

| Asset Class | 2012 1 year expected volatility (%) | 2012% of fund | 2013 1 year expected volatility (%) | 2013% of fund |
|-------------------------------|---|------------------|---|------------------|
| UK Equities | 17.0 | 5.8 | 16.0 | 4.9 |
| Global Equities | 19.7 | 31.9 | 19.0 | 38.7 |
| Private Equity | 28.5 | 8.9 | 27.8 | 7.5 |
| Property | 14.5 | 4.0 | 14.5 | 3.5 |
| Corporate bonds (medium term) | 10.3 | 14.0 | 10.4 | 13.5 |
| UK fixed gilts (short term) | 2.9 | 22.8 | 2.9 | 24.8 |
| Commodities | 14.0 | 1.2 | 13.8 | 1.1 |
| Infrastructure | 14.7 | 3.1 | 14.4 | 3.1 |
| Cash | 0.8 | 7.6 | 0.8 | 2.9 |
| Other | 11.9 | 0.7 | - | - |
| TOTAL FUND VOLATILITY | 9.3 | 100 | 9.8 | 100 |

The potential price changes disclosed above are broadly consistent with one standard deviation movement in the returns for each of the major asset classes in which the Fund is invested. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

The value of the fund as at 31 March 2013 was £4,695m (2012: £4,214m) and the expected volatility was 9.8% (2012: 9.3%), the value on increase is £5,115m (2012: £4,606m) and the value on decrease is £4,235m (2012: £3,822m).

[Interest rate risk](#)

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

Interest rate sensitivity analysis

The table overleaf provided by the investment adviser shows the sensitivity in the values of the main bond mandates held by the Insight and BlackRock pooled investment vehicles. The analysis assumes a +/- 1.0% change in interest rates which is deemed reasonably possible for interest rate risk sensitivity analysis. All other variables remain constant.

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As at March 2013

| Asset Class (As at 31 March 2013) | Modified Duration (years) | Market value £'000 | Implied Cash Backing £'000 | Change in value of the bond portfolio £'000 | |
|--------------------------------------|------------------------------|-----------------------|-------------------------------|---|------------------|
| | | | | - 100 bps | + 100 bps |
| Insight: | | | | | |
| Conventional gilt | 18.5 | 73,649 | 73,649 | 13,625 | (13,625) |
| Corporate bond | 8.3 | 16,694 | 16,694 | 1,385 | (1,385) |
| Corporate Index-linked Bond | 17.8 | 126,836 | 126,836 | 22,577 | (22,577) |
| Fixed Par Asset Swap | 14.7 | 3,570 | 3,451 | 507 | (507) |
| Index-linked Gilt | 27.7 | 48,974 | 48,974 | 13,566 | (13,566) |
| Index-linked Proceeds Asset Swap | 27.3 | (48,992) | (153,090) | 41,793 | (41,793) |
| RPI Swap | -0.6 | (37,242) | (327,018) | (1,962) | 1,962 |
| Vanilla IR Swap | 19.1 | (152) | (44,205) | 8,443 | (8,443) |
| ZC IR SWap | -2.4 | 66,161 | 88,104 | (2,115) | 2,115 |
| BlackRock Fixed Income Bonds | 2.6 | 189,355 | 189,355 | 4,923 | (4,923) |
| TOTAL | 27.2* | 438,853 | 22,750 | 102,742 | (102,742) |

Source Hymans Robertson LLP

*calculated using weighted average of the Implied cash backing; this being either the marker value or the notional value depending on which the interest rate risk applies.

As at 31 March 2012

| Asset Class (As at 31 March 2012) | Modified Duration (years) | Market value £'000 | Implied Cash Backing £'000 | Change in value of the bond portfolio £'000 | |
|--------------------------------------|------------------------------|-----------------------|-------------------------------|---|------------------|
| | | | | - 100 bps | + 100 bps |
| Insight: | | | | | |
| Conventional gilt | 15.9 | 11,544 | 11,544 | 1,835 | (1,835) |
| Corporate bond | 6.8 | 37,561 | 37,561 | 2,554 | (2,554) |
| Corporate Index-linked Bond | 18.5 | 120,572 | 120,572 | 22,306 | (22,306) |
| Fixed Par Asset Swap | 14.3 | 3,451 | 3,451 | 493 | (493) |
| Index-linked Gilt | 19.9 | 169,985 | 169,985 | 33,827 | (33,827) |
| Index-linked Proceeds Asset Swap | 21.7 | (33,663) | (227,436) | 49,353 | (49,353) |
| RPI Swap | 0.1 | 21,153 | (293,711) | 294 | (294) |
| Vanilla IR Swap | 4.9 | 105 | (23,998) | 1,176 | (1,176) |
| ZC IR SWap | 7.9 | 171,607 | 920,713 | 72,736 | (72,736) |
| BlackRock Fixed Income Bonds | 3.4 | 81,160 | 81,160 | 2,759 | (2,759) |
| TOTAL | 10.7* | 583,475 | 799,841 | 187,333 | (187,333) |

Source Hymans Robertson LLP

*calculated using weighted average of the Implied cash backing; this being either the marker value or the notional value depending on which the interest rate risk applies.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

Currency risk sensitivity analysis

The 1 year expected standard deviation for an individual currency as at 31 March 2013 is 13% (2012: 13%). This assumes no diversification with other assets, and in particular, interest rates remain constant.

