Lancashire County Council

Lancashire County Council

Pension Fund Committee

Friday, 16th September, 2022 at 10.30 am in Committee Room 'A' - The Tudor Room, County Hall, Preston

Agenda

Briefing session – please note that the meeting will be preceded by a briefing for members of the Committee on the Valuation 2022 Employer Risk starting at 10.00am in Committee Room 'A' – The Tudor Room at County Hall, Preston.

Part I (Open to Press and Public)

No.	**Item**	
1.	**Welcome and Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider whether they need to disclose any pecuniary and non-pecuniary interest in matters appearing on the agenda. If a member requires advice on declarations of interest, he/she is advised to contact Josh Mynott, Democratic Services (telephone 01772 534580) in advance of the meeting.	
3.	**Minutes of the last meeting and approved Terms of Reference.** The Committee is asked to agree that the attached Minutes are an accurate record and can be signed by the Chair. Since the last meeting confirmation has been received regarding the appointment of the following Co-opted members - Councillor M Smith (representing Blackpool Council) and Councillors D Borrow and M Dad (representing City/Borough Councils). A copy of the updated Terms of Reference agreed at the last meeting and subsequently approved by Full Council on 14th July 2022 are also attached for information and a copy has been placed in the Minute Book for future reference.	(Pages 1 - 20)

10. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

11. Date of Next Meeting

The next meeting will be held at 10.30am on 25th November 2022 in Committee Room 'A' the Tudor Room at County Hall, Preston.

12. Exclusion of Press and Public

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the press and public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.

Part II (Not open to Press and Public)

Local Pension Partnership representatives to leave the meeting at this point.

L Sales
Director of Corporate Services

County Hall
Preston

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 17th June, 2022 at 10.30 am in Committee Room 'A' - The Tudor Room at County Hall, Preston.

Present:

County Councillor E Pope (Chair)

County Councillors

M Brown	H Hartley
J Burrows	S Holgate
M Clifford	A Schofield
F De Molfetta	R Swarbrick
A Gardiner	D Westley

* replaced County Councillor R Woollam for this meeting only.

Co-opted members

Councillor E Whittingham, Blackburn with Darwen Borough Council.
Ms J Eastham, Further Education/Higher Education Institutions.
Mr P Crewe, Trade Unions.
Ms S Roylance, Trade Unions.

In attendance:

Mr S Greene, Head of Pension Fund, Lancashire County Council.
Mr R Cathey, Principal Lawyer, Lancashire County Council.
Mr E Lambert, Independent Investment Adviser
Ms A Devitt, Independent Investment Adviser.
Ms M George, Independent Investment Adviser
Mr S Bassnett, Senior Manager, Grant Thornton.
Mr A Dalecki, Head of Service - Internal Audit, Lancashire County Council.
Mr M Neville, Senior Democratic Services Officer, Lancashire County Council.
Mr C Rule, Chief Executive, Local Pensions Partnership.
Mr G Smith, Director of Strategy, Local Pensions Partnership.
Ms J Darbyshire, Managing Director, Local Pensions Partnership Administration.
Mr J Peach, Senior Analyst Client Management, Local Pensions Partnership Investment.

Mr E Lambert - Independent Investment Adviser.

The Chair informed the Committee that this would be the last meeting which Mr Lambert would attend before he retired from his position as one of the Investment Advisers to the Fund. On behalf of the Committee the Chair thanked Mr Lambert for his expertise and support over the last 13 years and invited those present at the meeting to join Mr Lambert for an informal lunch after the meeting.

1. Constitution, Membership and Terms of Reference of the Committee.

The Chair presented a report on the Constitution and membership of the Committee (as agreed by Full Council on 26th May 2022) which stated that some nominating bodies had confirmed their appointments for Co-opted members while confirmation was yet to be received for others.

It was also reported that following a review of the Terms of Reference of the Committee several amendments were proposed, as set out at Appendix 'A' to the report. In response to a query the Head of Fund confirmed that a further minor amendment would be made to the wording under item 6 of the matters reserved to him.

Resolved:

1. That the Constitution and Membership of the Pension Fund Committee, as set out below, is noted.

   County Councillors

J Burrows (Conservative)	S Holgate (Labour)
M Brown (Labour)	E Pope (Conservative) – Chair
M Clifford (Labour)	A Schofield (Conservative) – Deputy Chair
F De Molfetta (Labour)	M Tomlinson (Labour)
A Gardiner (Conservative)	D Westley (Conservative)
H Hartley (Conservative)	R Woollam (Conservative)

   Co-opted members (confirmed)
   Councillor E Whittingham - Blackburn with Darwen Borough Council
   Ms J Eastham - Further Education and Higher Education Institutions.
   Mr P Crewe - Trade Unions.
   Ms S Roylance - Trade Unions (replaced Mr J Tattersall).

   Co-opted members (to be confirmed)
   Councillor M Smith - Blackpool Borough Council.
   Councillor D Borrow - Borough & City Councils.
   Vacancy – Borough& City Councils (to replace Councillor M Hindley).

2. That, subject to a further minor amendment specified at the meeting, the revised Terms of Reference set out at Appendix 'A' to the report presented are approved and recommended to full Council for approval and inclusion in the Constitution of the County Council.

2. Apologies

Apologies for absence were received from County Councillor M Tomlinson and Co-opted members Councillor D Borrow and Councillor M Smith.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

No disclosures of Pecuniary/Non-Pecuniary interest were made at this point in the meeting.

4. Minutes of the meeting held on 11th March 2022.

It was noted that the detailed pay proposals for the Local Pensions Partnership were approved by the Employment Committee on 14th March 2022.

Resolved: That the Minutes of the meeting held on 11th March 2022 are confirmed as an accurate record and signed by the Chair.

5. External Audit 2021/22

Mr Bassnett, Senior Manager from Grant Thornton, presented a report on the 2021/22 external audit plan for the Lancashire County Pension Fund, which would give an opinion on whether the financial statements represented an accurate view of the financial position/performance of the Fund on 31st March 2022, and that the accounts had been prepared in accordance with proper accounting practice.

When considering the report, the Committee discussed the issue of materiality and were informed that the fees to be charged by Grant Thornton for the audit, which were subject to approval by Public Sector Audit Appointments, were expected to be £37k.

Resolved:

1. That the 2021/22 external audit plan for the Lancashire County Pension Fund, as set out at Appendix 'A' to the report presented, is noted.

2. That the Chair and Head of Fund discuss materiality outside of the meeting and that a further report be brought back to the next meeting on the issue.

6. 2021/22 Budget Monitoring Report

The Head of Fund presented a report on the financial performance of the Fund for the year ended 31st March 2022 which showed a higher deficit compared to the budget. He responded to queries from members of the Committee on the key variances set out in the report, particularly around investment fees, and confirmed that savings had been achieved since the creation of the Local Pensions Partnership.

Resolved: That the financial performance of the Lancashire County Pension Fund for the year ended 31st March 2022, as set out in the report presented, is noted.

7. Internal Audit Report 2022

Mr Dalecki, Head of Service - Internal Audit, presented a report summarising the internal audit assurance work which had been completed during 2021/22 and was planned for 2022/23.

The moderate assurance regarding overpayments was discussed and the Head of Fund undertook to provide further detail on the matter to the members of the Committee. Both the Head of Fund and Deputy Chair of the Committee clarified that most of the actions arising from a previous audit report on Local Pensions Partnership Administration Ltd (LPPA) had been implemented, though it was accepted that some actions were dependent on the implementation of Project PACE by LPPA which for Lancashire was scheduled to take place in October 2022.

Resolved: That the audit report is noted and that further detail on the Fund's approach to the handling of overpayments be provided to members of the Committee outside of the meeting.

8. Lancashire County Pension Fund - Governance Compliance Statement

The Head of Fund presented a report on the draft Governance Compliance Statement which would replace the separate Annual Governance Statement and Governance Policy Statement.

In response to a query regarding the ongoing conflict in Ukraine the Head of Fund confirmed that the Investment Panel monitored the performance of investments and the macro-economic factors which influenced the market in which the Fund operated. Mr Lambert assured the Committee that the Fund's long term investment strategy was robust and able to weather short-term instability.

Resolved: That the Governance Compliance Statement for the Lancashire County Pension Fund, as set out at Appendix 'A' to the report presented, is approved.

9. Lancashire Local Pension Board - Annual Report 2021/22

The Head of Fund presented a report on the 2021/22 Annual Report which had been agreed by the Pension Board on 26th April 2022 and recommended to the Committee for approval.

Resolved: That the 2021/22 Annual Report of the Pension Board, as set out at Appendix 'A' to the report presented, is approved for inclusion in the draft Lancashire County Pension Fund Annual Report to be presented to Committee on 16th September 2022.

10. Lancashire County Pension Fund Risk Management Framework

The Committee considered a report on the Risk Management Framework which set out the key processes and responsibilities for effective risk management and compliance against relevant scheme guidance, regulation, and legislation.

The Head of Fund reported that the Framework set out in the Appendix had been updated to reflect developments on the risk management arrangements as referenced in the report and had been considered and approved by the Pension Board on 26th April 2022.

Resolved: That the updated Lancashire County Pension Fund Risk Management Framework, as set out at Appendix 'A' to the report presented, is approved.

11. Responsible Investment Report

The Committee considered a detailed report on responsible investment matters during Q1 of 2022 (January to March).

The Head of Fund reported that Local Pensions Partnership Investments Ltd had met the required standard to be compliant with the UK Stewardship Code (2020) and that the dashboard at Appendix 'B' to the report had been updated to include additional metrics as agreed by Committee in March 2022. He also clarified the current position regarding The Public Service Pensions and Judicial Offices Act 2022 which gave the Local Government Secretary new powers to direct Local Government Pension Funds not to take decisions which conflicted with government foreign or defence policy.

Resolved: That the update on responsible investment matters during Q1, as set out in the report and Appendices is noted.

12. 2021/22 Training Record and feedback from members of the Committee on pension related training.

The Committee received a report on the 2021/22 Training Record which reflected the participation of individual members of the Committee in external/internal training events over the last 12 months and would inform reporting on training included in the Lancashire County Pension Fund Annual Report.

The Chair reminded the new members of the Committee that there would be several opportunities throughout the year for training on pension related matters.

Resolved: That the participation of individual members of the Committee at the training events referred to in the report, together with the contents of the Training Record for 2021/22, as set out in the Appendix, are noted.

13. Urgent Business

No items of urgent business were raised under this heading.

14. Date of Next Meeting

It was noted that the next scheduled meeting would be held at 10.30am on 16th September 2022 in Committee Room 'A' – The Tudor Room at County Hall, Preston.

15. Exclusion of Press and Public

Resolved: That the press and public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

16. Annual Administration Report 2021/22 and PACE Project Update

Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

Ms J Darbyshire, Managing Director at Local Pensions Partnership Administration Ltd, presented a detailed report on the performance of the pension administration service against standards and targets during 2021/22.

She informed the Committee that in response to the pandemic additional staff had been allocated to the helpdesk and calls associated with bereavement had been prioritised. It was also reported that more detailed information would be available regarding service levels once the new pension administration system was introduced as part of Project PACE and Ms Darbyshire confirmed the go live date for Lancashire would be 28th October 2022.

The Chair reminded members of the Committee that there would be a briefing on Project PACE and pensions administration on 29th June 2022 at County Hall.

Resolved: That the performance of the pension administration service against standards and targets during 2021/22, as set out in the report, is noted.

17. Local Pensions Partnership Update

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

Mr G Smith, Director of Strategy, reported that the Local Pensions Partnership (LPP) continued to deliver in line with the agreed 5-year Strategic Plan and updated the Committee on performance against objectives. It was noted that after an initial 6-years operation LPP was undergoing a governance review with an initial report on the outcome to be presented to the next meeting.

Resolved:

1. That the updates on the activity and financial position of the Local Pensions Partnership, as set out in the report presented, are noted.

2. That a report on the initial findings of the governance review of the Local Pensions Partnership be presented to the Committee on 16th September 2022.

18. Investment Context Report

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

Ms Devitt, Independent Investment Adviser, presented her report on the various macro-economic factors which influenced the investment market in which the Fund operated, specifically highlighting, interest rates, Covid-19, inflation, and the war in Ukraine. She also reassured the Committee that in the current macro-economic climate the investments of the Fund remained robust and stable.

Resolved: That the update on the macro-economic factors which influence the investment market in which the Lancashire County Pension Fund operates is noted.

19. Investment Performance Report

Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

Mr Lambert, Independent Investment Adviser, presented an overview of the performance of the Lancashire County Pension Fund for Q1 and highlighted key points such as the total portfolio return over different periods, strategic/current asset allocations and contributions net of benefits, expenses, and investment income. It was also noted that 31st March 2022 liabilities had been increased to allow for the high inflation experienced over the last 6 months.

Resolved: That the summary of the Fund's performance up to 31st March 2022, as set out in Appendix 'A' to the report presented is noted.

Mr Bassnett and the representatives from the Local Pensions Partnership left the meeting at this point.

20. Investment Panel Report

Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

The Head of Fund presented a report on the various matters discussed at the Investment Panel on 10th March 2022 and updated the Committee on the latest position regarding the East Cliff development near the railway station in Preston.

Resolved: That the Minutes of the Investment Panel held on 10th March 2022 and the update given at the meeting regarding the East Cliff development in Preston are noted.

21. Lancashire County Pension Fund - Risk Register

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

The Chair presented a report on the Fund Risk Register which had been updated to include risks associated with inflation, pension scams, member communications and the ongoing Russia/Ukraine war. In response to a query the Head of Fund confirmed that whilst the Fund had limited exposure to the investments which would be directly impacted by the war the broader geo-political situation would continue to be monitored and mitigating factors implemented if appropriate.

Resolved: That the current risk summary document and risk register for the Lancashire County Pension Fund, as set out in the Appendices to the report presented, are noted.

L Sales
Director of Corporate Services

County Hall
Preston

Pension Fund Committee
Terms of Reference

Composition and role:

1. The Pension Fund Committee ("the Committee") comprises twelve County Councillors and seven voting co-optees representing the following organisations.

   a. One co-optee representing the Further and Higher Education sector in Lancashire.
   b. One co-optee from Blackburn with Darwen Council.
   c. One co-optee from Blackpool Council.
   d. Two co-optees representing Trade Unions; and
   e. Two co-optees representing the Lancashire Borough and City Councils.

2. The role of the Committee is to:

   a. Fulfil the role of Scheme Manager, as set out in regulations, of the Lancashire County Pension Fund ("the Fund" or "LCPF").
   b. Establish policies in relation to investment management, which shall include meeting with the Investment Panel to consider future Investment policy for the Fund.
   c. Monitor and review investment activity and the performance of the Fund. and
   d. present an annual report to the Full Council on the state of the Fund and on the investment activities during the preceding year.

3. The Committee shall meet at least quarterly, or otherwise as necessary, with members of the Investment Panel in attendance.

4. Meetings of the Committee shall be open to the public, but the public may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix ‘H’ to the County Council's Constitution.

General:

5. To exercise Lancashire County Council’s responsibility for the management of the Fund, including the administration of benefits and strategic management of Fund assets and liabilities.

6. To determine which pension related functions and responsibilities should be exercised under a Scheme of Delegation to the Head of the LCPF, the Council's s.151 Officer and the Director of Corporate Services.

7. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.

8. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.

9. To establish sub-committees and panels as necessary to undertake any part of the Committee's functions.

10. To receive an annual report from the Lancashire Local Pensions Board on the nature and effect of its activities.

Policies (other than Investment, Administration and Funding – see below):

11. To approve the following key policy documents:

    a) A 3 Year Strategic Plan for the Fund.
    b) An Investment Strategy Statement
    c) Governance Compliance Statement.
    d) Pension Fund Annual Report.
    e) Communication Policy
    f) Internal Dispute Resolution Procedure.
    g) Death Grant Policy
    h) Bulk Transfer Payment Policy.
    i) Commutation policy (small pensions).
    j) Transfer policy.
    k) Abatement policy and
    l) Any other discretionary policies as required under LGPS regulations

Investment:

12. To determine the strategic asset allocation policy, giving due recognition to the options made available by Local Pensions Partnership Investments Ltd (LPPI).

13. To monitor the performance of the Fund's investments and ensure that best practice is being adopted and value for money is being delivered

14. To submit an annual report to the Full Council on the performance and state of the Fund and on the investment activities during the year.

15. To approve and review on a regular basis an overall Investment Strategy and subsidiary Strategies for such asset classes as the Investment Panel consider appropriate.

16. To have overall responsibility for investment policy.

Administration:

17. To approve the Annual Administration Report.

18. To approve the Pensions Administration Strategy Statement.

19. To monitor the performance of the pensions administration function.

20. To authorise the payment of any statutory pensions, gratuities, grants, etc. under the provisions of the Superannuation and Pensions Acts and Regulations and any Local Acts.

21. To approve applications for early payment of preserved pension benefits on compassionate grounds.

22. To approve payments under the County of Lancashire Act 1984.

23. To determine the actual injury allowance payable on each individual qualifying case of injury or disease, both retrospective and for the future.

24. To review annually the actual amounts of injury allowances payable under the Local Government Superannuation Regulations, as amended, to employees who have sustained injuries or contracted diseases, **resulting from** anything they were required to do in carrying out their work. and to make any changes appropriate to reflect changes in the relevant financial circumstances of the payee.

Funding:

25. To approve the Funding Strategy Statement which shall include the Fund's policy in respect of:

    a. the Funding Target.
    b. the collection of employee contributions.
    c. the collection of employer contributions.
    d. the collection of additional employer contributions
    e. Admissions and Terminations; and
    f. Employer risk.

26. To approve Scheme Funding Advice

27. To review ongoing funding updates for potential cash contribution implications

Procurement:

28. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external support, including:
    a. an external corporate governance adviser.
    b. an external Fund custodian.

c. external performance measurement advisers.
d. the Fund Actuary and
e. the Fund's AVC Provider.

Training:

29. To approve the annual Training Plan for members of the Pension Fund Committee and actively participate in training opportunities.

Local Pensions Partnership Ltd (LPPL):

LPPL was formed in partnership between the County Council and the London Pension Funds Authority (LPFA) to carry out certain pension functions such as investment activity and administration on behalf of the two partner authorities. The relationship between the County Council and LPFA is governed by various agreements, one of which (the Shareholders Agreement dated 8th April 2016) reserves certain key matters for the determination of the County Council and LPFA rather than LPPL (the "Reserved Matters"). References to delegated powers relating to LPPL address the Reserved Matters. Unless stipulated, any reference to the "Agreement" is a reference to the Shareholders Agreement dated 8th April 2016.

Pension administration services are provided by the administration arm of LPP, which is called Local Pensions Partnership Administration Limited, with investment services being undertaken by the investment arm, Local Pensions Partnership Investments Limited.

Incorporation or winding up of subsidiaries:

30. To approve, with the exception to the formation of vehicles which are necessary for any transactional, operational or tax efficiency reasons in the sole opinion of the Board, any incorporation of any new subsidiary of LPPL or any of its Group Companies or any liquidation or winding up of LLP or any of its Group Companies. Any acquisition of any shares in any company, whether through subscription or transfer, such that the company concerned becomes a Subsidiary of LPPL or any Group Company.

Merger/acquisition of any business undertaking:

31. To approve the amalgamation or merger with any company, association, partnership or legal entity or the acquisition of any business undertaking of any other person.

Financial and Business:

32. To approve any Strategic Plan for LPPL or make any material changes to any Strategic Plan after its approval.

33. To approve any extension of the activities of LPPL outside the scope of the Business or **to** close down any business operation.

34. To receive the annual accounts of LPPL.

35. To approve the establishment, provision, or amendment of any pension scheme for LPPL.

36. To give or take any loans, borrowing or credit (other than normal trade credit in the ordinary course of business) exceeding £1,000,000 or cause the aggregate indebtedness of LPPL to exceed £[5m].

Shares, shareholder loans and constitutional:

37. To pay or declare any dividend (other than as expressly provided for in the Shareholder agreement) or other distribution to the Shareholders or redeem or buy any Shares or otherwise reorganise the share capital of LPPL.