The following tables summarise the fund's currency exposure as at 31 March 2013 and as at the previous period end:

| Currency exposure - asset type | Asset value as at 31 March 2013 £'000 | 1 year standard deviation | |
|---|--|---------------------------|------------------|
| | | + 13% £'000 | -13% £'000 |
| Overseas public sector quoted | 587 | 663 | 510 |
| Overseas corporate quoted | 81,669 | 92,286 | 71,052 |
| Overseas equity quoted | 1,153,944 | 1,303,919 | 1,003,931 |
| Overseas fixed income | 461,084 | 521,025 | 401,143 |
| Overseas unit trust | 685,586 | 774,712 | 596,460 |
| Hedge fund overseas equity | 6,403 | 7,235 | 5,571 |
| Hedge funds overseas fixed interest | 70,341 | 79,485 | 61,197 |
| Overseas private equity | 448,174 | 506,436 | 389,911 |
| Pooled property investments | 174,396 | 197,067 | 151,725 |
| Commodity funds | 52,696 | 59,546 | 45,845 |
| TOTAL CHANGE IN ASSETS AVAILABLE | 3,134,880 | 3,542,374 | 2,727,345 |

| Currency exposure - asset type | Asset value as at 31 March 2012 £000's | 1 year standard deviation | |
|---|---|---------------------------|------------------|
| | | + 13% £000's | -13% £000's |
| Overseas public sector quoted | 932 | 1,053 | 811 |
| Overseas corporate quoted | 325,798 | 368,152 | 283,444 |
| Overseas equity quoted | 919,002 | 1,038,472 | 799,532 |
| Overseas fixed income | 165,708 | 187,250 | 144,166 |
| Overseas unit trust | 597,671 | 675,368 | 519,974 |
| Hedge fund overseas equity | 6,118 | 6,913 | 5,323 |
| Hedge funds overseas fixed interest | 64,671 | 73,078 | 56,264 |
| Overseas private equity | 412,310 | 465,910 | 358,710 |
| Pooled property investments | 164,303 | 185,662 | 142,944 |
| Commodity funds | 48,531 | 54,840 | 42,222 |
| TOTAL CHANGE IN ASSETS AVAILABLE | 2,705,044 | 3,056,698 | 2,353,390 |

Credit Risk

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

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

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

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the LPFA's credit criteria. The LPFA has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. The LPFA also invests an agreed percentage of its funds in the money markets to provide diversification. Money Market Funds chosen all have AAA rating from a leading ratings agency.

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 2013 was £76.5m (2012:£69.3m). This together with the amounts from the operational and residual liabilities accounts was held with institutions as follows:

| Summary | Rating | Amount |
|--|---------------|---------------|
| Money Market Funds | | |
| BlackRock Asset Management Ireland Ltd | AAA | 17,279 |
| Fidelity International | AAA | 9,542 |
| Legal & General Investment Management | AAA | 19,680 |
| Bank Deposit Accounts | | |
| Debt Management Office | N/A | 9,000 |
| Barclays Bank Plc | A | 18,531 |
| Lloyds TSB | A | 13,000 |
| Nationwide | A+ | 3,000 |
| TOTAL AS AT 31 MARCH 2013 | | 90,032 |

Liquidity Risk

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

The LPFA defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2013 the value of illiquid assets was £782.4m which represented 15.8% of the total LPFA assets (31 March 2012 £711.2m which represented 16.9% of the total LPFA assets).

The LPFA has immediate access to its cash holdings with money markets funds and £15.5m held with Barclays. Holdings with the Debt Management Office, Nationwide, Lloyds TSB and £3m held with Barclays are fixed for less than one year when the deposit is placed.

All financial liabilities at 31 March 2013 are due within one year.

Refinancing Risk

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

16. INVESTMENT EXPENSES

| | 31 March 2012 £'000 | 31 March 2013 £'000 |
|-----------------------|------------------------|------------------------|
| Investment fees basic | 18,480 | 15,225 |
| Performance fees | 9,006 | 10,502 |
| TOTAL | 27,486 | 25,727 |

The investment expenses for 2012/13 include £365k in respect of the In-house investment team, the full cost of which is now charged to the Fund. In previous years this was included under administration expenses, the charge for 2011/12 being £343k. The investment fees for 2011/12 have been restated to include investment fees of £6,787k in relation to private equity and infrastructure fees which were previously included within the change in market value.

17. CASH BALANCES

| | 31 March 2012 £'000 | 31 March 2013 £'000 |
|---|------------------------|------------------------|
| Short term deposits | 58,831 | 76,523 |
| Pooled deposits placed by investment managers | 33,752 | 46,165 |
| TOTAL | 92,583 | 122,688 |

18. AVC INVESTMENTS

| | Market value 31 March 2012 £'000 | Market value 31 March 2013 £'000 |
|------------|--|--|
| Prudential | 9,286 | 10,401 |

AVC contributions of £2,170k were paid directly to Prudential during the year.

19. CURRENT ASSETS

| | 31 March 2012 £'000 | 31 March 2013 £'000 |
|---|------------------------|------------------------|
| Cash balances | 58,831 | 76,523 |
| Contributions due – employees | 1,952 | 2,148 |
| Contributions due – employers | 6,130 | 6,892 |
| Sundry debtors | 9,795 | 4,997 |
| Prepayments | 163 | 8 |
| Impairment allowance for bad and doubtful debts | (5,124) | (1,209) |
| TOTAL | 71,747 | 89,359 |

The significant majority of debtors are with other Local Authorities.

Impairment allowance for bad and doubtful debts

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

20. CURRENT LIABILITIES

| | 31 March 2012 | 31 March 2013 |
|-----------------------------------|----------------------|----------------------|
| | £'000 | £'000 |
| Sundry creditors | (7,440) | (15,064) |
| Transfer values payable (leavers) | (2,100) | (-) |
| Benefits payable | (3,182) | (2,071) |
| TOTAL | (12,722) | (17,135) |

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

21. RELATED PARTY TRANSACTIONS

This disclosure note has been produced using a specific declaration obtained in respect of related party transactions. The LPFA has prepared this note in accordance with its interpretation and understanding of IAS24 and its applicability to the public sector using current advice and guidance. During the period there was one Board member in receipt of statutory pension benefit from the LPFA (Chairman to 31 December 2012 - Anthony Mayer). There was also one Board member in receipt of statutory pension benefit from the City of Westminster Council (Chairman, Audit Committee to 31 December 2012 - Bill Roots). Sir Merrick Cockell (Board member) is the Leader of Royal Borough Kensington and Chelsea. Mike O'Donnell (Board member) is the Finance Director at London Borough of Camden. Stephen Alambritis (Board member) is the Leader of London Borough of Merton. These three boroughs are Scheduled bodies in the Fund. Stephen Brooker (Board member) is a trustee of All Saints Educational Trust an admitted body in the Fund. The former Director of Investment still under contract with the LPFA sits on the board of the Investors In the Community. The composition of that board is such that the LPFA are able to exert a significant amount of influence (there are four members altogether) over the entity and, therefore, we have an associate relationship.

The LPFA Operational Account and Residual Liabilities account are deemed to be related parties and transactions relating to such are reflected elsewhere in these accounts.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2013 totalled £184.2m (2012: £242.6m) based on:

- > USD 117.2m at Exchange Rate 1.51845 equals £77.2m in GBP
- > Euro 77.0m at Exchange Rate 1.18250 equals £65.1m in GBP
- > GBP 41.9m

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

The amounts "called" by these funds are both irregular in size and timing over a period of between 4 and 6 years from the date of each original commitment.

23. STATEMENT OF INVESTMENT PRINCIPLES

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

24. POST BALANCE SHEET EVENTS

As of the 1 April 2013 the Board decided to merge the Active and Pensioner sub-funds and as a result will be reviewing the investment strategy across the whole Fund. The next Actuarial valuation at 31 March 2013 will consider the Fund as a whole and this is likely to have a positive effect on the Funding level as a higher discount rate will be used as the assumed future investment returns will be greater.

The decision was taken to sell the LPFA's stake in their Associate; Investors in the Communities. The sale is expected to generate approximately £30m. In the accounts the fair value was calculated to be £19.4m.

25. PARTICIPATING EMPLOYERS

A list of the employer bodies of the Pension Fund is set out on pages 77-80.

26. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities in accordance with IAS 26, every year using the results of the Triennial Actuarial Valuation as at 31 March 2010, 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 2013 for the active sub fund was £4,791m (2012: £4,423m) and for the pensioner sub fund was £2,154m (2012: £1,886m). The net liability for the active sub fund at 31 March 2013 was £1,747m (2012: £1,736m) and for the pensioner sub fund was £552m (2012: £360m).

Key Assumptions used

| Life expectancy from age 65 (years) | 31 March 2013 Active Fund | 31 March 2013 Pensioner Fund | 31 March 2012 Active Fund | 31 March 2012 Pensioner Fund |
|-------------------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|
| Retiring today | | | | |
| Males | 21.0 | 20.7 | 20.9 | 20.6 |
| Females | 23.9 | 23.3 | 23.8 | 23.2 |
| Retiring in 20 years: | | | | |
| Males | 23.0 | 22.7 | 22.9 | 22.6 |
| Females | 25.8 | 25.3 | 25.7 | 25.1 |

Members will exchange half of their commutable pension for cash at retirement.

Active members will retire one year later than they are first able to do so without reduction.

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

| | 31 March 2013 %p.a. Active Fund | 31 March 2013 %p.a. Pensioner Fund | 31 March 2012 %p.a Both Funds | 31 March 2011 %p.a Both Funds |
|-------------------|---------------------------------------|---|-------------------------------------|-------------------------------------|
| RPI increases | 3.4 | 3.1 | 3.3 | 3.5 |
| CPI increases | 2.6 | 2.3 | 2.5 | 2.7 |
| Salary increases | 4.3 | 4.0 | 4.2 | 4.5 |
| Pension increases | 2.6 | 2.3 | 2.5 | 2.7 |
| Discount rate | 4.6 | 3.1 | 4.6 | 5.5 |

8.4 Actuarial Statement

INTRODUCTION

The last full triennial valuation of the London Pensions Fund Authority ("LPFA") Pension fund was carried as at 31 March 2010 in accordance with the Funding Strategy Statement of the fund. The results were published in the triennial valuation report dated March 2011. Full report can be found here: www.lpfa.org.uk/What-we-publish/

2010 VALUATION RESULTS

The results of the fund were as follows

- ▶ The active sub-fund employers of the LPFA fund had a funding level of 83%, i.e. the assets amounted to 83% of the liability promises made as at that valuation date. This corresponded to a deficit of £480m at that time.
- ▶ The common contribution rate was set at 18.1% of payroll assuming the funding level was to be restored over a 20 year period.
- ▶ The pensioner sub-fund employers of the LPFA fund had a funding level of 77%, i.e. the assets amounted to 77% of the liability promises made as at that valuation date. This was equivalent to a deficit of £390m at that time.
- ▶ The deficit in the pensioner sub-fund is to be recovered through a combination of employer contributions and levies. In addition, when employers are transferred to the pensioner sub-fund, their assets are expected to be in excess of their liabilities so should improve the overall funding position.
- ▶ The funding level of the active sub-funds is broadly similar to the position at the 2007 triennial valuation, whereas the pensioner sub-fund level had decreased since that time.