38. To admit any person whether by subscription or transfer as a member of LPPL save as provided for in the Shareholder Agreement.

39. To approve any change to the name of LPPL.

Control, management, Directors, and employees:

40. To approve the remuneration policy of LPPL Non-Executive Directors.

41. To approve the appointment or removal of any statutory director of LPPL otherwise than in accordance with the Shareholder Agreement and the Articles of LPPL.

42. To enter into or vary any agreement for the provision of consultancy, management or other services by any person which will, or is likely to result in, LPPL being managed otherwise than by its directors or controlled otherwise than by its shareholders.

43. To approve the move of the central management and control of LPPL or LPPL's tax residence outside of the UK.

Contract with related parties

44. To enter into or vary, any contracts or arrangements with any of the Shareholders or Directors or any person with whom any Shareholder or Director is connected (whether as director, consultant, shareholder or otherwise) save as anticipated in the various agreements between the County Council, LPFA and LPPL entered into on 8th April 2016.

45. To approve the commencement or the taking of steps to commence any insolvency proceedings under any law relating to insolvency anywhere in the world unless LPPL is at the relevant time unable to pay its debts as they fall due or the value of its assets is less than its liabilities, including its contingent and prospective liabilities and the directors reasonably consider (taking into account their fiduciary duties) that it ought to be wound up or it ought to enter into administration.

46. To enter into any partnership, joint venture or profit sharing arrangement with any person or create any share option scheme.

47. To enter into or make any material variation to any agreement not in the ordinary course of the Business and/or which is not on an arm's length basis.

48. To approve the sale, lease (as lessor), licence (as licensor), transfer or otherwise dispose of any of its material assets.

49. To enter into any contract which cannot be terminated within 48 months and under which the liability for such termination could exceed £1 million.

Pension Fund Committee – Scheme of Delegation Arrangements.

1. Matters reserved to Full Council

Local Pensions Partnership Ltd (LPPL):

Changes to the Articles or any Share rights impacting on any pre-approval matter(s)

Approval to alter any of the provisions of the LPPL Articles (including the articles of the LPPL subsidiary companies) or alter any of the rights attaching to the Shares (including where any such alterations directly or indirectly impact on a Reserved Matter) unless such amendment is of a purely administrative nature.

Dilution on Shareholding/Issue of Shares and Share Options

Approval to reduce or cancel any share capital of LPPL, purchase its own shares, hold any shares in treasury, allot or agree to allot, whether actually or contingently, any of the share capital of LPPL or any security of LPPL convertible into share capital, grant any options or other rights to subscribe for or to convert any security into shares of LPPL or alter the classification of any part of the share capital of LPPL save as the power to do so without prior Shareholder approval is specifically provided for in the Agreement .

Creation of any Holdco of LPPL

To approve the formation of any holding company of LPPL.

Change of Company status

To approve a change of status of LPPL from a limited company to a public limited company or from a company limited by shares to any other form of legal entity.

2. Matters reserved to the Employment Committee

Local Pensions Partnership Ltd (LPPL):

Approval of LPPL's Remuneration Policy

To approve the remuneration policy of the LPPL directors and staff, other than for LPPL Non-Executive Directors

Changes to Directors' Remuneration Policy

To approve the payment of any fees, remuneration or other sums to or in respect of the services of any director or vary any such fees or remuneration other than in accordance with an agreed remuneration policy approved by both LCC and LPFA. For the avoidance of doubt this will not apply to the payment or reimbursement of reasonable expenses properly incurred by any statutory director in the course of carrying out his duties in relation to LPPL nor to any payment under any indemnity by LPPL to which the statutory director is entitled under the Articles or under any relevant law.

Proposed redundancies of any Group employees

To approve any proposed programme of redundancies within LPPL or rationalisation of a group of employees

Proposed re-location of any LPPL employees

To approve any proposed programme of relocation of a group of employees outside Lancashire who were previously employees of LCC.

Chief Executive

To approve the appointment or removal of the Chief Executive of LPPL or any subsidiary company.

3. Matters reserved to Officers

The following functions have been delegated to the Head of the Lancashire County Pension Fund (LCPF), the Director of Corporate Services, and the Council's s.151 Officer as indicated below:

The Head of the LCPF, the Director of Corporate Services, and Council's s.151 Officer may allocate or re-allocate responsibility for exercising powers (delegated to them by Full Council or the Pension Fund Committee) to other officers on their behalf in the interests of effective corporate management as he/she thinks fit.

Records of all such authorisations must be retained and a copy sent to Democratic Services for retention. The 'other' officer(s) to whom a power has been re-allocated cannot further delegate that power to another officer.

Any decisions taken under the Scheme of Delegation must be recorded on the electronic decision recording system.

Matters reserved to the Director of Corporate Services

Agreements

To enter into or vary any agreement to do any of the things reserved to the Pension Fund Committee and to officers under the Scheme of Delegation arrangements

Local Pensions Partnership Ltd (LPPL):

Guarantees and Indemnities

To give any guarantee, suretyship or indemnity outside the ordinary course of business to secure the liabilities of any person or assume the obligations of any person.

Disputes and proceedings

To commence, settle or defend any claim, proceedings or other litigation brought by or against LPPL, except in relation to debt collection [not exceeding £[2m],] in the ordinary course of the Business.

Matters reserved to the Council's S.151 Officer

As the officer designated under s.151 of the Local Government Act 1972 to be responsible for the proper administration of the financial affairs of the County Council, for this purpose including the Lancashire County Pension Fund.

Accounts and Records

To maintain all necessary accounts and records in relation to the Pension Fund save as otherwise discharged in accordance with arrangements determined by the Pension Fund Committee

Local Pensions Partnership Ltd (LPPL):

Shares, Shareholder loans and constitutional:

1. Save as provided for in the Shareholders Agreement, to approve an increase in the amount of any Shareholder Loans or the variation of the terms of any Shareholder Loans.

2. To approve the repurchase, repayment, redemption or cancellation of any Shareholder Loan other than in accordance with the terms of any Loan Agreement, Loan Notes or the terms of the Shareholders Agreement.

3. To enter into any agreement with a Shareholder for the provision of additional funds or financial support from that Shareholder which differ from the terms on which the other Shareholder is providing equivalent finance or support.

Matters reserved to the Head of the Lancashire County Pension Fund

As the officer responsible for the management of the Lancashire County Pension Fund:

1. To set the appropriate funding target for the Fund.

2. To place any monies not allocated to investments on short term deposit in accordance with arrangements approved by the Pension Fund Committee.

3. In consultation with the Investment Panel, to monitor and review the performance of investments made by LPPL and to report to each meeting of the Pension Fund Committee on the exercise of this delegation.

4. To arrange and authorise the provision of appropriate and necessary training for members of the Pension Fund Committee including the attendance at conferences and other similar pension fund related events by members of the Pension Fund Committee.

5. To accept for admission into the Lancashire County Pension Fund employees of authorities and bodies as prescribed in Regulations including transferee and community admissions which are considered as 'exceptional circumstances', subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.

6. To prepare and submit the following to Pension Fund Committee:

   a) A 3 Year Strategic Plan for the Fund.
   b) An Investment Strategy Statement (to include policy on the management of cash balances).
   c) A Governance Compliance Statement.
   d) The Pension Fund Annual Report.
   e) A Funding Strategy Statement to include the Fund's policy in respect of:
      - the Funding Target.
      - the collection of employee contributions.
      - the collection of employer contributions.
      - the collection of additional employer contributions;
      - Admissions and Terminations; and
      - Employer risk.

f) The Pensions Administration Strategy Statement.
g) The Communication Policy.
h) An Internal Dispute Resolution Procedure.
i) The Death Grant Policy.
j) The Bulk Transfer Payment Policy.
k) A Commutation Policy (small pensions).
l) The Transfer Policy,
m) The Abatement Policy, and
n) Any other discretionary policies as required under LGPS regulations.

7. To carry out the administrative functions of the administering authority relating to the Local Government Pension Scheme.

8. To approve the payment of death grants in accordance with the agreed Death Grant Policy.

9. To appoint any required external support (subject to the role of the Pension Fund Committee and the Investment Panel), their terms of office and remit.

10. To deal with stage 2 appeals under the Internal Dispute Resolution Procedure.

11. To authorise the payment of any statutory pensions, gratuities, grants, etc. under the provisions of the Superannuation and Pensions Acts and Regulations and any Local Acts.

12. To approve applications for early payment of preserved pension benefits on compassionate grounds.

13. To approve payments under the County of Lancashire Act 1984

14. To determine the actual injury allowance payable on each individual qualifying case of injury or disease, both retrospective and for the future.

15. To review annually the actual amounts of injury allowances payable under the Local Government Superannuation Regulations, as amended, to employees who have sustained injuries or contracted diseases, as a result of anything they were required to do in carrying out their work and to make any changes appropriate to reflect changes in the relevant financial circumstances of the payee.

16. To provide support to the Local Pension Board to enable it to fulfil its role and responsibilities as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013.

Local Pensions Partnership Ltd (LPPL):

To approve the following:

17. The appointment or removal of the auditors of LPPL.

18. The alteration of LPPL’s accounting reference date.

19. Any significant change to any of LPPL’s accounting or reporting practices.

20. The creation of any Encumbrance over the whole or part of the undertaking or assets of LPPL.

21. Any item or series of items of capital expenditure including finance leases but excluding operating leases of more than £5,000,000.

22. The entering into or variation of any operating lease either as lessor or lessee, of any plant, property or equipment of a duration exceeding 10 years or involving aggregate premium and annual rental payments in excess of £5m.

23. The factor or discount any book debts of LPPL.

24. The making of any agreement or reach any settlement with any revenue authorities or any other taxing authority, or make any claim, disclaimer, election or consent of a material nature for tax purposes in relation to LPPL, its business, assets or undertaking.

25. Any change to the bankers of LPPL.

26. Any change to the registered office of LPPL.

Lancashire County Council

Pension Fund Committee
Meeting to be held on Friday, 16 September 2022

Electoral Division affected:
N/A;

Lancashire County Pension Fund Regulatory Update

Contact for further information:
Junaid Laly, Special Projects Pension Lead, Junaid.Laly2@lancashire.gov.uk

Brief Summary

This report provides a brief update on two key regulatory developments - the Pensions Dashboard Programme and McCloud.

Recommendation

The committee is asked to note the update set out below.

Detail

These regulatory requirements fall within the 'Scheme Manager' role that has been delegated to the Pension Fund Committee. Although implementation is in the medium to long term, an update is being provided to ensure that the Committee is aware of recent developments in these areas.

Pensions Dashboard

Pensions dashboards are digital services — apps, websites, or other tools — which savers will be able to use to see their pension information in one place. This includes information on their State Pension. A saver will use dashboards to search the records of all pension schemes to confirm whether they are a member. They will be able to see information themselves.

The Pension Schemes Bill has passed into law, having made its way through Parliament, and received Royal Assent in February 2021. It creates a legislative framework which will make it mandatory for pension providers and schemes to connect to pension dashboards, so that users can see their pension information securely online, in one place. This will aim to support members in better retirement planning and financial wellbeing.

There have been several developments recently including:

The Pensions Regulator (tPR) has advised trustees and scheme managers that they need to start to prepare for their pension dashboard deadline and has issued initial guidance. This “deadline” campaign by tPR is urging trustees to take action to ensure they are ready for their staging date.

In July 2022, the Department for Work and Pensions (DWP) published a response to draft Pensions Dashboard Regulations which can be accessed by clicking here. The key headline is that the staging deadline has been delayed from 30 April 2024 to 30 September 2024 to provide more time for the McCloud remedy to be implemented, although actual data will not need to be provided to members until April 2025.

The Pensions Dashboard Programme is currently running a Pensions Dashboard Standards consultation which will feed into developing the standards to ensure security, stability, and effective operation of the dashboards. In due course, these standards will be a legal requirement and sanctions can be imposed for non-compliance. This consultation ran through summer 2022 and await the outcome.

The Fund Officers have held initial discussions with the Head of Risk and Compliance at Local Pensions Partnership Administration (LPPA) who has confirmed that LPPA are working closely with their new system provider CIVICA who are developing an offering for its clients by creating its own system to share member data securely and directly to the pensions dashboard.

LPPA will initiate its pensions dashboard project in September 2022.

McCloud

When the Government reformed public service pension schemes in 2014 and 2015 it introduced protections for older members. It was later judged that these protections discriminated against younger members of the relevant pension schemes. A ruling was made to apply to all the main public service pension schemes, including the LGPS, to remove the discrimination. This ruling is often called the ‘McCloud judgment’ and there have been several developments in respect of McCloud during this year with activity expected to increase later in 2022.

Following a consultation by the Department for Levelling Up Housing and Communities (DLUHC), the Public Service Pensions and Judicial Offices Bill received royal assent on 10 March 2022 giving the Government powers to rectify this issue.

Later in 2022, the Department for Levelling Up, Housing and Communities will publish the Government’s response to the 2020 consultation providing clarity and draft regulations. It is expected that amendments to the LGPS Regulations will come into force on 1 October 2023 and, in the meantime, the Pension Fund will monitor developments within industry implementation groups and these changes will be implemented by LPPA.

Consultations

Local Pensions Partnership Administration Limited

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council

Pension Fund Committee
Meeting to be held on Friday, 16 September 2022

Electoral Division affected:
N/A;

Budget Monitoring Q1 - 2022/23
Appendix 'A' refers

Contact for further information:
Sean Greene, Head of Fund, Sean.Greene@lancashire.gov.uk

Brief Summary

This report sets out the income and expenditure of the Pension Fund for the 3-month period to 30 June 2022 and provides a forecast for the year ending 31 March 2023.

Recommendation

The Committee is asked to review the financial results for the 3 months to 30 June 2022 and note the budget and forecast variances, as set out in the report.

Detail

Background and Advice

The budget for the financial year ending 31 March 2023 was approved by the Pension Fund Committee on the Friday 11th March 2022. The budget was based on the information available at that time. The forecast provided gives the latest estimate of expenditure and income for the financial year in the light of updated information to date.

Details are shown in Appendix 'A' with significant variances by budget line set out below.

Contribution's income

Actual £41.8m (Budget £164.2m, revised forecast at Q1 £173.8m)

The employer and employee contributions have remained largely in line with the previous forecast. To date there has been no agreement on the local government pay settlement for 2022/23 although the employers have made an offer. The contributions forecast has been increased based on the estimated impact of the offer. Further work will be undertaken on the possible impact of the offer, or agreed settlement, and included in future monitoring.

Transfers In

Actual £4.6m (Budget £13.2m, forecast at Q1 £14.5m)

Income from transfers is dependent on the number and timing of new members joining the Fund and is not an item that can be predicted with great accuracy. The actual is within the anticipated range.

Investment income

Actual £62.4m (Budget £209.6, forecast at Q1 £209.6m)

Investment income consists mainly of income from the pooled investment funds (95% of the budget). Also included are direct property rental income, interest, foreign exchange differences and tax refunds.

Over the 3 months to 30 June 2022 investment income received has been above budget by £10.0m. However, with the uncertainty over the economic and investment outlook, the forecast remains at the budgeted level.

Total benefits payable

Actual £78.2m (Budget £309.5m, forecast at Q1 £313.2m)

The forecast for the year is broadly in line with budget, with an overall adverse variance due to pension benefits being in excess of budget.

Transfers out

Actual £3.0m (Budget £15.7m, forecast at Q1 £14.8m)

The cost of transfers out of the Fund is dependent on the number and timing of members transferring their benefits to other funds. The actual is broadly in line with expectations.

Investment management expenses

Actual £15.8m (Budget £154.5m, forecast at Q1 £154.5m)

Investment management expenses encompass fees related to the ongoing management, custody and performance of investments.

Management fees

Management fees (related to ongoing management) are expected to directly relate to the value of the assets. At the point that the budget is set, management fees are estimated based on asset values at that point projected forwards. Actual experience during the year to date has shown that asset values have decreased which is not in line with the projection. During the 3 months to 30 June 2022, the value of the Fund's assets has decreased from £10.8 billion to £10.6 billion, and this asset performance has resulted in a slight decrease in management fees.

Performance fees

Performance related fees are highly difficult to estimate as they are dependent on returns generated over a particular period, there are specific thresholds to be met before being payable and provisions whereby prior performance fees can be returned to investors. As such, it is the Fund's policy not to explicitly forecast performance-related fees. Rather, the budget/estimate for the current year is based on the previous year's actual performance fees subject to some relevant adjustments. Differences between budgeted / estimated fees and actual fees are likely to be exacerbated by periods of market volatility under this approach.

Overall position

The 3-month actuals to 30th June do appear low in relation to the annual budget. This is not unusual for the first quarter and forecast is for fees being on budget.

Fund administration and oversight and governance fees

Actual £1.4m (Budget £6.3m, forecast at Q1 £6.3m)

These cover the cost for administration expenses payable to Local Pensions Partnership Administration Limited comprises core administration services, charged on a cost per member basis as well as costs such as staff, legal and actuarial fees incurred in running the Pension Fund.

Consultations

Local Pensions Partnership Investments Limited has been consulted for investment management fee and investment income analysis.

Implications:

This item has the following implications, as indicated:

Risk management

The full year financial performance is included in the Pension Fund's Annual Report and statement of accounts for the year ended 31 March 2022. Regular budget monitoring is a key control for the Fund and assists in the financial management of the Fund, providing an indication of significant variances from expectations and informing future budgets.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate
N/A

Lancashire County Pension Fund
Fund Account - Year ending 31 March 2023

	PRIOR YEAR ACTUAL	BUDGET	ACTUAL	FORECAST	FORECAST VARIANCE	FORECAST VARIANCE	FAVOURABLE / ADVERSE
	Year ended 31 March 2021	Year ending 31 March 2023	3 months ended 30 June 2022	Year ending 31 March 2023	Year ending 31 March 2023	Year ending 31 March 2023	
	£'000	£'000	£'000	£'000	£'000	% of budget	
INCOME							
Contributions Receivable							
From Employers							
Future service rate contributions	(86,912)	(85,202)	(21,550)	(89,454)	(4,253)	(5.0%)	FAV
Deficit recovery contributions	(5,005)	(5,428)	(2,345)	(6,472)	(1,044)	(19.2%)	FAV
Pension strain / augmented pensions	(1,879)	(4,534)	(536)	(3,937)	597	13.2%	ADV
From Employees	(67,656)	(69,082)	(17,337)	(73,925)	(4,843)	(7.0%)	FAV
Total contributions receivable	**(161,452)**	**(164,246)**	**(41,768)**	**(173,789)**	**(9,543)**	**(5.8%)**	FAV
Transfers in	(15,860)	(13,180)	(4,643)	(14,528)	(1,348)	(10.2%)	FAV
Total Investment Income	(203,275)	(209,564)	(62,449)	(209,564)	0	0.0%	FAV
TOTAL INCOME	**(380,587)**	**(386,990)**	**(108,860)**	**(397,881)**	**(10,890)**	**(2.8%)**	FAV
EXPENDITURE							
Benefits Payable							
Pensions	252,862	259,774	65,916	263,663	3,890	1.5%	ADV
Lump Sum Benefits	53,442	49,731	12,253	49,552	(179)	(0.4%)	FAV
Total benefits payable	**306,305**	**309,504**	**78,169**	**313,215**	**3,710**	**1.2%**	ADV
Transfers out	13,422	15,673	3,012	14,767	(906)	(5.8%)	FAV
Refund of Contributions	849	872	202	856	(16)	(1.9%)	FAV
Fund administrative expenses							
Administrative and processing expenses:							
Total administrative expenses (includes LPP expenses)	4,128	4,368	1,027	4,368	0	0.0%	FAV
Total administrative expenses	**4,128**	**4,368**	**1,027**	**4,368**	**0**	**0.0%**	FAV
Investment management expenses							
Investment management fees:							
LPP directly invoiced investment management fees	790	820	199	802	(18)	(2.2%)	FAV
DIRECTLY INVOICED non LPP investment management fees - direct holdings	179	190	48	190	0	0.0%	ADV
Investment management fees on pooled investments	161,425	150,000	15,552	150,000	0	0.0%	FAV
Custody fees	40	75	13	69	(6)	(8.3%)	FAV
Commission, agents charges and withholding tax	571	2,043	16	2,043	0	0.0%	FAV
LCC recharge for treasury management costs	58	0	0	0	0	#DIV/0!	FAV
Property expenses	2,918	1,360	0	1,360	(0)	(0.0%)	FAV
Total investment management expenses	**165,980**	**154,488**	**15,827**	**154,463**	**(24)**	**(0.0%)**	FAV
Oversight and Governance expenses							
Performance measurement fees (including Panel)	120	84	33	90	6	7.1%	ADV
Lancashire Local Pensions Board	7	12	3	12	0	0.0%	FAV
IAS19 advisory fees	0	0	0	0	0	0.0%	FAV
Other advisory fees (including abortive fees)	70	100	0	100	0	0.0%	FAV
Actuarial fees	197	300	50	300	0	0.0%	FAV
Audit fees	27	45	0	45	0	0.0%	FAV
Legal & professional fees	77	130	26	130	0	0.0%	FAV
LCC staff recharges	872	1,067	267	1,067	0	0.0%	ADV
Write offs		150	4	150	0	0.0%	FAV
Bank charges	5	4	(0)	4	0	0.0%	FAV
Total oversight and governance expenses	**1,375**	**1,892**	**382**	**1,898**	**6**	**0.3%**	FAV
TOTAL EXPENDITURE	**492,059**	**486,797**	**98,619**	**489,567**	**2,770**	**0.6%**	FAV
MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS	**111,473**	**99,807**	**(10,240)**	**91,686**	**(8,121)**	**(8.1%)**	FAV

Appendix A

Lancashire County Council

Pension Fund Committee
Meeting to be held on Friday, 16 September 2022

Electoral Division affected:
(All Divisions);

Audit Update
(Appendices 'A' and 'B' refer)

Contact for further information:
Julie Price, Technical Pensions Lead, Julie.Price5@lancashire.gov.uk

Brief Summary

At the Pension Fund Committee on 17 June 2022, following the presentation of the 2021/22 external audit plan for the Lancashire County Pension Fund, there was an action for the Chair and the Head of Pension Fund to discuss the issue of materiality and report back to the Committee.