VALUATION METHOD

The contribution rates were calculated using the Projected Unit Method or the Attained Age Method depending on the nature of the employers in each fund. Unless special circumstances prevail the employers remaining open to new entrants are valued on the Projected Unit Method, whereas the employers who did not allow new entrants to join their section of the fund were valued using the Attained Age method.

CONTRIBUTION RATES

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet;

- ▶ The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due, plus;
- ▶ an amount to reflect the difference of each participating employer's notional share of value of the Fund's assets and 100% of their liabilities in the Fund in respect of service to the valuation date.

KEY FINANCIAL ASSUMPTIONS

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

Active Sub-fund

| | |
|--|----------------|
| Rate of return on investments | 6.7% per annum |
| Rate of increases in pay | 4.5% per annum |
| Rate of Increases to pensions in payment | 3.0% per annum |

Pensioner Sub-fund

| | |
|--|--|
| Rate of return on investments | 1.5% above the swaps curve, being the duration dependant yields from the Sterling LIBOR swap curve at the valuation date. |
| Rate of increases in pay | 1.5% above the rate of increases to pensions in payment |
| Rate of Increases to pensions in payment | The Bank of England inflation curve was used to derive term dependent market implied RPI rates and pension increases were assumed to be 0.75% below this at all terms. |

ASSET VALUATION

For the Active Sub-Fund, the smoothed market value of £2,417.2m as at 31 March 2010 was used and for the Pensioner Sub-Fund the market value of £1,299.6m was used.

DEVELOPMENTS SINCE 2010 AND THE 2013 VALUATION

The Active and Pensioner Sub Fund are expected to be combined during 2013 and so future results, starting with the actuarial valuation at 31 March 2013, will consider the Fund as a whole.

In the section that is currently the Active Sub Fund, investment returns have been slightly better than expected and we have observed more active members leaving employment than was allowed for at the 2010 valuation. Both of these factors will have a positive effect on the financial position of the Active Sub Fund and we expect that the funding level should be higher than at 31 March 2010, when measured on consistent assumptions.

The investment strategy of the combined Fund is expected to lead to a considerable improvement in the funding position for the former Pensioner Sub Fund compared to the position at 31 March 2010.

It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will give a lower funding level than the assumptions used in 2010 but this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics. It is also likely that other changes to the assumptions and methodology will be made after discussion with the LPFA Board.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will allow for the changes to the benefits in the LGPS from that date.



Mark Norquay FFA
Actuary

Public Policy Statements

The following public policy statements are reviewed regularly and available on the LPFA website under the “What we publish” section. They are also attached as annexes to this document. [LPFA Pay Policies Document](#) forms part of the Annual Report 2012-13 also.

STATEMENT OF INVESTMENT PRINCIPLES (SIP)



The Statement of Investment Principles (SIP) provides an overview of the responsibilities, process and conduct in the management of the LPFA pension fund investments. The SIP was formally approved by the Board in July 2013.

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. It is available on the LPFA website and was reviewed and amended as part of the 2010 Fund valuation.

GOVERNANCE POLICY STATEMENT

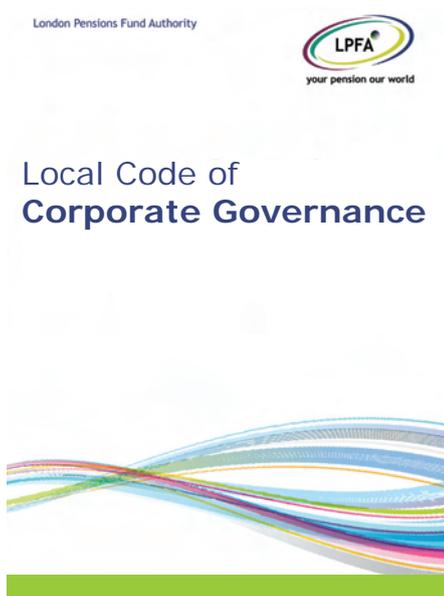


The LGPS Governance Statement sets out how the administration of the Fund is governed. Each administering authority is required to publish a governance statement and also to explain their compliance with a set of best practice principles issued by The Department of Communities and Local Government.

LPFA LOCAL CODE OF CORPORATE GOVERNANCE

COMMUNICATIONS POLICY STATEMENT

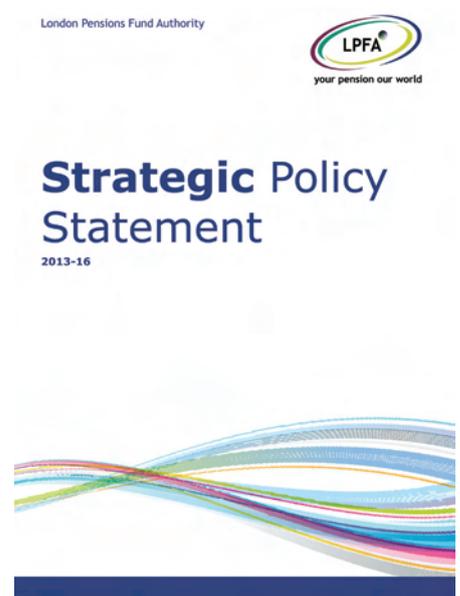
STRATEGIC POLICY STATEMENT



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



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



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

Annexes

i Reporting and Controls

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

EXTERNAL REVIEW

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

INTERNAL REVIEW AND CONTROL

PricewaterhouseCoopers provided internal audit arrangements within the LPFA for 2012-13, both as a tool of management and with direct reporting to the LPFA's Audit Committee. Their audit reviews took place on a phased basis throughout the financial year and their recommendations were reported to each Audit Committee meeting with progress against each recommendation closely monitored. The LPFA has now appointed KPMG as new internal auditors for 2013-14 which will give management a fresh perspective on the challenges ahead.