In addition, under the agenda item 'Internal Audit Report 2022', there was an action to provide further detail on the Fund's approach to the handling of overpayments, following a recent internal audit. Information relating to both these actions is covered in this report.

Recommendation

The Committee is asked to note the report.

Detail

Materiality

At the last meeting under the external audit agenda item, the Committee discussed the issue of materiality and agreed that the Chair and the Head of Pension Fund would discuss the matter further and bring a report back to the next meeting.

Materiality is the concept that defines issues which could have a major impact on the entity, this could be from a financial, reputational or legal aspect amongst others.

A note on materiality by the external auditor, Grant Thornton, and the Pension Fund finance team (which details the additional checks undertaken by the team) is attached at Appendix 'A'. This note relates to the financial statements of the Lancashire County Pension Fund and as such materiality here means: Information that if omitted, misstated or obscured could reasonably be expected to influence the decisions the primary users of the financial statements make on the basis of those financial statements.

Internal Audit of overpayments

There has been a recent audit into the pension overpayments process, primarily looking at recovery of overpaid pension amounts following the death of a member. The purpose of the audit was to ensure that an adequate risk and control framework is in place to ensure that pension overpayments are recovered in a timely manner, and write-offs are minimised.

The full audit was split into two audit reports, dated July 2021 and March 2022. The final audit report dated March 2022 took account of the improvements made between these dates and gave moderate assurance indicating that controls for the recovery of pension overpayments are adequately designed and effectively operated. However, it was noted that there is potential to make some improvements in relation to policy, process and management information, and good progress has been made to date in implementing these improvements.

The audit assessed the processes in place and interactions between the Pension Fund Team, Local Pensions Partnership Administration Ltd (LPPA) and the County Council Exchequer Services.

The following improvements have been made in response to the audit recommendations within the pre-agreed timescales:

- **Policy** - A Debt Management Policy for the Pension Fund was agreed at Pension Fund Committee on 17 September 2021.The policy has been implemented in practice and its effectiveness reviewed.

- **Process** - LPPA Procedures for the overpayment process have now been documented and agreed to ensure that pension administrators follow a clear process in dealing with overpayments. In addition, reminders for payment of invoices are being undertaken and this process will be automated as part of the Oracle-Fusion project. A reconciliation process is undertaken monthly.

- **Management information** - is now available for review annually in relation to invoices raised and amounts written off – see below.

Other further improvements are in progress and will be completed within the pre-agreed timescales.

Management Information

Within the audit, it was identified that management information on the level of debt and effectiveness of the debt recovery be provided to the Pension Fund Committee.

A summary of the invoices raised by the Pension Fund is included at Appendix 'B' and will be available for reporting to the Pension Fund Committee on an annual basis.

To ensure that the Committee is provided with an adequate snapshot of overpayment experience in this initial report, the summary at Appendix 'B' covers the period 1 January 2020 to 30 June 2022. In subsequent years, the information provided will cover an annual period.

The report shows that compared to the total volume of invoices during the period 1 January 2020 to 30 June 2022, the amounts written off during that same period are very small. It should be noted that the majority of these invoices are related to death overpayments, however, some of the invoices relate to other member/scheme events.

In the report presented to the Committee in September 2021, it was noted that there are historic debts that are not economically viable to pursue. As the Debt Management Policy has now been implemented it has been possible to review and write off historic overpayments which is reflected in the analysis in Appendix 'B'. However, based on the cases still to be reviewed it is expected that a further £80,000 of write offs will be made in respect of the historic cases and this is reflected in the budget for this year.

Consultations

LCC Accounts Receivable Team, Exchequer Services
Local Pensions Partnership Administration Limited
LCC Internal Audit Service

Implications:

This item has the following implications, as indicated:

Risk management

Debt Management Policy gives a framework for efficient and effective recovery of debt and income to the Lancashire County Pension Fund, and for writing off bad debts appropriately

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate
N/A

Response to Materiality query from Pension Fund Committee

External Auditors

Our responsibility as External Auditors is to give an opinion on whether the Pension Fund's accounts are materially correct. Determining materiality for the financial statements as a whole is a matter of professional judgment and is affected by the engagement team's perception of the financial information needs of financial statements users. Our approach to setting materiality is in line with International Accounting Standards and in particular ISA 320 "Materiality in Planning and Performing an Audit".

For Lancashire County Pension Fund our selected benchmark is the net assets of the Fund as this is deemed to be the key measure which is monitored in terms of the performance of the Fund. The % applied to determine materiality is based on an industry standard scale which ranges from 0.25% - 2% - however for LGPS audits we cap it at 1% for the reasons outlined below.

Unlike other occupational pension schemes, there is no requirement for a separate Independent Auditor's Statement about Contributions in Local Government Pensions and thus, we are only required to determine materiality for the financial statements as a whole. Due to the size/profile of Local Government Pension Schemes, the benchmark percentage utilised to determine materiality is expected to decrease appropriately from the upper limit – which we have complied with in setting materiality at 1%. For 2021-22 this equates to £105.3m.

The approach which we have adopted is consistent with all audits of local government pensions schemes, to our knowledge, and certainly is the same approach for all LGPS audits performed by Grant Thornton in the North.
Also, the materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause us to evaluate them as material even if they are below materiality. When evaluating the effect on the financial statements of all uncorrected misstatements, we consider not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence.

Equally, whilst it may be unlikely that we find the contributions/benefits payables figure to be materiality misstated (due to the relative size of the balance compared to materiality) we do still perform substantive testing on Fund Account transactions made in year and agree these items back to source evidence including bank receipt/payment – for any issues identified we consider if they are isolated or whether there is potentially a wider impact across the whole population and so will either extend our sample testing or extrapolate errors across the population and determine a potential error to report in our ISA 260 Audit Findings report to members of the Committee. We are required to report all errors above our triviality threshold (£5.265m) to the Committee however we keep a record of all errors identified in the course of the audit and will discuss these with finance officers at the Pension Fund if there are issues which are required to be addressed.

LCPF Finance

The LCPF finance team have various procedures and checks in place to ensure accuracy of reporting.

On a quarterly basis, performance and budget monitoring & forecast reports are produced for LPPI and the Pension Fund Committee respectively, for which finance review the income and expenditure against the budget, investigate variances and liaise with the relevant teams for any unusual transactions. For most costs, a comparison can be made back to third party systems such as contributions – EPIC and benefits paid – Altair. Where there isn't a third-party system to refer to such as Oversight and Governance fees, we review the codes on a transactional level.

Most costs through Oversight and Governance are invoiced fees, which can be compared back to an invoice tracking spreadsheet which holds the amount (net + VAT), the invoice date & description and supplier. The budget monitoring report is reviewed by the Pension Fund Accountant, Pension Fund Manager and Head of Fund before being submitted to the Pension Fund Committee.

When producing the annual accounts, the CIPFA code of practice is reviewed to ensure items are being reported as specified. Within the production of the annual accounts, working papers are created for each note in the accounts and contain an analytical review to highlight significant year on year variances. These are investigated and reasons noted on the working papers. The working papers are reviewed by the Pension Fund Manager and subsequently External Audit.

Management information - Analysis of invoices raised

Analysis of invoices and write offs during period 1 Jan 2020 to 30 June 2022

Manual invoices raised	**£3,557,920.54**
Of which:	
Paid	**£3,391,298.28**
Written Off	**£8,798.68**
Unpaid (As per 27 July)	**£157,823.58**
<30 days	*£857.73*
30-60 days	*£25,305.41*
60-90 days	*£2,432.57*
90-120 days	*£4,160.48*
>120 days	*£125,067.39*

Analysis of written-off of invoices, including historic invoices

Write offs during the period	**£84,222.70**
Of which, relate to (financial year when invoice was raised):	
12/13	107.47
13/14	301.81
16/17	3929.18
17/18	20889.69
18/19	21475.68
19/20	33991.34
20/21	641.88
21/22	2885.65

Write offs - Summary

For Invoices raised after 1 January 2020 (£) write offs as a % of Total Manual invoices raised for the period (£)	**0.247%**

Note – Total invoices raised from 1 Jan 2020 to 30 June 2022 was £420,117,884.67 (which is income predominantly relates to employer and employee contributions). Included within this is £3,557,920.54 referenced above.

Lancashire County Council

Pension Fund Committee
Meeting to be held on Friday, 16 September 2022

Electoral Division affected: N/A;

Lancashire County Pension Fund Annual Report 2021/22
(Appendix 'A' refers)

Contact for further information:
Junaid Laly, Special Project Pensions Lead, 01772 532767,
Junaid.Laly2@lancashire.gov.uk

Brief Summary

This report sets out the draft Lancashire County Pension Fund Annual Report for the year ended 31 March 2022 for approval by Committee. The publication deadline is 1 December 2022.

Included is the Annual Report of the Lancashire Local Pension Board, as section 'I' of Appendix 'A' to this report, which was approved by the Pension Fund Committee at its meeting on 17 June 2022.

In addition the Governance Compliance Statement which is included at section 'C' of Appendix 'A' has seen minor amendments since its approval by the Pension Fund Committee at its meeting on 17 June 2022.

Recommendation

The Committee is asked to review the Annual Report at Appendix 'A' and, subject to minor changes, updated audit opinion and small account updates agreed by the Head of Fund, approve the document for publication on or before 1 December 2022.

Detail

Regulations require each administering authority to prepare an Annual Report for the Pension Fund and publish it before 1st December following the year end. The terms of reference of the Pension Fund Committee require it to approve the Annual Report for submission to Full Council and a copy of the Annual Report for the year ended 31 March 2022 is attached at Appendix ‘A’.

The Annual Report includes the statement of accounts which are included within the Lancashire County Council Statement of Accounts for the year ended 31 March 2022. In March 2021 regulations came into force to extend the deadline for publishing audited local authority accounts from 31 July to 30 September. Considering the extent of ongoing audit delays and capacity issues within external audit firms, the Department for Levelling-up, Housing and Communities (DLUHC) has more recently extended the deadline for publishing audited local authority accounts further to 30 November 2022 for the 2021/22 accounts.

The Lancashire County Council Statement of Accounts was approved by the Audit, Risk and Governance Committee at their meeting on 25 July 2022.

The external auditors of the Pension Fund, Grant Thornton, will provide their opinion on the County Council accounts alongside opinion on the Annual Report of the Fund. The external audit opinion will focus on whether the information within the Annual Report is consistent with the audited financial statements included within the Lancashire County Council Statement of Accounts.

The content of the Annual Report is prescribed by Regulation 57 of the Local Government Pension Scheme Regulations 2013 (as amended). CIPFA have also published guidance on the production of the Annual Report which is available in the Pension Fund Library.

In addition, the Pension Fund accounts have been prepared in line with the CIPFA Code of Practice Local Authority Accounting.

The Annual Report comprises of the following main sections, some of which will be familiar to the Pension Fund Committee as indicated in the footnotes:

- Foreword by the Chair of the Pension Fund Committee
- Management and Financial Performance
- Governance of the Fund[1]
- Knowledge and Skills Framework
- Administration of the Fund
- Investment Policy and Performance
- Asset Pools
- Accounts of the Fund
- Local Pension Board Annual Report[2]
- Actuarial Valuation[3]
- Appendices[4]

Further information on the Annual Report was provided to members at the workshop on 2nd September 2022.

The Governance Compliance Statement has had minor amendments to it since its approval at Pension Fund Committee in June 2022. The main change is minor updates to the Internal Audit Assurance table within the Governance Compliance Statement.

[1] This contains the Governance Compliance Statement which was approved by the Committee in June 2022
[2] This was approved by the Committee in June 2022
[3] This refers to the Actuarial Valuation as at 31st March 2019
[4] Except for Appendix 1, all statements and policies references within the appendices have previously been considered by the Committee.

Key areas to note within the accounts are outlined below:

- **Contributions income £161.5m (2020/21 £416.3m)**

Total contribution income from employers and members at £161.5m. Following the actuarial valuation in 2019, the Fund gave some employers the option to pay their 3-year future service rate and deficit contributions up-front. Several employers opted to do this. The Fund policy is to recognise contribution income in the period of receipt.

- **Withdrawals from dealing with members £321m (2020/21 £309.1m)**

Benefits and payments to and on account of leavers were broadly in line with the prior financial year.

- **Management expenses £168.1m (2020/21 £116.4m)**

Management expenses include administrative expenses, investment management expenses and oversight and governance costs. Given the increase in asset values for the Pension Fund, this increase in expenses is not unexpected.

- **Investment income £200.1m (2020/21 £143.8m)**

Income from pooled investments increased compared to the prior year, Over the year, the Fund achieved an excellent return of 13.1% on its assets, comfortably exceeding the benchmarks against which we assess Fund performance.

- **Change in market value of investments £1,217.8m (2020/21 £1,022.2m)**

The change in market value of investments increased considerably during the year.

- **Closing net assets of the Fund £10,711.5m (2020/21 £9,605.3m)**

An overall increase in the net assets of the Fund of £1,106.20m was predominantly due to the change in market value of investments.

Further sections of interest within the Annual Report for the Committee will include Foreword by the Chair of the Pension Fund Committee, Management and Financial Performance, Administration of the Fund, Investment Policy and Performance and Asset Pools.

The Scheme Advisory Board recommends that the Annual Report is also reviewed under the remit of the Local Pensions Board prior to completion, and it is intended to present a copy of the Annual Report to the Board at the October 2022 meeting.

Once the Annual Report has been approved, it will pass through the design process to ensure that the final Annual Report is a well designed document that engages with the audience.

The Fund is considering different methods to make the Annual Report more engaging for members and employers to read. For the 2020/21 Annual Report the Fund designed a summary document which provided readers with a snapshot of the main content from the Annual Report, and it is intended to continue with that approach this year. Discussions are also underway with designers to develop an animation/video for the new Annual Report which would be made available online.

Consultations

Both the Local Pensions Partnership Administration Limited and Local Pensions Partnership Investment Limited were consulted on the reporting of administration and investment information.

Grant Thornton is in the process of reviewing the accounts of the Fund and will provide an opinion on both the accounts, and the consistency of the Annual Report with the accounts in due course.

Implications:

This item has the following implications, as indicated:

Risk management

The Lancashire County Council Statement of Accounts for the year ended 31 March 2022, which includes the accounts of the Fund, have been approved by the Audit, Risk & Governance Committee on 25 July 2022 and a draft will be published in line with the statutory deadline of 30 September 2022.

The Annual Report of the Fund will be published on or before the statutory deadline of 1 December 2022.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A

Text Contents

Appendices

A Foreword by County Councillor Eddie Pope, Chair of the Pension Fund Committee

I would like to welcome you to the Annual Report of the Lancashire County Pension Fund (the Fund) for the year 2021/22. During a year of continuing concerns regarding Covid and turmoil internationally, particularly in relation to Ukraine, our staff have continued their excellent work in maintaining the level of investments and administration service at a high level of performance. As we move into an important valuation year it is encouraging to see in our report very good investment performance whilst our commitment to responsible investment remains strong. Overall, our need to provide reassurance to our members is maintained, with funding levels in excess of 100%, and improvements taking place in administration to increase communication with all members.

Some of the highlights of the year are as follows:

Membership

Overall, there are now 183,698 members of the Fund showing an increase of just under 6,000 members from the previous year. Within this membership we – in partnership with Local Pensions Partnership Administration Limited (LPPA) – have continued to provide a quality administration service to all members to support them at different stages of their pensions journey. Over the year, an overall service level performance of 97.1% has been achieved against a target of 95% across all types of administration work. Key to this has been supporting over 300 active employers for whom we provide pension training and an effective overall administration support business.

Investment

Over the year, the Fund achieved an excellent return of 13.1% on its assets, comfortably exceeding the benchmarks against which we assess Fund performance. With the assets rising significantly by approximately £1bn to a total investment asset value of approximately £10.6bn, this performance has helped us to ensure that the Fund continues to be funded at a level in excess of 100%. This performance placed the Fund in the top 3 Funds of the 2021/22 Local Authority Fund league table for total fund performance during 2021/22. This league table is published by Pensions and Investments Research Consultants Ltd (PIRC) and the vast majority of local government pension funds are covered by this.

Performance was achieved against a backdrop of strong economic recovery in the first three quarters of the year followed by an increasingly challenging environment, with financial conditions tightening, growth expectations being revised lower and inflation rising to a high, as well as geopolitical tensions.

We manage our investment costs through pooling arrangements with Local Pensions Partnership Investment Limited (LPPI), which have worked well for the Fund. 100% of our assets are managed by LPPI with over 92% of our assets in pooling vehicles[1], resulting in annual savings for the Fund of £15m for 2021/22. Since we began pooling in 2016, £43.5m worth of savings have been achieved across both of LPPIs shareholders, the Fund and London Pension Fund Authority. These savings have continually been re-invested into the fund to give greater returns.

In addition, a review of the investment services provided to the Fund by LPPI was undertaken during the year by the Independent Investment Advisors covering investment beliefs, fees, service and governance. The report provided assurance that the investment management services provided by LPPI are fit for purpose and fulfil the Fund's objectives.

Responsible Investment

Responsible Investment is an important part of our approach to investing the assets of the Fund and this year, we successfully reviewed our Responsible Investment policy to ensure it reflects developments within this fast moving area. This resulted in us confirming our existing focus climate and governance, as well as identifying other new priorities for the Fund.

During the year, LPPI announced its commitment to having a net zero carbon footprint across all assets that it manages from 2050 and to working towards this outcome in partnership with the Fund. This commitment recognises the risks and opportunities that climate change poses to the Fund and challenges faced in effectively transitioning to a lower carbon footprint and maintaining the returns required on assets to meet pension liabilities.

We continue to work actively with the Local Authority Pension Funds Forum (LAPFF), a collaborative shareholder group which aims to promote good corporate governance and responsibility by companies.