ANNUAL REPORT AND ACCOUNTS

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

The Authority publishes all these documents online but sends a hard copy summary report to Fund Members. In addition the Statement of Accounts details the LPFA's financial management of the organisation as well as the pension fund.

FRAUD AND IRREGULARITY

In order to combat potential instances of fraud and to reduce the risk of pension overpayments LPFA participates in a range of data initiatives. These are outlined in more detail in the Fraud Control Framework which is available at www.lpfa.org.uk.

National Fraud Initiative (NFI)

The NFI 2012-13 exercise resulted in 12 cases being reported back to LPFA as requiring further investigation. 8 of the 12 cases have been completed and overpayments totalling nearly £12,714.13 recovered. The remaining four cases are still under investigation. The number of cases is much lower compared to previous years as Atmos now picks up most of the UK death cases.

Atmos Data Services

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

The use of the Atmos service has reduced the incidence of death overpayments. LPFA are able to suspend the pensions in good time following the notifications being received on a monthly basis from Atmos. Having less death overpayments to pursue reduces the administration burden across LPFA and the risk to the fund of not being able to fully recover an outstanding death overpayment. As an example of the swift notification of pensioner deaths under the Atmos service, the period April – July 2013 identified 75 deceased pensioners whom the LPFA had not been notified of at the time of the existence check.

Overseas Pensioners

The Atmos process only picks up on those deaths where the pensioner resided in the UK. We have a different challenge in establishing the existence of an overseas pensioner. Traditionally life certificates have been issued every two years to a selection of pensioners living abroad. However a recent pilot of an alternative process involving asking the pensioner to report to a branch of Western Union appears to have been a success and may now replace life certificates.

REPRESENTATION

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

The Fund Member Panel met following each meeting of the Board. Discussion in the Panel meetings included the governance aspects of LPFA, communications, customer care, auto enrolment, and the affordability of the local government pension scheme. During the year members received

presentations on the investment strategy, on the LPFA's strategic objectives and vision and ESG factors. The Chief Executive attends each meeting.

The Fund Member Forum was held in September 2012 and contained presentations from the Chief Executive and Chairman. The external speaker at the event was Anthony Hilton from The Evening Standard.

FREEDOM OF INFORMATION (FOI) SCHEME

During 2012-13 a total of nine requests for information were received. These were in respect of private equity investment, HR and payroll providers, LPFAs fund manager arrangements, LGPS fund data and Employer contributions. All of the 9 requests were satisfied within the statutory timescales.

EQUALITIES OBJECTIVES

A comprehensive review of equalities took place during 2011-12 to ensure the effective implementation of the Equality Act 2010. The equality objectives were confirmed in 2012 following consultation with stakeholders.

ENVIRONMENTAL PLAN

Key performance indicators have been set covering paper purchases, printing costs per customer, waste disposal, waste per member of staff and the recycle rate of waste. The LPFA received the ISO 14001 accreditation during 2011-12 and continues to implement actions to ensure compliance.

EXERCISE OF DISCRETIONS UNDER LGPS

Under the LGPS Administration Regulations 2008, the LPFA was required to produce a written statement of its policy in relation to the exercise of its functions under four specific areas of discretion; these have been published on the Fund member website.

HEALTH & SAFETY

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

COMPLAINTS

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

www.yourpension.org.uk

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

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

ii Employers Contributing to the Fund as at 31 March 2013

Academies

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

Admitted Bodies

Affinity Sutton Group
 Age Concern London
 All England Netball Association Limited
 All Saints Educational Trust
 Alleyns School
 AmicusHorizon Group Ltd
 Association of Colleges
 Bethnal Green City Challenge
 Bondway Housing Association
 British Amateur Gymnastics Association
 British Athletics Federation Ltd
 British Educational Communications and
 Technology Agency
 British Film Institute
 British Institute Record/Sound
 British Mountaineering Council
 British Universities Film and Video Council
 Broadacres Housing Association Limited
 Brunel University
 Caris Haringey
 Castle Vale H.A.T.
 Central Council of Magistrate's Courts Committees
 Central School of Speech & Drama
 Centre of Information on Language Teaching
 CfBT Advice and Guidance
 CfBT Education Trust
 Chartered Institute of Environmental Health
 Chartered Institute of Housing
 City Literary Institute
 City University
 Colfe's Grammar School
 College of St Mark & St John
 Community Care Enterprises