Management of the Fund

Pensions is very a complex, technical and regulatory driven area so the Fund heavily relies on expert management and advice. I would like to thank all the staff and advisers involved in managing the Fund. During the course of the year, a new Independent Investment Advisor, Marian George, was recruited to replace Eric lambert, a long-standing member of the Investment Panel who has now retired. I would like to thank Eric for his sound advice to the Fund provided over the years and welcome Marian into her new role.

[1] 'Pooling vehicles' are investment vehicles made available to clients of LPPI across eight asset classes, further information is provided in sections F and G.

Future developments

During the forthcoming year, there are a number of priorities to focus on. Preparatory work has been undertaken on the actuarial valuation for 2022 and this project will be completed by the end of March 2023 with the objective of assessing the financial health of the Fund and determining local employer contribution rates.

LPPA is undertaking a change programme to implement a new pensions administration system called Universal Pensions Management. The objective is to improved employer and member experience, simplify administration processes and offer better value for money. The Fund has a targeted 'go live' date in Autumn 2022 and, so far, LPPA has successfully delivered this new system to other clients whilst maintaining reasonable service levels for the Fund.

I would encourage you all to read this report, there is extensive information provided on Investments, Responsible Investment and finance emphasising our main objective of being able to continue to pay your pensions as they become due.

B Management and Financial Performance – Further contact details available in section K of this Annual Report

Administering Authority
Lancashire County Council

Pension Fund Committee
Lancashire County Council committee members
County Councillor M Brown
County Councillor J Burrows
County Councillor M Clifford
County Councillor F De Molfetta
County Councillor G Dowding
County Councillor M Goulthorp
County Councillor M Pattinson
County Councillor E Pope (Chair)
County Councillor A Schofield (Deputy Chair)
County Councillor S Smith
County Councillor D Westley
County Councillor R Woollam

Co-opted representatives
P Crewe – Trade Union
Vacancy – Trade Union
Councillor D Borrow – City and Borough Councils
Councillor M Hindley – City and Borough Councils
Councillor M Smith – Blackpool Council
Councillor R Whittle – Blackburn with Darwen Council
J Eastham – Further / Higher Education

Scheme administrators
Local Pensions Partnership Administration Limited

Head of Fund
S Greene

Chief Executive and Director of Resources
A Ridgwell

External Auditor to the Fund
Grant Thornton LLP

Pooled Investments Manager
Local Pensions Partnership Investments Ltd

Non-Pooled Investment Managers
Local Pensions Partnership Investments Ltd
Knight Frank LLP
BNP Paribas

Actuary
Mercer

Lancashire Local Pension Board
W Bourne (Chair)
C Gibson
K Haigh
Y Moult
D Parker
G Peach (Joined January 2022)
T Pounder (Finished January 2022)
County Councillor M Salter
S Thompson

Custodian to the Fund
Northern Trust

Independent investment advisors
A Devitt
M George
E Lambert

AVC providers
Prudential
Utmost Life and Pensions

Legal advisors
Addleshaw Goddard
Allen and Overy
Clifford Chance
DAC Beachcroft LLP
DWF
Eversheds
Lancashire County Council
MacFarlanes
Taylor Wessing
Pinsent Masons

Independent property valuer
Avison Young Partnership

Performance measurement
Northern Trust

Governance and research consultants
Pension and Investment Research Consultants

Bankers
Natwest Bank plc
Svenska Handelsbanken

Financial Performance of the Fund

The Fund asset value increased by approximately £1.0bn from £9.6bn at 31 March 2021 to approximately £10.6bn as at 31 March 2022 and delivered a 13.1% return on investment assets over the twelve months, outperforming the actuarial benchmark (the rate at which the Fund's liabilities are assumed to grow year on year) by 4.0%. Key financial results are highlighted in this section with further detail in section H.

Net cash flow, income and expenditure

Benefits payable and transfers out of the Fund exceed the value of contribution income and transfers into the Fund on a regular basis, resulting in a net cash outflow which is funded from investment income, which was the case for 2021/22.

The Fund collects contributions by direct debit on a monthly basis and does not have a significant issue in respect of timeliness of receipt of contribution income. No interest on overdue contributions has been levied during the year.

A comparison of the key components of income and expenditure of the Fund over time is set out in the table below.

Fund Account	2021/22	2020/21	2019/20
	£m	£m	£m
Members Contributions	67.7	64.5	61.4
Employers Contributions	93.7	351.8	115.6
Contributions Income	**161.5**	**416.3**	**177**
Transfers in from other pension funds	15.9	10.8	17
Benefits Payable	-306.6	-291.8	-287.1
Transfers out and other payments to leavers	-14.4	-17.3	-21.8
Net (withdrawals)/additions from dealings with members	**-143.6**	**118**	**-114.9**
Fund Administration Costs	-4.1	-4	-3.4
Investment Management Costs	-162.6	-111.3	-60.4
Oversight & Governance Costs	-1.4	-1.1	-1.2
Net (outflow)/inflow before investments	**-311.7**	**1.6**	**-179.9**
Investment Income	200.1	143.8	206.1
Change in market value of investments	1217.8	1022.2	1.4
Net increase/(decrease) in the Fund	**1106.2**	**1167.6**	**27.6**

Following the actuarial valuation in 2019, the Fund gave some employers the option to pay their 3-year future service rate and deficit contributions up-front. A number of employers opted to do this and as a result the employer contributions from the County Council and scheduled bodies for the year ending 31 March 2021 include contributions for the 3 years to 31 March 2023, amounting to £262.9m. This had a significant impact on cash flow and reported income in that year. The Fund policy is to recognise contribution income in the period of receipt.

Fund administrative costs are paid to the LPPA and include core pension administration services on a cost-per-member basis together with additional work done on behalf of the Fund around employer risk.

The most significant element of investment management costs is based upon the value of the Fund's assets, with charges calculated as a percentage of investment value. An increase in these costs would therefore be expected to follow an increase in asset values. As the Fund's assets increased during the reporting period, investment management costs increased. Some of the Fund's mandates also include payment of a performance fee.

More information on investment management costs and the impact of pooling can be found within section 'G' of this Annual Report.

The change in market value of investments as reported above includes market movements but also profits and losses on disposals and the impact of investment manager fees embedded within the market value of the investments under their management.

Non-investment assets and liabilities comprise contributions due from employers and members, unpaid benefits, and accrued expenses and sundry short-term debtors. More information can be found in notes 19 and 20 to the financial statements in section 'H' of this report.

Budgeting

A one-year budget is prepared for the Fund on an annual basis and both officers and the Pension Fund Committee (PFC) closely monitor investment performance, contribution income and expenditure against the budget, with PFC reporting on a quarterly basis. Budgeted items were largely in line with expectations with the exception of investment management costs. As there was a significant increase in the value of the Fund's assets, higher than expected performance fees were due to the investment managers.

Funding level

The last triennial valuation was carried out as at 31 March 2019 by the Fund's actuary, Mercer, resulting in a 100% funding level, an improvement on 90% reported following the previous valuation as at 31 March 2016. The 2019 valuation has set the contribution rates for employers within the Fund for three years commencing 1 April 2020 and a copy of the actuarial valuation report is included as section 'J' of this Annual Report. The next valuation will be as a 31 March 2022.

C Governance of the Fund

The Lancashire County Pension Fund (LCPF/the Fund) is part of the Local Government Pension Scheme (LGPS).

The LGPS is established by statute and its purpose is to provide death and retirement benefits for all eligible employees.

The Fund covers the county of Lancashire, and consequently Lancashire County Council is the administering authority. The Fund provides pensions for numerous public sector employers as well as many other eligible employers admitted into the Fund.

Lancashire County Pension Fund Governance Compliance Statement

Under regulation 55 of the LGPS Regulations 2013, all Local Government Pension Schemes (LGPS) in England and Wales are required to publish a Governance Compliance Statement.

The Governance Compliance Statement must set out whether the local authority delegates its functions, or part of its functions to a committee, a sub-committee, or an officer of the authority.

LCPF, although not a separate legal entity, has its own specific governance arrangement and controls which sit within the overall governance framework of Lancashire County Council.

As the Administering Authority the County Council is responsible for making decisions relating to the operation of the Fund, including the following:

- To ensure that the Fund operates in accordance with the Local Government Pension Scheme Regulations,
- To monitor and review all aspects of the Fund's performance, which includes administration and investment,
- The collection of employee and employer contributions, investment income and other amounts to the Fund as stipulated in the Regulations,
- To ensure that cash is available to meet the Fund's liabilities,

- To ensure that assets are invested in accordance with the Fund's Investment Strategy Statement,
- The development, maintenance and implementation of various policies and strategies as required such as the Administration Strategy, Discretions Policies, Breaches Policy, Investment Strategy Statement, and Funding Strategy Statement which together ensure effective governance of the Fund.

Governance Structure

The Pension Fund Committee (PFC) fulfils the role of 'Scheme Manager'[2], as set out in Regulations, for the Fund which includes the administration of benefits and the strategic management of Fund investments and liabilities. It is responsible for establishing, and monitoring progress on, the strategic objectives of the Fund through a rolling three-year Strategic Plan.

The County Council has established two bodies to assist and support the PFC oversee the Fund:

- The Investment Panel; and
- The Lancashire Local Pension Board (LPB).

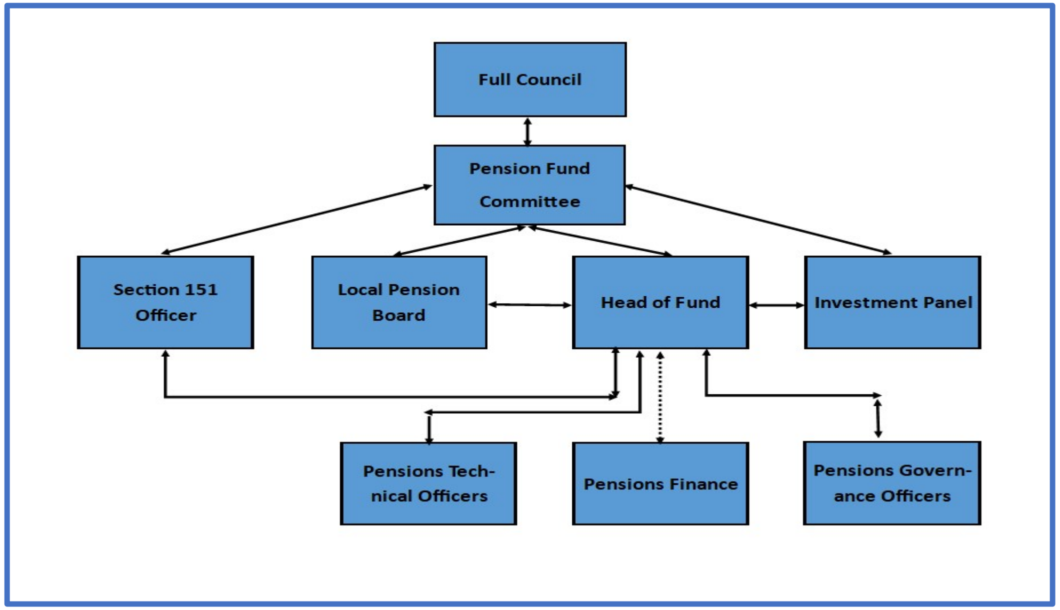
The Investment Panel provides expert professional independent advice to the PFC in relation to investment strategy and supports the Head of Fund with the specialist advice as required by the PFC.

The role of the LPB is to assist the County Council as the Administering Authority which includes:

- to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the LGPS,
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
- in such other matters as the LGPS Regulations may specify.

[2] A person or body responsible for managing or administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each Fund has a Scheme Manager which is the Administering Authority.

Fund Structure (Fig,1)



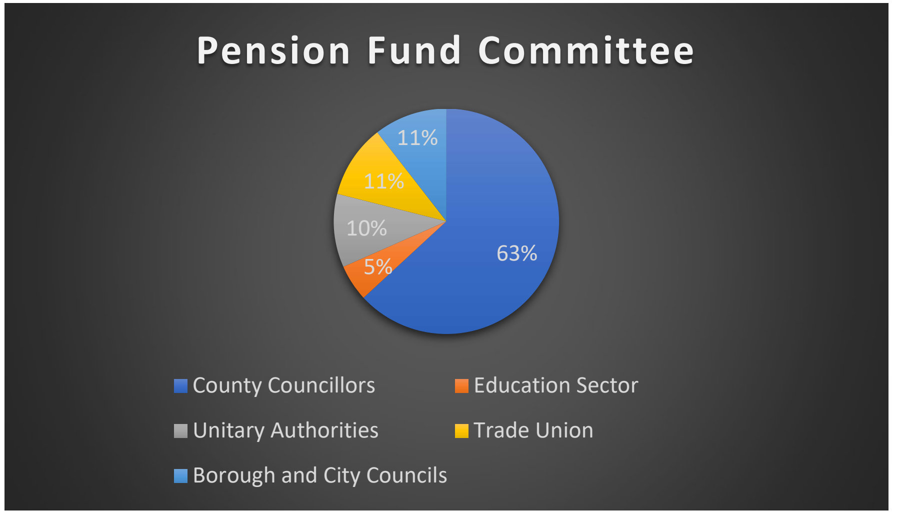
Note to Fig.1: The LPB assist the County Council the Administering Authority in its role as Scheme Manager (as delegated to the PFC).

The Pension Fund Committee

The PFC is a non-executive committee of the County Council with a constitution of 19, made up of 12 County Councillors and 7 voting Co-opted members as set out below:

- One representative of the further and higher education sector in Lancashire;
- One representative of Blackburn with Darwen Council;
- One representative of Blackpool Council;
- Two Trade Union representatives; and
- Two representatives of the Lancashire Borough and City Councils

Fig.2 – Breakdown of Pension Fund Committee representation by percentage



The PFC meets on a quarterly basis.

The Governance Structure above provides an overview of the role of the PFC however full Terms of Reference can be accessed by the link below (page 12):

Part 2 - Article 7 Other Committees of the Council - Dec 2021.pdf (lancashire.gov.uk)

The Investment Panel

The Investment Panel consists of the Head of the Fund and at least two Independent Investment Advisers.

The Investment Panel meet on a quarterly basis or otherwise as necessary to review the Fund's long term investment strategy and provide advice on investment strategies proposed by Local Pensions Partnership Investment Limited .

The full Terms of Reference for the Investment Panel can be accessed by the link below (page 24)

Part 2 - Article 7 Other Committees of the Council - Dec 2021.pdf (lancashire.gov.uk)

Lancashire Local Pension Board

As required by the Public Service Pensions Act 2013, the County Council as administering authority established the LPB to assist in the good governance of the scheme by ensuring the Fund's compliance with legislation and statutory guidance.

The Terms of Reference for the LPB are available via the link below (page 25).

Part 2 - Article 7 Other Committees of the Council - Dec 2021.pdf (lancashire.gov.uk)

The LPB is non-executive body which consists of 9 members and is constituted as follows:

- An independent member selected by the PFC who is not a member of the Lancashire County Pension Fund and who will be the Chair of the Board.
- 4 employer representatives on the following basis:
  - 2 nominated from Lancashire County Council.
  - 1 nominated from unitary, city or borough councils or Police and Fire bodies.
  - 1 nominated following consultation with other employers within the Fund.
- 4 scheme member representatives drawn from the membership of the Fund

The LPB meet on a quarterly basis and review items specified in the LPB Workplan.

Knowledge and Skills

The Fund is required under section 248a of the Pension Act 2004, as amended by the Public Service Pensions Act 2013 coupled with the Pension Regulators Code of Practice, to ensure that members of the PFC and LPB have sufficient level of knowledge and understanding to undertake the roles and functions of the positions they have been appointed to.

The Fund have developed a combined training plan for the LPB and PFC which is developed in line with the CIPFA Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers (2021) and CIPFA Local Pensions Board (2015). The training courses incorporated in the training plan are identified following the Fund officers undertaking a learning needs analysis.[1]

Officers

The PFC delegates specific functions to the Head of Fund, the Director of Corporate Services and section 151 Officer.

The Head of Fund is designated as the officer responsible for the management of the Fund, which includes leading and delivering strategy, accountability to the PFC and LPB and financial and investment management of the Fund.

The Head of Fund may authorise the Senior Officers of the Fund to exercise on their behalf the functions delegated to them.

The Officers of the Fund adhere to the County Council's employee Code of Conduct which sets out behavioural standards that must be upheld by all staff. The details of the employee's code of conduct can be found below:

https://council.lancashire.gov.uk/documents/s149251/Appendix%20F.pdf

The Fund Officers are subject to an annual appraisal process which identifies training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have obligations to undertake continuing professional development relevant to their role.

Accountability and Publication of Information

Details of PFC and LPB meetings, including agenda and minutes are publicly available via the County Council's Website.

Meetings of the PFC and the LPB are accessible to the press and public except where they are excluded from the meeting when items being discussed are exempt from the press and public under part 1 of schedule 12A of the Local Government Act 1972.

[1] Section D of this report provides details of training delivered throughout 2021/22

The LPB workplan is submitted to the PFC in March each year for approval and a report of the work undertaken by LPB is presented annually to PFC in June. There is also a section in the Lancashire County Pension Fund Annual Report which is dedicated to the activities undertaken by the LPB.

A copy of the Fund's Annual Report can be viewed on the Fund website at www.lancashirecountypensionfund.org.uk.

Investment and Administration Services

Since 2016 pensions administration and investment functions have been delivered on behalf of the Fund by the Local Pension Partnership Limited (LPPL) a company owned by Lancashire County Council and the London Pensions Fund Authority (LPFA). Pension administration services are provided by the administration arm of the Local Pensions Partnership, which is called Local Pensions Partnership Administration Limited (LPPA), with investment services being undertaken by the investment arm, Local Pensions Partnership Investments Limited (LPPI). The PFC monitors the performance of both these functions and receives reports at each quarterly meeting to ensure good control and oversight over the services provided by the LPPA and LPPI.

For all arrangements where there is a relationship between the Fund and another organisation, the Fund seeks to spell out clearly the expectations and requirements on each party, whether in the form of a contract or “service level agreement” where a contract is not appropriate.

Risk Management

The management of risk is central to the activities of the Fund which it has established its own risk management arrangements that include the following:

- Risks are monitored and assessed on a quarterly basis.
- Risk reporting and the Risk Register are regularly presented to the PFC and the LPB.
- Additional oversight is provided by the County Council's Audit, Risk & Governance Committee; and
- the Fund has a 'Risk Management Framework' policy document which is reviewed periodically and sets out all the risk management arrangements for managing all risks for the Fund.

The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with the Fund, including risks associated with managing scheme assets and pension liabilities.
- Member risk – all risks which may impact on the high levels of service the Fund members receive.
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance.
- Transition risk – temporary risks arising from changes in the management of investments or service delivery.
- Emerging risk - evolving, new risk that is difficult to characterise or assess at a point in time, as the cause and / or how the risk will impact the organisation is unclear.

Conflicts of Interest and Code of Conduct

A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's ability to undertake the functions of the role they have been appointed to. A conflict could arise where an individual has been appointed to a Governing Body (such as the PFC or LPB) who at the same time has a separate personal interest or responsibility (financial or otherwise) in a matter being discussed. The Fund has established a Conflicts of Interest policy that sets out its approach to identifying, monitoring, and managing conflicts of interest for members of the LPB.

In addition to the policy there is also Lancashire County Council Members and Co-Opted Members' Code of Conduct which all members of the PFC and LPB are required to adhere to.

Full details of the members and co-opted members code of conduct can be viewed by accessing the link below:
https://council.lancashire.gov.uk/documents/s179038/Appendix%20E.pdf

Under the Code of Conduct, members of the PFC and LPB must have regard to the 'Nolan' principles when active in a capacity as a member or co-opted member.

The operation of the Fund is subject to the County Council's Code of Corporate Governance. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 Edition). The framework builds on the seven principles listed below.

- Selflessness,
- Integrity,
- Objectivity,
- Accountability,
- Openness,
- Honesty; and
- Leadership.

In addition, there is a Code of Conduct for Officers which follows the same principles.

Members of the PFC and LPB are required to complete declarations of interest and the Fund maintains a Register of Interests. The Declaration of Interests is also a standing agenda item at all meetings of both the PFC and the LPB. In addition, elected members are expected to follow the polices agreed by the Local Authority, including the relevant Councillor Code of Conduct.

The Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information, and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. The governance controls referred to above – Knowledge & Skills and Code of Conduct – ensure that this principle is adhered to.

Internal Audit Assurance

The table below details the work undertaken by the County Council's Internal Audit Service and the assurance it provides for 2021/22.

Audit work	Assurance
Assurance provided by the county council's Internal Audit Service over the work of the Lancashire County Pension Fund Service	
Admission of employers to the fund	Substantial
Recovery of pension overpayments	Moderate
Accounting through the council's general ledger	Substantial
Employers' contributions- follow up.	
Assurance relating to LPPA's administration of benefits	
Compliance Effectiveness - Deloitte	Effective with Scope for Improvement
Finance system implementation - Deloitte	Effective with Scope for Improvement
Assurance relating to Local Pensions Partnership Investments (LPPI)	
Type 1 Service auditor's assurance - KPMG	Unqualified opinion.

LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

The table below shows how the Fund complies with the standards set out by the Secretary of State for Levelling Up, Housing and Communities as required under Regulation 55 of the LGPS Regulations. The statement sets out where the Fund is fully compliant with the guidance and provides an explanation where it is not fully compliant.

A. Structure	(a) the Management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council	√
	(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee (1)	Partial (see Note 1)
	(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	√
	(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	√
B. Representation	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1) These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies)	Partial (see Notes 1 and 2)

	(ii) scheme members (including deferred and pensioner scheme members) (iii) independent professional observers (2) (iv) expert advisers (on an ad hoc basis)	
C. Selection and Role of Lay Members	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. (It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political, or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times).	√
D. Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	√
E. Training/Facility time/Expenses	(a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. (b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	√ √
F. Meetings - Frequency	(a) that an administering authority's main committee or committees meet at least quarterly. (b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sit.	√ √

	(c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	√
G. Access	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	√
H. Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	√
I. Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	√

Notes - Reasons for partial compliance

1) Unitary councils, City/Borough Councils and further and higher education employers, are represented. Other admitted bodies only represent 14% of contributors to the Fund and are therefore not represented. However, all employers receive a full Annual Report and are alerted to important events. Although employee representatives, i.e., trade unions, do not formally represent deferred and pensioner scheme members, it is accepted that representation is available to deferred and pensioners members via this route where necessary and/or appropriate. In addition, the interests of all scheme members and employers are specifically represented in the composition of the LPB.

2) Guidance envisaged that an independent professional observer could be invited to participate in governance arrangements to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. This role is currently performed by the Fund's independent advisers and officers, and it is not apparent what added value such an appointment would bring.

D Knowledge & Skills

There is a requirement for all those involved in the management and oversight of public sector pension funds (whether members or officers) to ensure they achieve the level of knowledge and skill necessary for performing their duties and responsibilities effectively.

Details of training (both internal and external) attended by members of the PFC and LPB during the year ended 31st March 2022 are detailed below:

Date	Event	Held	Participants	
			PFC	LPB
29 Apr 2021	Private Markets Investor Forum Responsible Investment in private markets	Online	0	1
18/19 May 2021	Pensions & Lifetime Savings Association (PLSA) Local Authority Conference 2021	Online	2	1
9 June 2021	Presentation to newly appointed members of the Pension Fund Committee.	Online	8	1
23 June 2021	Training session for Audit Risk and Governance Committee & others on Statement of Accounts	Online	3	2
1 Sept 2021	Internal Workshop on LCPF Annual Report and accounts	Zoom	10	7
28th Sept 2021	Chartered Institute of Public Finance and Accountancy (CIPFA) training for LLPB members	Online	0	2
6 Oct 2021	Internal Workshop – Update on Responsible Investment.	Zoom	8	5
12/14 Oct 2021	PLSA Annual Conference	Online	2	0

28 Oct 2021	Overview of the Local Government Pension Scheme Webinar	Online	2	1
26 Nov 2021	Pre-Committee briefing impact of Covid-19 on Fund	County Hall	15	1
6 Dec 2021	Internal Workshop – Regulatory Update	MSTeams	8	7
6 Dec 2021	Internal Workshop – Update on the Investment Service Based Review	MSTeams	8	6
20 Jan 2022	Local Government Pension Scheme (LGPS) Governance Conference	Online	0	1
26 Jan 2022	LGPS Overview webinar	Online	2	0
10 Feb 2022	Internal Workshop – LCPF Valuation	County Hall	9	7
18 Feb 2022	Internal Workshop – Local Pensions Partnership Limited Budget 2021/22	County Hall & MSTeams	5	6
1/2 Mar 2022	LPPI Investment Conference	London	2	0
11 Mar 2022	Pre-Committee briefing on the outcome of the Investment Service Based Review	County Hall	12	1
29 Mar 2022	Internal Workshop – Employer Risk and Engagement	County Hall & MSTeams	6	2
			103	**51**

E Administration of the Fund

LPPA provides all administration services on behalf of the Fund.

2021/22 has been a particularly busy year as LPPA has been undertaking work to move its existing administration systems to one core administration system as part of the Pensions Administration Core Evaluation Project (PACE). There has been a phased approach to mitigate the impact on performance with the Fund being moved to the new administration system in 2022/23.

- **Key highlights**

The administration service has maintained 'business as usual' services throughout the pandemic and whilst LPPA has continued to work remotely since March 2020, many operational teams have started to spend more of their working time in the office. LPPA's administration service has been maintained over the period with no breaks in service.

Performance against service level agreements has remained strong. Annual events such as pensions increase update, P60 communications and annual benefit statements were issued ahead of the statutory deadlines.

The LPPA Employer Engagement team has continued to deliver training sessions and events virtually using video conferencing. This has resulted in increased efficiency with LPPA being able to deliver more training sessions to more employers and increased level of feedback post event that has been used to make future amendments to training sessions. LPPA has continued to work with employers to improve member data. This includes capturing more member email addresses and driving more members towards the use of My Pension Online. 2021 saw the launch of Project PACE and the implementation of the UPM (Universal Pension Management) administration system for several LPPA clients. The Fund is scheduled to be transitioned to UPM later in 2022, which will provide numerous benefits including:

- Improved employer and member experience
- Improved administration functionality
- Simplified and efficient processes
- Better value

The operating model for the administration service has three main elements:

- Member Services (including data quality and payroll);

- Engagement and Communications; and
- Helpdesk.

Member Services (including data quality and payroll)

The Fund is administered on behalf of over 300 organisations including local authorities, further and higher education colleges, voluntary and charitable organisations and private contractors undertaking a local authority function following outsourcing to the private sector. The Local Government Pension Scheme is open to 2 main types of employers, 'Scheduled Bodies' and 'Admitted Bodies'. Some employers are required to participate in the scheme (known as Scheduled Bodies) and some are admitted to the scheme following application for membership (known as Admitted Bodies).

Scheduled Bodies listed in the LGPS Regulations are employers which are required to enrol eligible members into the LGPS. The list includes but is not limited to:

- County/District Councils and Unitary Authorities
- Combined Authorities
- Fire and Rescue Authorities
- Police and Crime Commissioner
- Chief Constables
- Further and Higher Education Institutions
- Sixth Form Colleges
- Academies

Admitted bodies participate through a written contractual agreement and the majority of agreements are established when outsourcing a service or function, where the new contractor wishes to provide continued LGPS membership.

Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are normally re-enrolled every 3 years under the Government's auto-enrolment Regulations.

Overall fund membership shown below has increased slightly during the year.

Lancashire County Pension Fund	Membership at 31/03/2021	Membership at 31/03/2022
Number of Active Members	54,277	55,687
Number of Pensioners	52,406	54,436
Number of Deferred Members	71,116	73,575
Total Membership	**177,799**	**183,698**

For the year 2021/22, casework service performance metrics have been consistently achieved with an overall performance of 97.05% delivered in an exceptional year. The target performance is 95%+.

Additionally, LPPA monitor the performance of individual case types such as retirement and bereavement. All case types performed exceptionally well and, on an annual basis, above the 95% target. 105 complaints were received, an average of 26 per quarter. This is a reduced volume of complaints from the previous year.

	Q1	Q2	Q3	Q4	Annual
Performance against SLA	97.15%	98.4%	97.6%	94.7%	97.05%
Complaints	36	24	17	28	105

During the year to 40,721 individual calculations and enquiries were completed, this compares to 44,137 reported in the previous year.

LPPA processed 2,228 retirements for the year ending 31 March 2022. These retirements are made up of 725 members who retired under normal retirement. Of the remaining 1,563 members who retired early, 161 members retired on ill health grounds.

The table below describes the ratios of casework allocated to staff engaged on administration for the Fund:

	2021 - 22
Fund to staff member ratio	1:3,280
Average cases per member of staff	727

LPPA has continued to evolve the member experience by measuring and reporting on elapsed time to show how long processes are taking end to end. The aim of this piece of work has been to ensure the maximum number of pensioners receive their payments quickly and efficiently. This is reliant on employers and third parties (such as AVC providers) providing accurate and timely information, as well as LPPA processing casework on a timely basis. There have been known issues with sector wide significant delays at Prudential who are the AVC provider for the Fund. LPPA has also provided regular data on performance of employers to the Fund.

In connection with data quality, LPPA tracks the accuracy of both common and conditional data. These were 98.42% and 97.76% respectively at year end, LPPA are continuing to perform regular data cleansing exercises.

Common data is information which allows a member to be uniquely identified which includes information such as the members national insurance number, name sex and date of birth.

The conditional data is scheme specific data which includes, members status, salary records, details of pension benefits.

- **Appeals**

Fund members who disagree with decisions taken by their employer or administering authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the LGPS rules.

The IDRP is a formal appeal procedure which contains two stages. The first stage allows the person to ask the body who originally made the decision to review it, i.e. either the employer or the administering authority. The second stage allows the person, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer on behalf of the Fund to review the disagreement.

During the year to 31 March 2022 a total of 28 appeals have been received (19 Stage 1 and 9 Stage 2).

- **Overpayments**

The Fund seeks to manage and recover, where appropriate, any pension or benefit overpayments made to members, most overpayments arise from late notification of a member's death. In addition, the Fund participates in the National Fraud Initiative and actively investigates all data matches found as a result of this process.

Engagement and Communications

2021-22 has seen an increase in proactive member communications as part of a wider member engagement strategy. The aim has been to encourage member engagement and understanding through every stage of the pension process – making sure members have the information and support they need. Activities included:

- Development of the LPPA member website (www.lppapension.co.uk) and member portals (MPO and PensionPoint) – enhancements made to the language and navigation of the site.
- An increased volume of member emails helped to increase member engagement and raise awareness of key information. This was made possible by the addition of email software, which enables LPPA to personalise message to specific audiences, while tracking the success of different communications
- LPPA Member Panel established – to gain first hand feedback on LPPA communications. Initially the panel was made up of about 50 members across all Funds (including LCPF) and is growing steadily. The group is being used to get feedback on member communications, such as the member letters, the LPPA website and the launch communications for Project PACE.
- Retirement campaign (Life is for living) – encouraging members to share their views and opinions on retirement at different life-stages. As well as increasing member engagement (there were over 12,000 responses), the campaign was hosted on a page, which highlighted a range of retirement support materials (such as retirement checklists) to help people navigate their retirement. LPPA also collated many useful insights around retirement priorities based on the different age groups, which will help to inform future communications.
- Ongoing improvements made to member letters – simplifying language, signposting more effectively, and reducing the word count.
- New LPPA style guide (for internal use) – to ensure consistency of language across all communications.
- New animated characters developed across all communications – to help create an LPPA corporate identity that is instantly recognisable to members.
- Scheme essentials and Retirement essentials – online member engagement sessions to improve scheme understanding. These sessions have helped members to understand the key benefits and milestones of their pension journey – ultimately speeding up the process and reducing queries further down the line.

Current member engagement activity aims to improve the amount and quality of member contact data and encourage members to use LPPA's digital services. Throughout the course of the year, LPPA has continued to update the www.lppapensions.co.uk website, while focusing on accessibility, usability and simpler language when communicating to members.

As part of the ongoing emphasis on digital communications, LPPA has continued to distribute a comprehensive programme of member email communications to:

- Increase online registrations
- Increase member death nominations
- Increase number, accuracy and security of members' personal contact details including the capturing of email, telephone, and post code details.

Each year LPPA's dedicated Employer Engagement team manages a series of visits, training events and support meetings with Fund Employers to maintain and improve working relationships. In 2021/22, the team undertook more than 41 virtual support sessions with Employers, and over 160 employer representatives attended training sessions from those on offer throughout the year (these included Leaver Essentials, Ill Health and Absence and Assumed Pensionable Pay).

In addition, sessions are provided to scheme members. Throughout the year, and as a result of the ongoing Covid-19 pandemic, these sessions continued to be delivered remotely to employers and members, with the team delivering Retirement Essentials sessions to over 450 Members, and a further 190 Members attending Scheme Essentials presentations.

- **Online Service**

'My Pension Online' is an online facility allowing members to view their details and securely update changes in personal details. As part of the review of the core administration systems mentioned above, this facility will be transitioned into UPM in 2022.

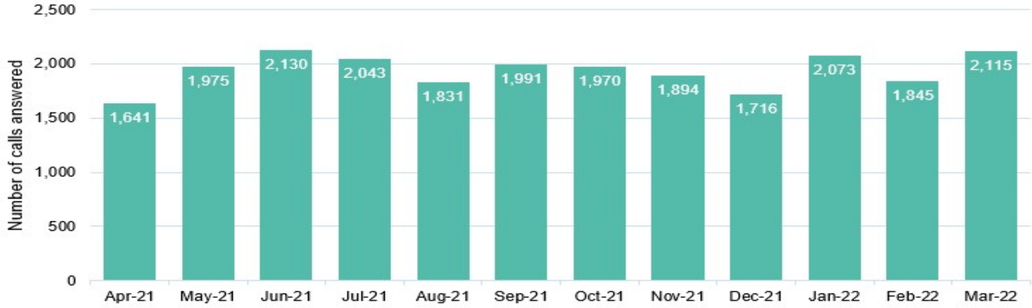
Members who are registered can run various pension estimates assisting with planning for retirement. Members can also view their P60, payslips and annual benefit statement. LPPA publish letters and communications to the portal when administrative tasks are undertaken. Other benefits of the system include allowing members to view their nominated beneficiaries, access to a host of forms and guides and allows the administration service to communicate with registered members via email.

Currently 32% of deferred, 41% of active and 51% of pensioner members are registered.

Helpdesk

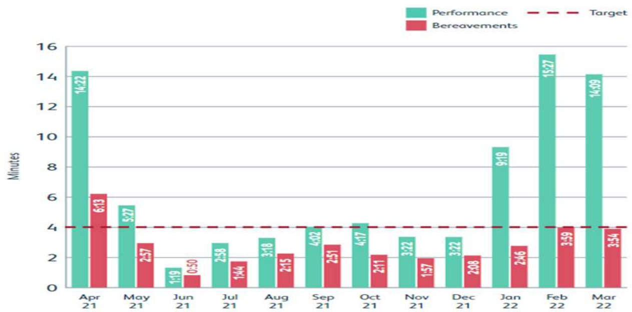
A dedicated helpdesk provides the first point of contact for members and employers. The helpdesk has a target to answer 90%+ of calls received. Between 1 April 2021 and 31 March 2022, this target was largely achieved (exceptions included April 2021, and February and March 2022). In total 23,500 calls were received in the period, compared to 19,317 in the previous year (an increase of over 20%).

Fig.1: Annual call volumes



Performance on call handling has been monitored, particularly average call wait time, abandoned rates and % of calls resolved, and is provided in the chart below. It is noted that performance on the bereavement line has been strong due to LPPA prioritising such calls to support next of kin.

Fig.2 Breakdown of average call wait time



Satisfaction surveys have continued during the year to measure member satisfaction at key points in the member journey. A total of 2,483 surveys were completed in the period. A summary of the satisfaction results is detailed below:

	Q1	Q2	Q3	Q4	Annual
Retirement	83.64%	82.88%	86.82%	81.93%	83.88%
Calls	93.61%	91.30%	95.95%	93.41%	93.32%

Charges and value for money

It is important that the costs and charges of running the Fund provide good value in relation to the benefits and services provided to members.

To ensure that this is the case, the cost per member is monitored as well as broader financial performance. The PFC is required to consider and approve the budget for the LPPL and its subsidiaries, including administration functions and there is the opportunity to challenge anticipated costs. The shareholder agreement principles include a requirement for any decision made by LPPL to ensure long term value for money. Where a new service is carried out by the partnership then comparison should be made to wider market benchmarks.

The PFC monitors the performance of the pension's administration function – including contractual and non-contractual Key Performance Indicators - on a quarterly basis. Further detail on this is provided in Appendix 2 (Administration Annual Report).

In addition, benchmarking is regularly undertaken to compare the costs and services of LPPA against other pension administrators. The latest results indicate that LPPA is at a near central point in terms of cost and services compared to its peers, with a total administration cost lower than that of its peers.

For further information relating to the administration of the scheme please refer to the Annual Administration Report, Communication Policy Statement and the Pensions Administration Strategy Statement included as Appendices 2, 3 and 4 to this Annual Report respectively.

Legislative Changes

There have been no changes to the LGPS Regulations during this financial year, however, there has been activity in the following areas -

- **Exit Cap.**

Following the announcement on 12 February 2021 that previous exit cap Regulations were to be disapplied, the Department for Levelling up, Housing and Communities (DLUHC) plan to introduce further changes to exit payments and has confirmed that it will consult again on further reforms to exit payments before any changes are made. As part of those steps DLUHC wrote to Chief Financial Officers of Councils and Combined Authorities in England on 9 April 2021 requesting data to inform delivery of the Government's policy commitment to end excessively high exit payments in the public sector. In addition, the government issued guidance clarifying rules on special severance payments which are relevant to employer decision making not the Fund itself.

- **McCloud**

When the Government reformed public service pension schemes in 2014 and 2015 it introduced protections for older members. It was later judged that these protections discriminated against younger members of the relevant pension schemes. A ruling was made to apply to all the main public service pension schemes, including the LGPS, to remove the discrimination. This ruling is often called the 'McCloud judgment'. There have been developments in respect of McCloud this year.

Following a consultation by DLUHC, The Public Service Pensions and Judicial Offices Bill received royal assent on 10 March 2022. DLUHC wrote to all LGPS Administering Authorities in March 2022 to outline the assumptions to be made around the McCloud remedy when valuing members' benefits and setting contribution rates during the 2022 Valuation process, as they want to ensure consistency between funds. It is expected that amendments to the LGPS Regulations will come into force on 1 October 2023 and these will be implemented by LPPA.

- **Widowers Benefits**

The Government has agreed that married men should get no lower benefits than same sex partners. It is expected that this will be included in the next set of scheme amendments. There is no further update on likely timescales.

- **Spring Budget**

The Lifetime Allowance (that is, the limit on how much members can build up in pension benefits over their lifetime while still enjoying the full tax benefits) has been frozen at its current level (£1,073,100) until April 2026. The Annual Allowance (that is, the most a member can save into their pension in a tax year before having to pay tax) remained at £40,000 and the thresholds unchanged.

- **Stronger Nudge to Pensions Guidance**

On 17 January 2022 the Department for Work and Pensions (DWP) laid before Parliament the Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc) (Amendment) Regulations 2022. The Regulations come into force on 1 June 2022. The Regulations will require pension schemes to explain the nature and purpose of Pension Wise guidance and facilitate the booking of a Pension Wise appointment as part of the application process. Administering authorities will need to give the stronger nudge where it receives an application from a member to start receiving their additional voluntary contributions (AVCs) on or after 1 June 2022. The Regulations also apply to applications from members aged 50 or over to transfer out their AVCs.