Cordwainers College
 Council for Awards in Care, Health & Education
 Council for National Academic Awards
 Downland Affinity Group
 Dulwich College
 Dulwich Picture Gallery
 East Thames Housing Group
 Effra Trust
 Emanuel School
 Family Service Units
 Food Standards Agency
 Forest Hill and Sydenham Voluntary Service
 Association
 Futures Careers Guidance
 G.L. Employers Association Ltd
 Gallions Housing Association
 Geffrye Museum Trust Ltd
 Genesis Housing Group
 Gilbert Place Centre
 Godolphin and Latymer School
 Goldsmith College
 Gorseway Care Limited
 Grafham Grange
 Greater London Enterprise Limited
 Greenwich Leisure Limited (SCLL)
 Greenwich Young People's Theatre Ltd
 Guinness Hermitage Limited
 Guinness Trust
 Haberdashers' Askes Hatcham College
 Hermitage Care Limited
 Hermitage Housing Association
 Horniman Museum & Gardens
 Hounslow Welcare
 Ibstock Place School
 Incorporated Froebel Educational Institute
 Institute of Careers Guidance
 Kelly House Bail Hostel
 Kettering Community Leisure Ltd
 Kings College London
 Kingston University Service Company Ltd
 Laser Advisory Council Ltd
 Lionheart (RICS Benevolent Fund)
 Liverpool Housing Action Trust
 Local Authorities Mutual Investment Trust

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| | |
|--|---|
| London and South East Library Region - LASER | Sport and Recreation Alliance Limited |
| London Arts Board | Sport England |
| London Artscom Ltd | Sports Council |
| London Councils | St Christopher's Fellowship |
| London Diocesan Fund | St Edmund's Probation & Bail Hostel |
| London East Anglian Group | St Margarets House |
| London Metropolitan University | St Pantile House As. In. Cam |
| London Sinfonietta | Stonebridge Housing Action Trust |
| London South Bank Careers | Sulgrave Charitable Trust |
| Mary Ward Centre | Sutton Centre for Independant Living and Learning |
| Methodist Colleges and Schools | Sutton Performing Arts Network |
| Mid Sussex Housing Association | Tandridge Leisure Ltd |
| Middlesex Association for the Blind | Tennant Housing Trust Ltd |
| Mountain Training Limited | Thames Water Utilities |
| Myrrh Education & Training | Thamesmead Town Limited |
| N.A.C.R.O. | The Council of Management of Coram's Fields |
| N.I.A.C.E | The English & Media Centre |
| Nat. Advisory Board for Public Sector Higher | The English Institute of Sport |
| National Probation Directorate | Tilfen Regeneration Ltd |
| Nexus Community | Tower Hamlets H.A.T |
| North Hull H.A.T. | Trinity Laban |
| North London Hospice Group | Trust Thamesmead |
| Octavia Housing and Care | UK Film Council |
| Old Ford Housing Association | United Kingdom Sports Council |
| Open College Network London Region | United Welsh Housing Association Ltd |
| Our Lady of Victory RC Primary School | Univerisity Association for Contemporary European Studies |
| Peabody Trust | University of Greenwich |
| Pimlico Village Housing Co-operative TMO | University of Roehampton |
| Poplar Housing and Regeneration | University of Surrey |
| Probation Association | University of Westminster |
| Prospects Services Ltd | Urban Learning Foundation |
| Radicle | Waltham Forest CBHA Ltd |
| Rathbone Training | Welcare Community Projects |
| Royal London Aid Society | Woughton Leisure Trust |
| S.E.N.S.E | |
| S.L. Church Fund & Southwark Diocesan Board of Finance | |
| S.S.A.F.A Forces Help | |
| Samuel Lewis Housing Trust | |
| Schools Council | |
| SDP Regeneration Services 2 Ltd | |
| Search Careers Limited | |
| Shenley Leisure Centre Trust Ltd | |
| SLCF & Southwark Diocesan Board of Finance | |
| South Bank Univerisity | |
| Southern Archaeology (Chichester) Ltd | |
| | Community Admitted Bodies |
| | British Sports Trust |
| | Castle Vale Commuinity Housing Association |
| | Infrastructure Planning Commission |
| | Olympic Park Legacy Company Ltd |
| | UK Anti Doping |

Resolution Body

London Transport User’s Committee
 National Criminal Intelligence Service
 Serious Organised Crime Agency

Scheduled Bodies

Archbishop Tenison’s School
 Association of Education Committees
 Ave Maria School
 Bishop Thomas Grant School
 Borough Road College
 Broxbourne BC
 Burntwood School
 Cardinal Vaughan Memorial School
 Charoltte Sharman Foundation Primary School
 City and Islington College
 City of London
 City of Westminster
 City of Westminster College
 Commission for Local Administration in England
 Digby Stuart College
 Ealing, Hammersmith & West London College
 Eardley Grant Maintained School
 East London Waste Authority
 Elliott School
 Epping Forest DC
 Firebuy Limited
 Friars School
 Graveney School GM
 Greater London Authority
 Greater London Magistrates’ Courts Authority
 (GLMCA)
 Greenwich Commuinity College
 Hackney Commuinity College
 Hackney Downs School
 Hertsmere BC
 Hillbrook Primary School
 Honeywell Infants G M School
 Honeywell Junior G M School
 Immanuel & St Andrew C of E Primary School
 Inner London Probation Service
 Jews Free School
 Julian’s Primary School
 Kingsway College
 La Retraite RC Girl’s School