- **Finance Act 2022**

The Finance Act received Royal Assent on 24 February 2022 and introduced several changes relevant to LGPS. Deadlines for electing for scheme pays (that is, the mechanism by which any annual allowance tax charge can be paid out of a pension scheme, rather than by the member personally) and associated payment and reporting deadlines will be extended for certain members who are informed of a change in pension input amount for a past pension input period. The normal minimum pension age will increase from 55 to 57 from 6 April 2028. The Act provides for protected pension ages for members who meet the entitlement condition. DLUHC will need to amend the LGPS Regulations to introduce a protected pension age for LGPS. The Act provides HM Treasury with the power to make Regulations to address tax impacts that arise as a result of implementing the McCloud remedy. The Regulations will have retrospective effect.

- **Pensions Dashboard**

The Government intends to introduce a Pensions Dashboard which will enable millions of workers to view all their pension pots in one place online. DWP published a consultation on the draft Pensions Dashboards Regulations on 31 January 2022. The consultation closed on 13 March 2022 and the Local Government Association have now published their response to the consultation.

The consultation proposed a staging deadline of the end of April 2024 for public service pension schemes, including the LGPS. The Local Government Association responded to the consultation stating that the deadline was too ambitious.

- **The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021**

In the LGPS in England & Wales, there are two mechanisms used to assess the costs of the LGPS, the employer cost cap process as operated by HM Treasury, and the future service cost process as operated by the LGPS Scheme Advisory Board (SAB). The Scheme is normally assessed every three years in line with these cost control mechanisms, and the assessment could potentially lead to scheme changes to ensure the long-term stability of the LGPS. However, there was a pause in February 2019 due to uncertainty around the McCloud case. On 7 October 2021, HMT published the Public Service Pensions (Valuation and Employer Cost Cap) (Amendment) Directions 2021, which allowed schemes to conclude their 2016 valuations. The SAB accordingly published the outcome of the SAB 2016 cost management process on 15 October 2021. Despite a slight shortfall in the cost of the scheme the SAB agreed not to recommend any scheme changes.

- **DWP launch second review of State Pension age**

The review was launched on 14 December 2021. It will consider if the State Pension age (SPA) rules are still appropriate based on the latest life expectancy data and other evidence. A member's pension is usually payable from their Normal Pension Age, which is partly or completely linked to a member's SPA.

The Pensions Act 2014 requires Government to regularly review SPA and for the latest review to be published by 7 May 2023.

- **Single Code of Practice**

The Pensions Regulators (TPR)'s new single Code of Practice (SCoP) is expected to be laid before Parliament in Summer 2022 and to come into force from October 2022. Codes of Practice (CoP) are the regulations set out by the Pensions Regulator which all Local Government Pension Funds need to follow. The current LGPS regulations are the basis of Code of Practice 14, however this will be replaced by the Single Code of Practice later in 2022. The SCoP aims to combine multiple CoPs into one for occupational, personal and public service pension schemes. The reason from implementing the SCoP was due to several codes being out of date and duplication of content between some CoPs and guidance. The Fund have identified a number of new areas from the draft SCoP which it will look to evolve its compliance with the new requirements once implemented.

F Investment Policy and Performance

Performance

The Fund's investment horizon is long-term. The investment strategy is set by the Fund and outlined in the Investment Strategy Statement which was last updated in 2021. The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. Accordingly, the Fund invests its assets to meet its liabilities over the long-term, and performance should be assessed against these objectives and over a commensurate period.

Over the longer-term (over a 3-year or 5-year horizon) the Fund's returns have been strong, exceeding both its actuarial benchmark (the rate at which the Fund's liabilities are assumed to grow year on year) and policy portfolio benchmark. Over the year ended 31 March 2022, the Fund delivered a +13.1% return on assets, which was above both the actuarial benchmark and policy portfolio benchmark. This is illustrated in the enclosed charts.

The value of the Fund's investment assets at 31 March 2022 was £10,640 million, up from £9,599 million at 31 March 2021. There were double-digit gains made across a number of asset classes, including Public Equities, Infrastructure, Private Equity and Real Estate. This is detailed in the charts below.

Investment assets returns compared to benchmarks

Return Metric	1 Year	3 Year*	5 Year*
Investment Assets Return	13.1%	8.7%	8.5%
Actuarial Benchmark	3.8%	3.8%	4.0%
Policy Portfolio Benchmark	9.5%	8.6%	7.4%

Asset returns are shown net of fees

* Annualised Returns

Fig.1 Total Fund performance at 31 March 2022

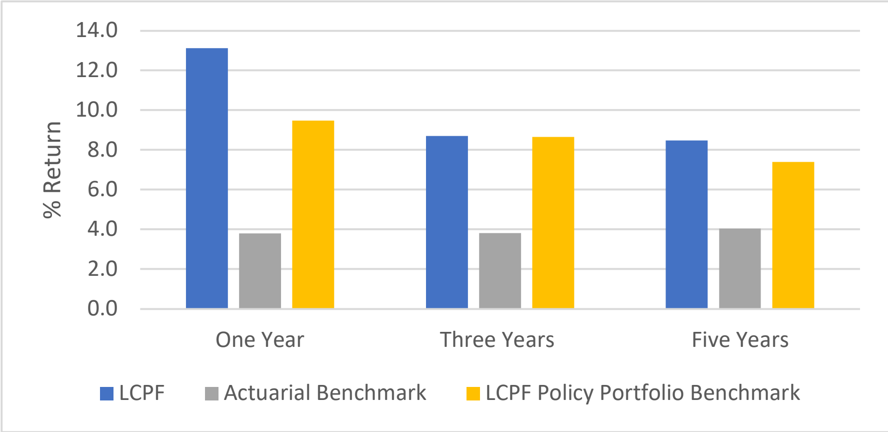


Fig.2 One-year Fund performance by asset class at 31 March 2022

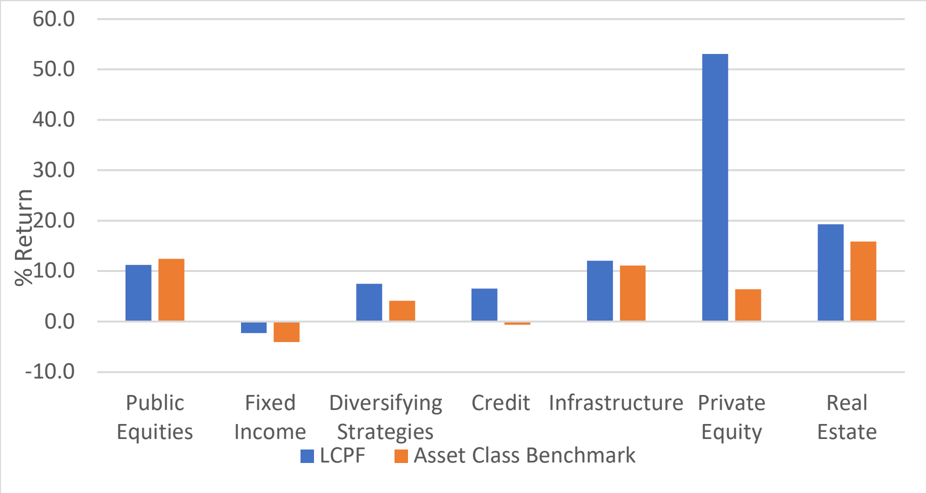


Fig.3 Three-year Fund performance by asset class at 31 March 2022

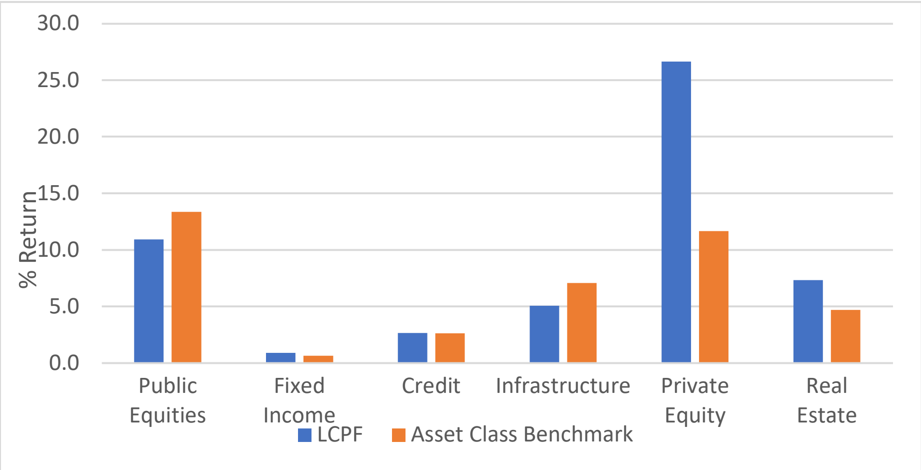
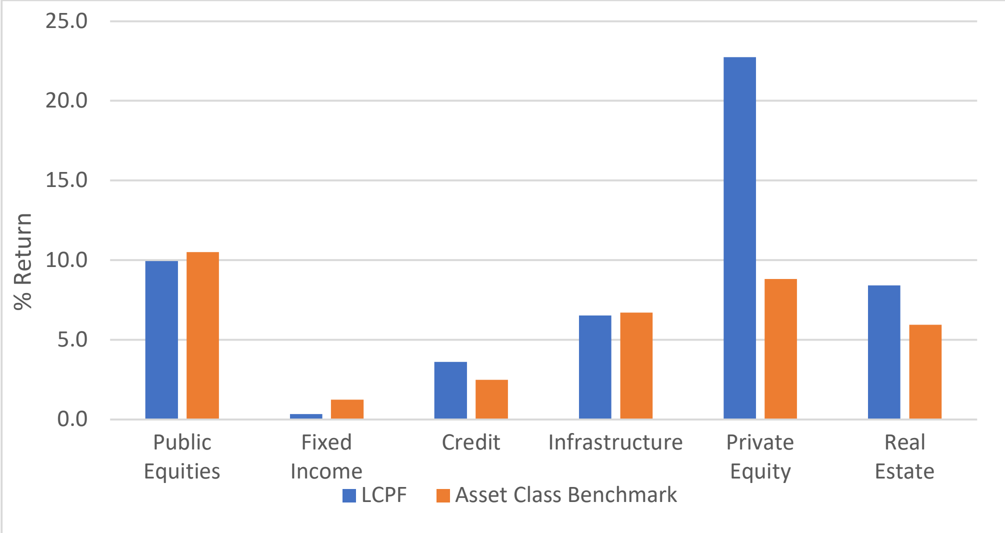


Fig.4 Five-year Fund performance by asset class at 31 March 2022



Governance and Investment pooling

The Fund's assets are managed under pooled investment arrangements. Day to day decision-making around the appointment of asset managers, the selection of investment products, and the exercise of ownership responsibilities is delegated to LPPI. LPPI is a Financial Conduct Authority (FCA) regulated investment company and, as detailed elsewhere in the Annual Report, is wholly owned by the Fund, Lancashire County Council and London Pensions Fund Authority (LPFA). LPFA and Royal County of Berkshire Pension Fund have appointed LPPI to manage its assets. LPPI has created seven pooled funds, across a range of asset classes, to manage clients' assets including Public Equities, fixed income, diversifying strategies, credit, infrastructure, Private Equity and Real Estate. However, a limited number of assets of the Fund are invested outside of these pooled funds.

Further information regarding the Funds offered by LPPI including set-up, investment transition and ongoing investment management costs is available in section G, 'Asset Pooling' of this Annual Report.

Note 13 to the financial accounts, section H, differentiates between assets held within LPPI's pooled funds and those not. LPPI oversee all assets.

Current and Strategic Asset allocation

Over the year the Asset Classes implemented an updated investment strategy, re-allocating the proceeds from the redemption of the Legacy Share Ownership asset (Heylo Housing). This re-allocation resulted in slightly higher strategic weights to Public Equities, Credit and Infrastructure.
The performance of the Fund's assets is assessed on a "total return" basis (i.e. income and capital return combined). Having adequate cash inflows to pay liabilities as they fall due reduces both the need for investment trading (and its impact on fees) and the risk of having to liquidate assets during adverse market periods (which can have a negative effect on assets that are marked-to-market). Ultimately, the aim is to improve risk-adjusted returns over the long term, whilst ensuring the Fund's objectives are met.

The following table presents the Fund's actual asset allocation versus strategic target at the end of March 2022 & March 2021:

The allocation of the Fund's assets for the previous financial year has been added for comparison purposes. LPPI provides input to the Fund on its long-term Strategic Asset Allocation (SAA), but the Fund retains autonomy in deciding how this is set. LPPI has discretion to manage the Fund's assets within the asset class ranges set as part of the SAA decision.

Asset Class	March 2022				March 2021			
	Assets (GBP Million)	Allocation (%)	Strategic Asset Allocation (%)	Range	Assets (GBP Million)	Allocation (%)	Strategic Asset Allocation (%)	Range
Public equities	5,165	48.5%	45.5%	40% - 50%	4,507	47.0%	44.5%	40% - 50%
Fixed income	399	3.7%	1.5%	0% - 10%	354	3.7%	1.5%	0% - 10%
Diversifying strategies	102	1.0%	0.0%	0% - 5%	95	1.0%	0.0%	0% - 5%
Credit	1,417	13.3%	18.0%	12.5% - 22.5%	1,261	13.1%	17.0%	12.5% - 22.5%
Infrastructure	1,386	13.0%	16.0%	10% - 20%	1,128	11.7%	15.0%	10% - 20%
Private equity	877	8.2%	5.0%	0% - 10%	812	8.5%	5.0%	0% - 10%
Real Estate	1,117	10.5%	12.5%	7.5% - 17.5%	991	10.3%	12.5%	7.5% - 17.5%
Legacy shared ownership[1]	0	0.0%	0.0%	0%	330	3.4%	3.0%	0% - 5%
Cash	177	1.7%	1.5%	0% - 5%	121	1.3%	1.5%	0% - 5%
Total	**10,640[3]**	**100.0%**	**100%**		**9,599**	**100%**	**100%**	

At the end of March 2022, the Fund was overweight in its allocation to Equities (both Public and Private), Fixed Income and Diversifying Strategies relative to its Strategic Asset Allocation, whilst being underweight to the private market asset classes Credit, Infrastructure and Real Estate. These private market assets, along with Private Equity, are illiquid in nature and therefore it can take time to address any relative overweight or underweight positions.

[1] The Legacy shared ownership asset (Heylo Housing) was redeemed during the course of the year.

[2] This figure is investment assets held by the Fund. At other points in the Annual Report net asset value is quoted of £10,711.50m – this higher figure includes investment assets as well as current assets and liabilities

Economic Overview 2021/22

The performance of the Fund is largely determined by economic conditions and the movement in financial markets. The Gross Domestic Product (GDP) growth and inflation (as well as real rates) are key macroeconomic variables that influence LPPI's investment market outlook. Data in the financial year for some of the major economies were:

GDP

GDP Growth (% Quarter on Quarter)			
	UK	**US**	**EU**
Q2 2021	5.60%	1.63%	2.20%
Q3 2021	0.90%	0.57%	2.30%
Q4 2021	1.30%	1.68%	0.30%
Q1 2022	0.80%	-0.38%	0.60%

Inflation

Consumer Price Inflation (% Quarter on Quarter)			
	UK	**US**	**EU**
Q2 2021	1.74%	2.57%	1.20%
Q3 2021	0.99%	0.96%	0.80%
Q4 2021	2.40%	1.64%	1.61%
Q1 2022	1.74%	3.12%	3.63%

Interest Rates

10-Year Nominal Government Bond Yields (quarterly change in brackets)			
	UK	**US**	**Germany**
Q2 2021	0.72% (-0.12%)	1.47% (-0.27%)	-0.21% (+0.08%)
Q3 2021	1.02% (+0.30%)	1.49% (+0.02%)	-0.20% (+0.01%)
Q4 2021	0.97% (-0.05%)	1.51% (+0.02%)	-0.18% (+0.02%)
Q1 2022	1.61% (+0.64%)	2.34% (+0.83%)	0.55% (+0.73%)

The latest fiscal year was a tale of two folds – a strong economic recovery in the first three quarters followed by an increasingly challenging macroeconomic backdrop in Q1 2022, with financial conditions tightening, growth expectations being revised lower and inflation readings rising to multi-decade highs. In this environment, risk assets exhibited a similar pattern of strong returns until the end of the calendar year, followed by a significant correction in Q1 2022.

On a regional basis, the UK economy expanded the most, but this followed the deepest contraction in 2020 among major developed economies. In fact, the UK GDP rose above its pre-pandemic level just in Q1 2022. Consumer spending was the key driver behind the expansion (with a shift from goods toward services spending), whilst Government spending contribution to growth was much more moderate (amid much less Covid-19 related spending). US GDP, which was relatively unscathed by the pandemic (with a recovery of the previous output lost already by the end of 2020), continued to expand strongly. However, there were notable fluctuations emanating from big inventory build-ups and unwinds, highlighting the supply chain disruptions present in the global economy.

Eurozone GDP expanded strongly in Q2 and Q3 2021, however, during the last two quarters of the Fund's fiscal year saw a significant drop in the region's growth. The common currency economy has been much more impacted by Russia's invasion of Ukraine in February 2022 due to its higher dependency in oil and natural gas imports from the former, as well as its stronger overall trade ties. Many companies announced plans to withdraw and shut down their Russian operations quickly in the weeks following Russia's invasion. The latter has contributed to an even more acute increase in food prices (with Ukraine's significant wheat production and trade being impaired) as well as oil and natural gas prices.

These have fed into the common theme of rising inflation, especially since Q4 2021. Strong demand at first for certain types of goods and services amid economies' "re-opening" post Covid-19, soon morphed to a persistent excess demand over supply, fuelling widespread price increases. Central banks, after standing behind a narrative of "temporary price increases" acknowledged that inflation peaks will be significantly higher than previously assumed and that prices decline to the central bank targets will take much longer. To facilitate this path, they pivoted quickly to a less accommodative policy stance with the Bank of England leading interest rate hikes and the Fed moving shortly thereafter.

The Fund's portfolio continues to be well diversified across different asset classes, regions, and sectors. This, together with robust investment underwriting, should assist with navigating through increased macroeconomic uncertainties. The Fund's significant allocations to Real Estate and Infrastructure assets, with their assumed implicit or explicit inflation participation, should help it attain inflation-adjusted returns in line with its long-term objectives.

More detail on each of the asset classes is shown below.

Global Public Equities

Public equities are publicly traded stocks and shares in companies that are listed on a public stock exchange, for example the FTSE 100 Index in the UK, and are commonly grouped in global indices by their respective company size, such as the Morgan Stanley Capital International (MSCI) World Index.

Public equities are commonly viewed as one of the highest-returning liquid asset classes and represent the largest asset class exposure for the Fund.

The Fund's investment in Public Equities arises through an allocation to the LPPI Global Equity Fund ('GEF'), which combines an internally managed portfolio with a variety of external equity managers, as shown in Fig.5. The GEF maintains an overall bias to high-quality companies (i.e. companies with more stable earnings, stronger balance sheets, and higher margins), however other styles are included to provide diversification. As a global fund, the GEF invests in a wide range of geographic regions, though maintains a bias towards North America and Western Europe, as shown in Fig.6.

The GEF is benchmarked against the MSCI All Countries World Index and aims to outperform this benchmark by 2% p.a. over a full market cycle of at least seven years.

Over the twelve-months to 31 March 2022 the GEF generated a positive absolute return of +11.2%, underperforming its benchmark by 1.1%. Performance over the twelve-months was a tale of two periods, with the GEF outperforming its benchmark in the first nine-months to the end of 2021, where higher growth sections led the market, in particular Technology stocks. However, the first quarter of 2022 witnessed a significant market rotation, with market leadership being passed to more cyclical, commodity-based stocks, such as Energy, ones which the GEF is generally underweight to versus the benchmark (see Fig.7). This led to the GEF underperforming its benchmark in the first quarter of 2022 which subsequently impacted the twelve-month performance.

Over the three-years to 31 March 2022 the GEF returned +10.9% p.a., underperforming its benchmark by 2.2% p.a., whilst over the five-year period to 31 March 2022 the GEF returned 9.9% p.a., underperforming its benchmark by 0.5% p.a.

Fig.5 LCPF Public Equities – Manager composition as at 31 March 2022

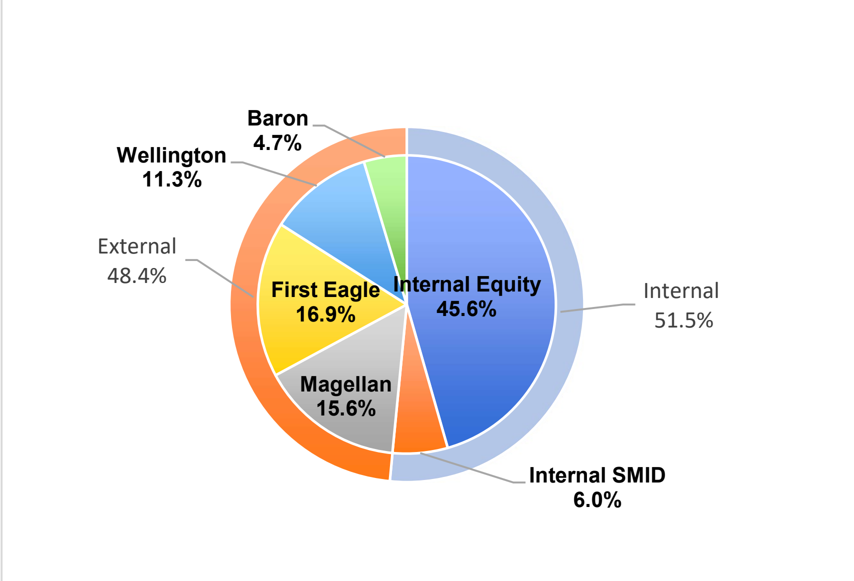


Fig.6 LCPF Public Equities – Regional weights v MSCI ACWI[1] as at 31 March 2022

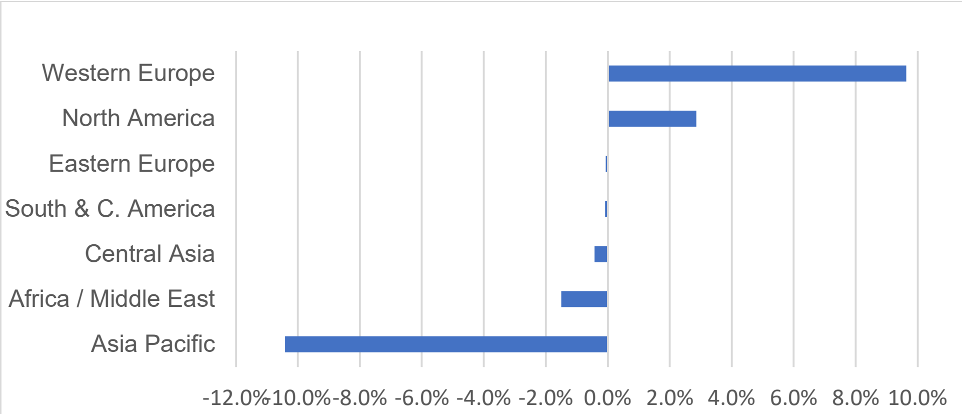
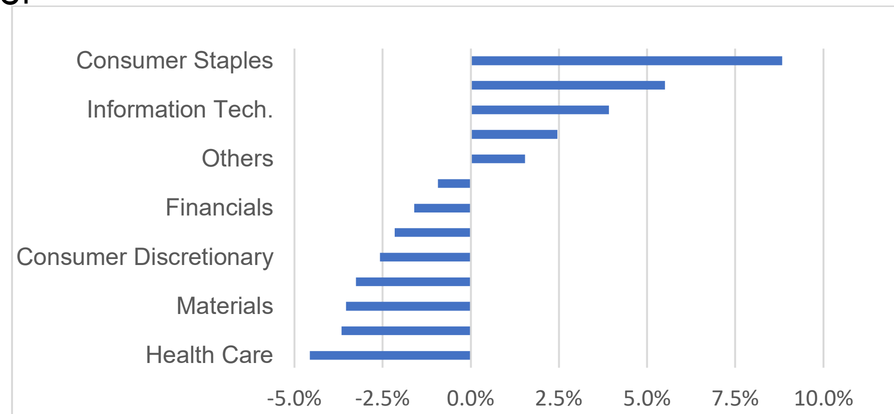


Fig.7 LCPF Public Equities – Sector weights v MSCI ACWI as at 31 March 2022



[1] MSCI/ACWI – MSCI All Country World Index

Fixed Income

Fixed Income assets are broadly those types of assets where an investor lends an amount of money to an entity (often a government or company) and, in exchange for this, receives a set of cashflows back in the form of fixed interest or dividend payments, until a given maturity date in the future. At the maturity date the investor is also repaid the original amount they had invested.

The Fund's exposure to Fixed Income arises through its holding in the LPPI Fixed Income Fund ('FIF'), which consists of two complementary underlying managers, as shown in Fig 8. The FIF has a bias towards higher-quality Fixed Income assets, with Fig.9 showing the breakdown of the assets by credit-rating (as in indication of its quality). The higher the quality of the asset (i.e. the closer to the AAA rating in Fig.9), the lower the expected chance of default of the entity to which the money has been lent.

The FIF is benchmarked against the Bloomberg Barclays Global Aggregate Bond Index (GBP Hedged) and aims to outperform this benchmark by 0.25% p.a. over a full market cycle of at least seven years.

The FIF returned -2.3% over the twelve-months to 31 March 2022, outperforming its benchmark by 1.9%. Both underlying managers posted negative absolute returns over the period.

The negative absolute return was driven by the FIF's interest rate exposure, most notably in the first quarter of 2022. As long-term interest rates rise, the value of Fixed Income assets typically falls. As can be seen in the tables in the Economic Overview section, interest rates rose over the year, which meant the value of the assets held fell.
The FIFs outperformance of its benchmark was also driven by interest rate exposure, as the assets in the FIF were less sensitive to changes in interest rate movements than those in the benchmark, which meant that the benchmark fell by more over the period.

Fig.8 LCPF Fixed Income – Manager composition as at 31 March 2022

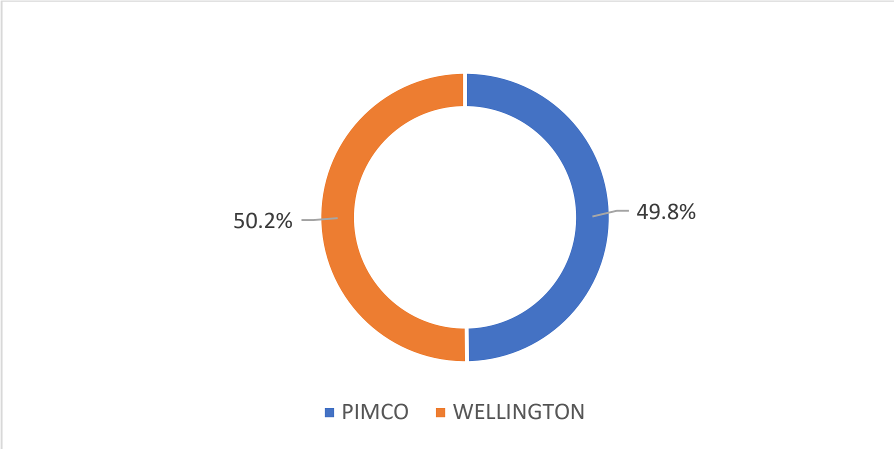
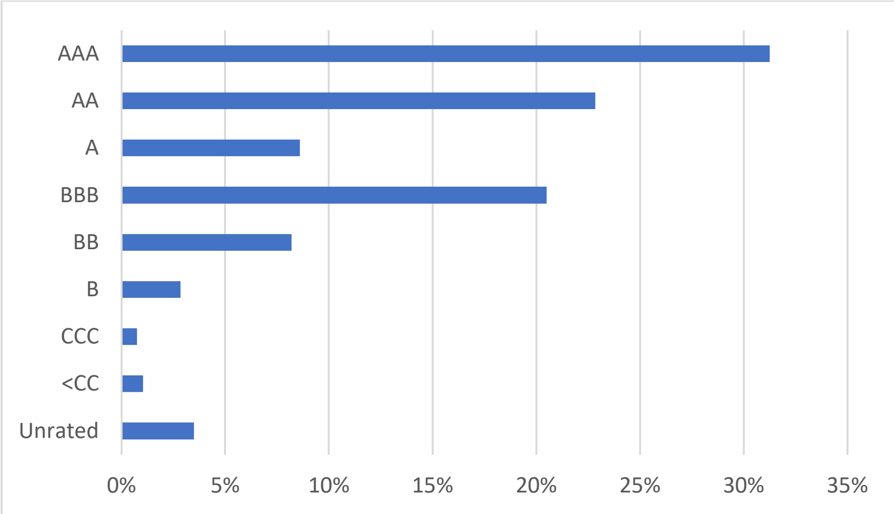


Fig.9 LCPF Fixed Income – Holdings by credit rating as at 31 March 2022



Private Equity

Private Equity refers to owning part of a company whose stock is not listed on a public exchange.

Compared to Public Equity, Private Equity typically offers a higher return and risk profile. Private Equity is also a less liquid asset class, meaning that investors capital is locked up for a period of time - a 10-year fund life is not uncommon – although this is compensated for by the expected higher returns.

The Fund's Private Equity investments are held through a variety of funds managed by a diverse collection of managers who, in turn, cover a variety of strategies, investment types and geographic regions as shown in Fig.10, Fig.11 and Fig.12, respectively.

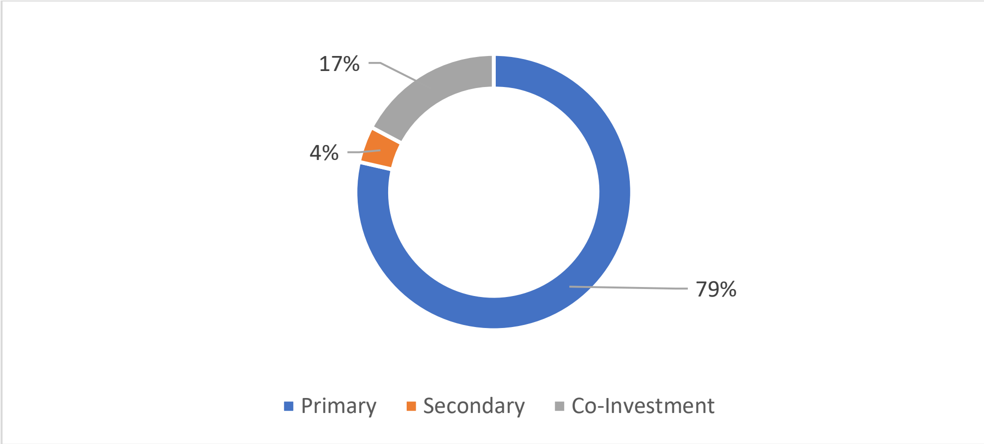
The Fund's exposure to Private Equity is being gradually reduced in line with the Fund's long-term strategy.

The Fund's Private Equity portfolio is benchmarked against the MSCI World SMID Index and aims to outperform this benchmark by 2% p.a. – 4% p.a. over a rolling ten-year period.

The Fund's Private Equity portfolio returned +53.0% over the twelve-month period to 31 March 2022, outperforming the benchmark by 43.9%. It should be noted that the performance calculation of the portfolio lags that of the benchmark, which is a Public Equity index, as by their nature it takes much longer to value Private Equity assets than Public Equities.

With long-term investment periods, performance is generally best viewed over longer horizons. The Fund's Private Equity portfolio has generated double-digit annualised returns over both the three- and five-year periods, as well as outperforming since inception.

Fig.10 LCPF Private Equity – Investment strategy breakdown as at 31 March 2022



Primary – Denotes investments made directly within newly launched company or Fund
Secondary – Denotes investments made within existing private equity opportunities, companies or funds
Co-Investment – Denotes investing alongside other investors in the same opportunity

Fig. 11 LCPF Private Equity – Investment type breakdown as at 31 March 2022

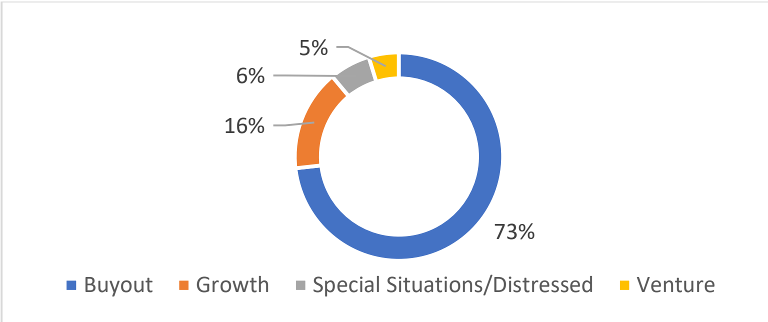
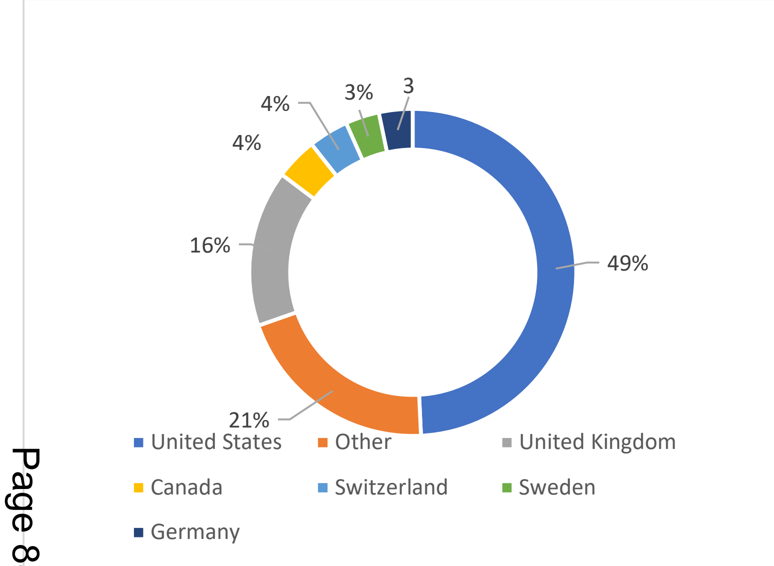


Fig.12 LCPF Private Equity – Regional breakdown as at 31 March 2022



Real Estate

Real Estate as an asset class involves investing in property, land and the buildings on it. As well as changes in the value of the underlying properties driving performance, income generation, for example from rental payments from tenants in the properties, also plays an important role.

The majority of the Fund's Real Estate portfolio is invested in the LPPI Real Estate Fund ('REF') which consists of a portfolio of directly held properties managed by Knight Frank Investment Management and a collection of external managers. The Fund has retained direct ownership of – outside of the REF - its County and National portfolio managed by Knight Frank Investment Management. As Fig.13 indicates, the portfolio is primarily made up of UK assets.

The Fund's Real Estate Portfolio is benchmarked against the MSCI UK Quarterly Property Index and has a target return of UK CPI + 3.0% p.a. – 5.0% p.a. over a rolling ten-year period.

Over the twelve-month period to 31 March 2022 the Fund's Real Estate Portfolio returned +19.3%, outperforming the benchmark by 2.9%. This performance is largely attributable to the REF, which returned +17.0%, with the County and National portfolios achieving +18.0% and -0.7% respectively.

The REF benefitted from its high allocation to the Industrial and Logistics sectors over the twelve-months, as shown in Fig.14. Across the global Logistics sector, a continuing shift in consumer habits to more online shopping drove performance, whilst the Retail sector continued to struggle over the year as the number of shoppers struggled to return to pre-pandemic levels.

Given the long-term nature of Real Estate investments, performance is best assessed over longer time horizons. Over three-year and five-year periods, the Fund's Real Estate portfolio has produced strong absolute and relative performance.

Fig.13 LCPF Real Estate – Geographical breakdown as at 31 March 2022

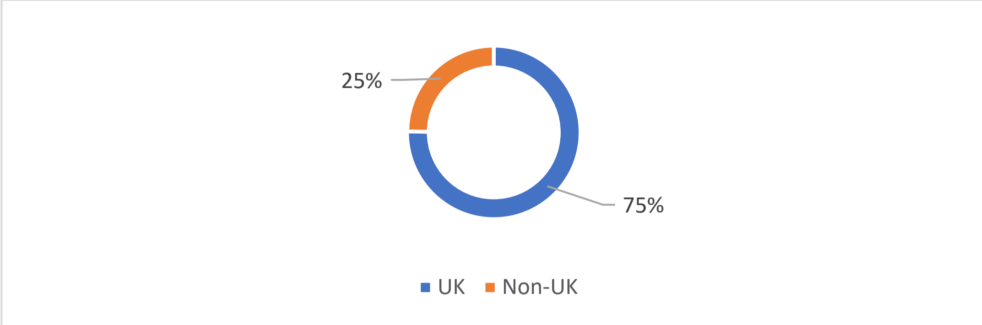
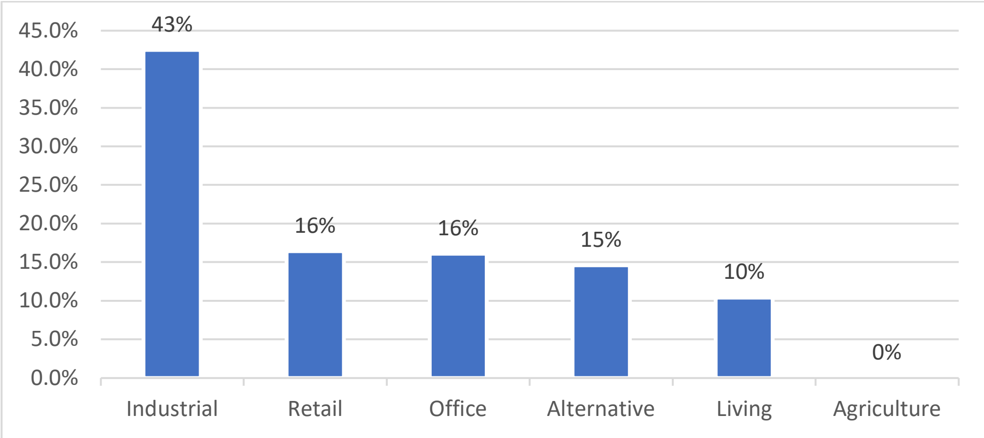


Fig.14 LCPF Real Estate – Sector breakdown as at 31 March 2022



Infrastructure

Infrastructure assets are those which are necessary for society and the economy to function. Examples include assets in energy generation (gas, electricity and renewable), transport and health care / hospitals.

Infrastructure assets typically offer long-term returns whilst also providing portfolio diversification and cashflows with a degree of inflation-linkage. Infrastructure assets are also typically illiquid in nature, meaning that investors capital is locked up for a period of time, although this is compensated for by expected higher returns.

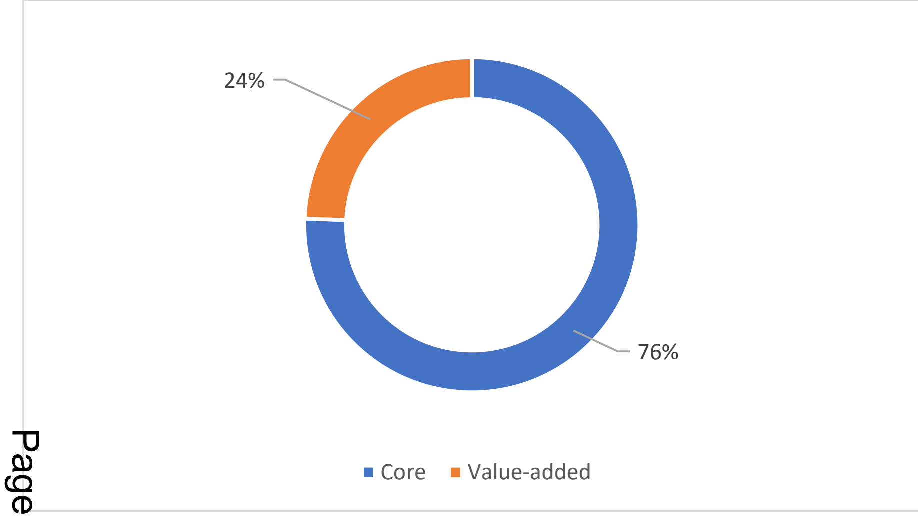
The majority of the Fund’s infrastructure exposure is through LPPI’s Global Infrastructure Fund (‘GIF’). This comprises allocations to a variety of UK domestic and global infrastructure funds and direct investment projects. The portfolio focusses predominantly on Core infrastructure in the UK, Europe and North America as illustrated in Fig.15 and Fig.16. The portfolio is diverse across a number of sectors, as shown in Fig.17.