La Sainte Union Convent School
 Lambeth College
 Lee Valley Regional Park Authority
 Lewisham College
 London Borough of Tower Hamlets
 London Borough of Barking & Dagenham
 London Borough of Barnet
 London Borough of Bexley
 London Borough of Brent
 London Borough of Bromley
 London Borough of Camden
 London Borough of Ealing
 London Borough of Enfield
 London Borough of Greenwich
 London Borough of Hackney
 London Borough of Hammersmith & Fulham
 London Borough of Haringey
 London Borough of Harrow
 London Borough of Havering
 London Borough of Hillingdon
 London Borough of Hounslow
 London Borough of Islington
 London Borough of Lambeth
 London Borough of Lewisham
 London Borough of Merton
 London Borough of Newham
 London Borough of Redbridge
 London Borough of Richmond upon Thames
 London Borough of Southwark
 London Borough of Sutton
 London Borough of Waltham Forest
 London Borough of Wandsworth
 London Development Agency
 London Docklands Development Corporation
 London Fire and Emergency Planing Authority
 London Guildhall University
 London Legacy Development Corporation
 London Nautical School
 London Oratory School
 London Pensions Fund Authority
 London Probation Trust
 London Thames Gateway UDC
 London Valuation Tribunals
 London Waste Regulation Authority
 Middlesex Area Magistrates Court
 Middlesex Probation Service
 Morley College
 N. E. London Magistrates Court

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N.L.Waste Authority
National Crime Squad
New Islington and Hackney Housing Association
North East London Probation Service
Notre Dame School
Phillipa Fawcett College
R.B. of Kingston upon Thames
Raine's Foundation School
Reigate and Banstead BC
Royal Borough of Kensington & Chelsea
RPS Rainer
S. W. London Magistrates Court
S.E. London Magistrates Court
S.K.I.L.L.
S.W. London College
Salesian College
Shoreditch College
Sidney Webb College
Slough BC
South East London Probation Service
South Thames College
South West London Probation Service
Southfields Community College
Southwark College
St Andrews RC Primary School
St Anne's RC Primary School
St Anthony's School
St Bede's Infant & Nursey School
St Bernadette Catholic Junior School
St Francesca Cabrini Primary School
St Francis Xavier 6th Form College
St Joseph RC Infant School
St Joseph RC Junior School
St Mary's RC Primary School
St Thomas the Apostle College
St Thomas's C of E JMI School
Surrey Square Junior School
Surrey Square Primary School
Thames Conservancy
Three Rivers DC
Thurlow Park School
Thurrock BC
Tower Hamlets College
Transport For London
Turney School
Turnham Prmiary Grammar School
University of Arts London
University of North London

University of Reading
Valuation Office agency
Valuation Tribunal Service
West London Waste Authority
West Riverside Waste Authority
Westminster College
WestminsterKingsway College
Whitelands College
Willowfield School
Woking BC

Transferee Admitted Bodies

MITIE Managed Services (North & Scotland) Ltd
Babcock Critical Services Ltd
Babcock training Limited
NSL Limited
Serco Community Payback
Serco Ltd
Sodexo

iii Myners' Principles Compliance Statement

| Principle | Requirement | CIPFA Guidance | LPFA Assessment | Actions |
|-------------------------------------|---|---|--|---|
| 1) Effective decision making | <p>Administering authorities should ensure that:</p> <p>1) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation</p> <p>2) Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest</p> | <ul style="list-style-type: none"> - Clear structure for management of pension fund - Clear roles and responsibilities - Declaration of interests before each meeting - Prepare and publish governance compliance statements - Pension fund oversight given to people with appropriate skills and experience - Clear Terms Of Reference - Clear process for decision-making and delegation - Conduct skills audits and provide regular training - Establish an investment committee; assess Terms of Reference regularly - Obtain proper advice from suitably qualified persons - Develop a clear business plan for the Fund | <p>Full compliance:</p> <p>LPFA's Constitutional Document sets out the decision making process, matters reserved for Board, and the delegation to sub-committee or officers.</p> <p>This constitutional document sets out the procedures for managing conflicts of interest and Code of Practice for Board Members.</p> <p>The recent Board Member Performance Evaluation results highlighted that the constitution is generally fit for purpose.</p> <p>Results of the Board Member Self Assessment are analysed by the Chairman and a schedule of individual and collective training is implemented. A range of skills are present on all committees, to enable a range of viewpoints to be heard, rather than only having committees consisting of experts.</p> | <p>Carry out Board Performance Evaluation in October 2013. 2011 evaluation complete</p> |

| Principle | Requirement | CIPFA Guidance | LPFA Assessment | Actions |
|---------------------------------------|--|---|--|---------|
| <p>2) Clear objectives</p> | <p>An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and fund managers</p> | <ul style="list-style-type: none"> - Overall investment objectives should consider liabilities, assets and fund maturity profile - Demonstrate proper advice has been sought using independent advisors where appropriate - Consider all asset classes in light of risk appetite; give reasons for excluding asset classes - Importance of diversification - Include achievement of value for money and efficiency in objectives - Maintain stable employer contribution rates and consider impact on long term council tax rates - Consider establishing sub-funds to match liability/member profiles - Ensure that transaction costs are fully understood | <p>Full compliance</p> <p>Clear objectives are in place on both the investment side and the pensions administration side of the authority.</p> <p>Investment principles and beliefs underpin the investment strategy which takes into account the scheme's liabilities and maturity.</p> <p>Fund objectives are set out in the SIP and Investment Management Agreements are in place on all segregated mandates. A customised benchmark has been adopted based on asset/liability studies undertaken by the Fund's actuary.</p> <p>On the administration side a Strategic Policy Statement is prepared annually which sets out the three year strategic direction and medium term financial strategy of the Authority.</p> | |

| Principle | Requirement | CIPFA Guidance | LPFA Assessment | Actions |
|---|--|--|---|--|
| <p>3) Risk & liabilities</p> | <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities</p> <p>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk</p> | <ul style="list-style-type: none"> - Fund investment objective accounts for attitude to risk - Willingness to accept underperformance due to market conditions - Clear benchmarks and consider scheme specific benchmark - SIP to include description of “risk assessment framework” used for investments - Risk assessment of valuation of assets and liabilities and analysis of factors affecting long term performance should be included as part of the triennial valuation - Relevant committee should be satisfied of internal control environment - Investment Strategy is suitable for objectives - Assessment of whether cash flows match liabilities and acceptable levels of returns volatility - Overall risk assessment should be summarised in the annual report | <p>Full compliance</p> <p>Following each triennial valuation Board Members assess the structure of liabilities and amend the investment strategy if necessary.</p> <p>The fund’s aspiration is that active Managers will outperform their benchmarks over the long term. Allowances are made for periods of underperformance in the shorter term.</p> <p>An annual review of LPFA’s internal controls is conducted during preparation of the Annual Governance Statement which features in the Annual Report and Accounts. In addition a Board driven Corporate Risk Register is reviewed quarterly.</p> <p>Risk Committee established to improve the management of LPFA’s liabilities.</p> | <p>Assess results of the Valuation 4th October 2013</p> <p>Implement a liabilities monitoring system</p> |

| Principle | Requirement | CIPFA Guidance | LPFA Assessment | Actions |
|---|---|---|---|---------|
| <p>4) Performance Assessment</p> | <p>Arrangements should be in place for the formal measurement of performance of the investments, fund managers and advisers</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p> | <ul style="list-style-type: none"> - Are benchmarks and tracking error limits appropriate? - Consider active and passive styles for each asset class - Set appropriate controls for active mandates - Clear and detailed Investment Management Agreements - Performance targets linked to time periods - Regular monitoring of investment activity - Returns from each asset class should be measured as well as overall fund return - Fund manager effectiveness and the compatibility of the asset/liability profile should be measured over 3-7 year periods - Performance figures should come from a specialist, independent from fund managers - Data should include attributions to asset allocation, stock and sector selection and currency risk - Adviser and actuary performance should be reviewed and assessed - Process of self assessment should involve both officers and members of committees - Internal governance should be assessed and results published in Annual Report | <p>Full compliance</p> <p>Performance of the fund and fund managers is monitored quarterly by the Investment Committee and all major fund managers are held to account via regular meetings. Performance data is provided by an independent specialist which includes an attribution analysis.</p> <p>Board Members carry out an internally managed Board Performance Evaluation and a Board Member Self Assessment on an annual basis. The performance evaluation looks at the performance of the Board as a whole, while the self assessment concentrates on individual training needs.</p> <p>Each Board Member has an annual appraisal with the Chairman of the Board where contribution to the meetings is assessed.</p> | |

| Principle | Requirement | CIPFA Guidance | LPFA Assessment | Actions |
|--|--|---|---|------------|
| <p>5) Responsible Ownership</p> | <p>Administering authorities should:</p> <p>Adopt, or ensure their fund managers adopt the ISC Statement of Principles</p> <p>Include a statement of their policy on responsible ownership in the SIP</p> <p>Report periodically to scheme members on the discharge of such responsibilities</p> | <ul style="list-style-type: none"> - Responsible ownership policies should be disclosed in the SIP and annual report - Approach to responsible ownership should include long term RI and the potential for ESG issues to add value - Investment committee should ensure that managers have an explicit strategy for intervention - Consultants should adopt the ISC code - Funds should be aware of the latest iteration of the ISC Code and the UN PRI - Ensure fund manager policies do not override, negate or dilute the Board's policies - Open monitoring of actions | <p>Full compliance.</p> <p>The annual report, SIP and website include sections on the fund's approach to responsible investment and ongoing activities in this area.</p> <p>At each quarter meeting Investment Committee meeting Board members discussed Responsible investment and voting and engagement issues, if required, and these issues are reported on an exception basis.</p> <p>The LPFA is a participating member of the Local Authority Pension Fund Forum (LAPFF) and receives information on environmental, social and governance issues. The Chief Executive is an executive member of the LAPFF.</p> | <p>N/A</p> |

| Principle | Requirement | CIPFA Guidance | LPFA Assessment | Actions |
|--|---|---|--|--|
| <p>6) Transparency & reporting</p> | <p>Administering authorities should:</p> <ol style="list-style-type: none"> 1. Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives 2. Provide regular communication to scheme members in the form they consider most appropriate | <ul style="list-style-type: none"> - Clear and well communicated governance framework - Clear fund communication statement - Comprehensive view of who its stakeholders are and their interests in the Fund - Follow other's good practice and highlight own good practice - Regularly compare Annual Report to regulations - Publish Funding Strategy Statement, SIP and Governance Compliance Statement as core documents | <p>Full compliance</p> <p>Details of the Fund's Communication Policy Statement and all other reports which form the suite of annual report documentation are published on the website http://www.lpfa.org.uk</p> <p>A summary annual report is sent hard copy to all members of the fund.</p> <p>LPFA also holds an annual Fund Member Forum where all members have the opportunity to hold the Executive to account. Panels have been established for both fund members and employers of the fund and all Board meetings are held in public.</p> | <p>LPFA's SIP published by 1st July 2013.</p> <p>LPFA's Annual Report and Accounts signed off by the auditor prior to 30th September 2013.</p> |