A key component of the GIF is GLIL, an infrastructure platform designed to fully align the interests of a number of pension fund investors who wish to benefit from the very long-term investment opportunities in infrastructure investing. Through GLIL, the Fund now owns interests in various core infrastructure assets in the UK, including investments in wind-powered electricity generation, water assets, rail rolling stock and ports.

The Fund’s Infrastructure portfolio is benchmarked against UK CPI + 4.0% p.a. and has a target of UK CPI + 4.0% p.a. – 6.0% p,a, over a rolling ten year period.

Over the twelve months to 31 March 2022, the portfolio returned +12.0%, outperforming the benchmark by 0.9%. The GIF posted a return of +14.6% over the twelve months, with GLIL being a positive contributor to this. Two of the Fund’s on-balance sheet North American energy funds did not perform as well impacting on the overall portfolio return over the period.

Fig.15 LCPF Infrastructure – Strategy breakdown as at 31 March 2022



Core – Assets/strategies that have long-term stable cash flows and have low operational or development risk

Value add – Assets/strategies that require enhancements in order to increase demand for the asset and its revenue generation

Fig.16 LCPF Infrastructure – Geographical breakdown as at 31 March 2022

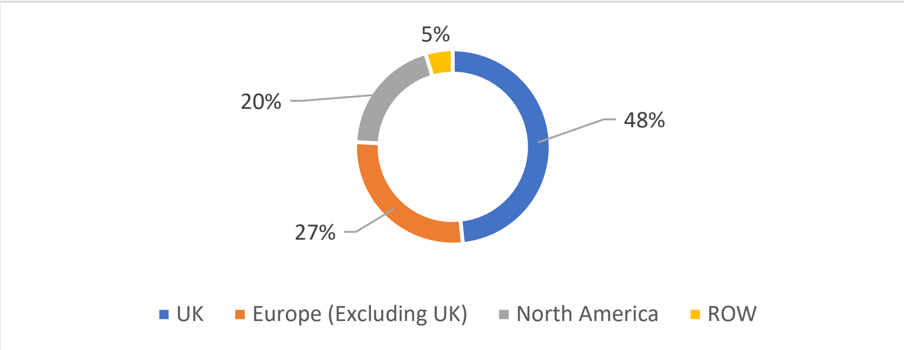
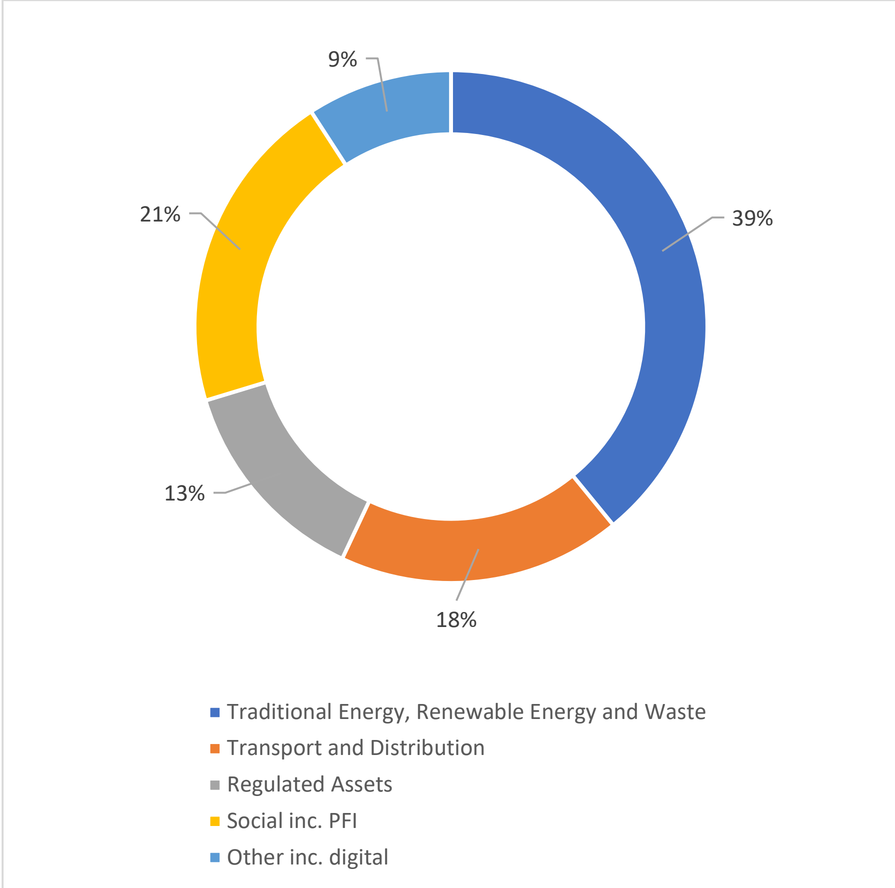


Fig.17 LCPF Infrastructure – Sector breakdown as at 31 March 2022



Credit

Credit as an asset class refers to company lending and accepting the debt of issuing companies/Governments with a view to benefiting from favourable repayment strategies.

Examples include private lending to companies, bonds issued by emerging market Governments / companies and loans underpinned by Real Estate assets.

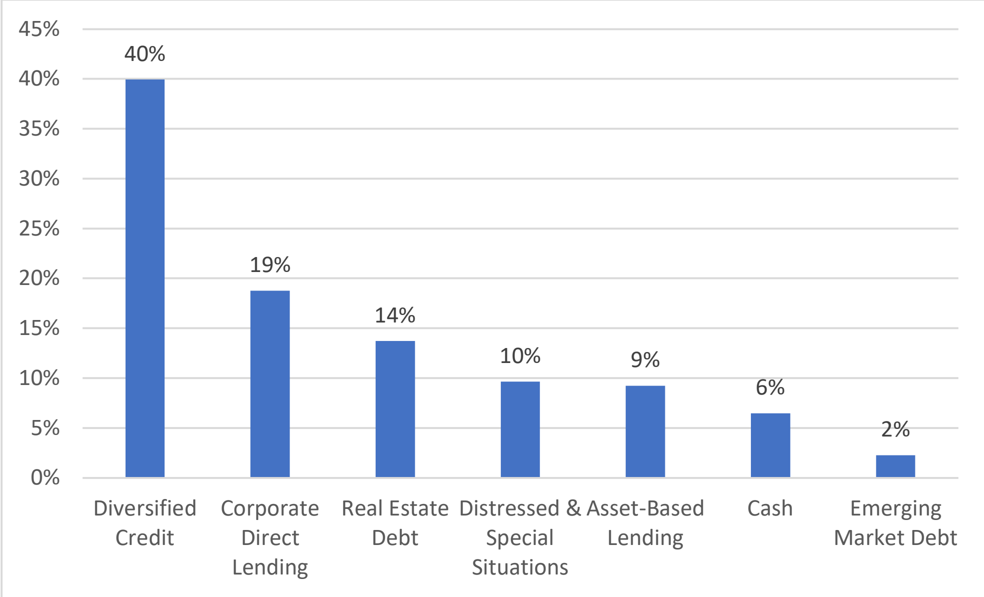
The majority of the Fund's Credit exposure arises through investment in the LPPI Credit Investments Fund ('CIF'), with a small allocation remaining on the Fund's balance sheet. The CIF invests in a range of credit-linked strategies globally, as noted in Fig.18, this being achieved by investing with third-party external managers. Credit exposure is predominantly in illiquid investments which are typically held to maturity.

The portfolio has a composite benchmark of 50% S&P/LSTA Leveraged Loans Index (GBP Hedged) and 50% Bloomberg Barclays Multiverse Corporate Index (GBP Hedged). The CIF's target is to outperform the benchmark by 1.0% p.a. – 3.0% p.a. over a full market cycle of at least seven years.

Over the twelve- months the portfolio returned +6.5%, outperforming its benchmark by 7.2%.

The CIF returned +7.1% over the twelve months, with the allocation to Diversified Credit being the largest contributor to returns. The allocation to Corporate Direct Lending also contributed positively, with managers who were able to deploy capital into the markets following the Covid-19 market turbulence outperforming. Performance was also strong across the Credit assets which are held on the Fund's balance sheet.

Fig.18 LCPF Credit – Investment type breakdown as at 31 March 2022



Diversifying Strategies

The Fund's allocation to Diversifying Strategies seeks to generate a diversifying source of return to complement the Fund's funding objective, whilst maintaining a low correlation to Public Equities (especially in times of market stress).

The entirety of the Fund’s diversifying strategies exposure is through the LPPI Diversifying Strategies Fund (‘DSF’). The DSF follows a diverse, multi-strategy approach employing a range of relative value, risk premia and directional investment approaches in traditional markets, alongside alternative markets like insurance. Fig.19 shows the breakdown of the DSF into its strategy types as at 31 March 2022.

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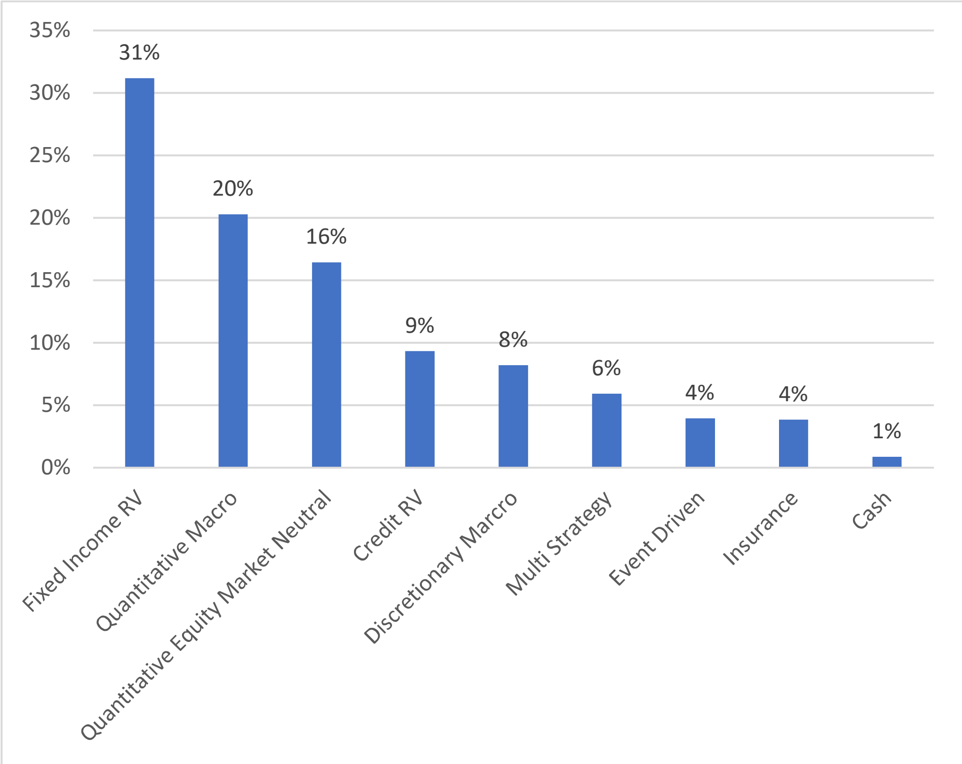
The DSF is benchmarked against the HFRI Fund of Funds Conservative Index and aims to outperform this benchmark by 1% p.a. over a rolling seven year period.

During the twelve-month period to 31 March 2022 the DSF returned +7.5%, outperforming its benchmark by 3.2%. This outperformance was predominantly driven by the returns seen in the first three-months of 2022, when Public Equity markets were particularly volatile.

Fig.19 LCPF Diversifying Strategies – strategy type breakdown as at 31 March 2022



Responsible Investment

Strategy

The Fund is committed to the long-term Responsible Investment of retirement savings on behalf of Fund members. Our RI practices support the delivery of the sustainable returns we need to pay pensions through a focus on identifying and understanding investment risks to improve risk-adjusted returns over the long term.

The Fund aims to be as transparent as possible about the approach to RI and the activities which flow from it. Consideration of RI begins at a strategic level with decisions about which asset classes the Fund will invest in. Whatever the asset class or the sector, it is a clear requirement for the Fund's asset managers to evaluate material influences which could affect the future value of investments by incorporating Environmental, Social and Governance (ESG) considerations into their analysis. Our approach to RI including its commitment to ESG integration is set out in the Fund's Investment Strategy Statement (ISS) which is included as Appendix 6 to this Annual Report. A detailed review of the Fund's approach to RI was undertaken during 2021, with an updated RI policy adopted in November 2021. The policy comprehensively sets out the Fund's values, beliefs, approach, and priorities and is a companion document to the Investment Strategy Statement. The policy is included as Appendix 8 to this Annual Report.

Our RI policy articulates the thinking that shapes the Fund's approach, its outcome in terms of identified priorities, and the standards agreed with LPPI as our provider of investment management services. The policy reflects a commitment to fulfilling the responsibilities held by the Fund as an institutional asset owner and steward of the retirement savings of fund members and their beneficiaries.

The PFC receives quarterly RI reporting covering the scope of stewardship and engagement activities underway which enables us to monitor ongoing stewardship and active ownership practices. From the beginning of 2020 LPPI's RI reporting began to incorporate a quarterly RI Dashboard presenting headline information and metrics on a range of RI matters including shareholder voting and engagement. The carbon footprint of the GEF is measured annually.

Governance

The Fund has set an overall investment strategy and is also involved in investor collaborations that engage with companies, regulators and interest groups on issues that matter to the Fund, but investment selection and ongoing stewardship activities (such as shareholder voting) are managed centrally by LPPI on behalf of the whole partnership. LPPI are monitored by the Fund and held to account for delivering our investment strategy and implementing our RI policy commitments.

Applying High Standards

We use two main external benchmarks to ensure that we are applying best practice – the UK Stewardship Code and Principles for Responsible Investment. The UK Stewardship Code sets clear standards for effective stewardship by asset owners. The Financial Reporting Council defines stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. A revised UK Stewardship Code (2020) has replaced the 2012 Code for reporting from January 2021. The 2020 code implements requirements under the Shareholder Rights Directive II and sets a higher bar and broader scope for stewardship activities. The Funds alignment with the new standard will predominantly come through LPPI's activities and reporting against the 2020 Code on stewardship activities for the partnership. LPPI successfully met the higher standard for stewardship disclosure in accordance with the updated 2020 code and have retained signatory status. Their Responsible Investment and Stewardship Report 2020-21, which forms their Stewardship Code submission, can be found on their website.

The Principles for Responsible Investment (PRI) are a global standard for Responsible Investment. Our portfolio is managed under arrangements which comply with the 6 PRI principles, to which LPPI is a signatory. LPPI has submitted detailed reporting to the PRI annually since becoming a PRI signatory (most recently in April 2021) and Transparency Reports are accessible from the PRI website describing arrangements in place and giving detailed examples of good practice. LPP's website is a broader source of information on RI arrangements in place and shares various examples of stewardship activities, including an Annual Report.

Responsible Investment Priorities

Our updated RI Policy outlines our expanded list of priorities as a responsible asset owner across environment, social and governance themes:

Environment:

(a) Climate Change– the Fund continues to recognise that climate change is to be managed as a systemic and long-term investment concern

(b) Depletion of Natural Resources– encouragement of sustainable business practices which avoid the reduction of over-exploitation of natural resources

Social:

(a) Human Rights– it is important to recognise and protect human rights in line with international, legal and regulatory obligations

(b) Modern Slavery – which involves the severe exploitation of people for personal or commercial gain, including forced labour and child labour.

(c) Local Investment - projects which meet our investment requirements whilst also delivering a positive impact are favourable

Governance:

(a) Corporate Governance– the Fund supports the case for well managed companies which promote fair and just employment practices

(b) Tax Strategy - Fair tax treatment is important to the Fund as a responsible investor

Further detail on some of the above themes is provided below. Corporate governance and climate change remain as specific priorities for us. We recognise that the quality of leadership and broader corporate governance strongly influences how well positioned investee companies are to accommodate and thrive under multiple stimuli (economic, social, political, and environmental). On our behalf, our investment managers select, and focus stewardship efforts on promoting well managed and sustainable companies. This involves monitoring and engaging companies to encourage positive behaviours such as fair and just employment practices and transparent disclosure on corporate activities.

The Fund recognises climate change as a systemic risk and a long-term investment concern posing material risks across all asset classes with the potential for loss of value including via stranded assets. Understanding and managing the risks faced from climate change is a core priority. We are working with LPPI to gain a better understanding of the risks our portfolio faces and to ensure climate change considerations feature within investment decision-making. Our objective is to secure the investment returns needed to pay pension benefits and this involves considering whether current and prospective investments face value risk from climate change and the stages of the shift towards a more environmentally sustainable global economy.

Identifying core priorities for Responsible Investment is an important part of focusing the attention of our investment managers on the issues of greatest importance to the Fund.

At 31 December 2021 carbon intensity was well below that of the Fund's benchmark (MSCI ACWI) and had declined compared with the same measure in 2020. The graph below shows the trend using a revenue measure (gross carbon emissions divided by total revenues for companies in the LPPI Global Equities Fund) for scope 1 and 2 emissions.

Global Equities Fund Weighted Average Portfolio Carbon Intensity Scope 1 and 2 Emissions (tC02e/£m Revenue)

	Carbon Intensity (tCo2e/£M)
2018 Q4 MSCI	254
2018 Q4 LPPI	173
2019 Q4 MSCI	244
2019 Q4 LPPI	162
2020 Q4 MSCI	183
2020 Q4 LPPI	106
2021 Q4 MSCI	190
2021 Q4 LPPI	76

Engagement, voting and collaboration

The implementation of the Fund's approach to Responsible Investment priorities divides into three activities - Engagement, voting and collaboration.

Shareholder engagement

Engagement is the act of communicating with an organisation with the aims of raising an issue. To increase the resources focussed on engaging with and influencing public companies (listed equities and corporate fixed income) LPPI appointed an engagement services partner – Robeco - at the beginning of 2020. Robeco undertake direct engagement with investee companies as part of a planned programme of thematic engagements targeting material ESG issues via a dialogue with company representatives which seeks progress against identified engagement outcomes. The Robeco Active Ownership Team's expertise and established processes have supplemented engagement activity by LPPI's internal investment team bringing broader capabilities and a global reach.

The metrics below summarise activity in 2021/22 where 183 engagement cases undertaken by Robeco involved 343 engagement activities.

Activity by Focus Topic

	YTD
Corporate Governance	38
Environmental Impact	20
Environmental Management	45
Global Controversy Engagement	11
Healthy Living	10
Human Rights	36
Human Capital	11
Social Management	12
Total	183

Activity by Region

	YTD
North America	57%
Europe	28%
Pacific	6%
Emerging Markets	9%
Total	100%

Activity by Sector

	YTD
Energy	5
Materials	25
Industrials	9
Consumer Discretionary	29
Consumer Staples	28
Health Care	25
Financials	38
Information Technology	36
Utilities	8
Total	203

Activity by Method

	YTD
Analysis (no actual contact with company)	41
(Open) Letter	37
E-mail	125
Active voting	2
Shareholder resolution	1
Conference call	133
Speaking at a shareholder meeting	2
Meeting at Robeco offices	2
Total	343

Voting

Shareholder Voting

The right to vote at company meetings offers shareholders a direct route for communicating support to publicly listed companies and for urging action or improvement where this is warranted. LPPI exercises the right to vote shares held by the GEF centrally, and publishes headline information and granular voting reports quarterly on the LPP website.

In the 12-months from April 2021 to March 2022 LPPI voted at 399 company meetings on 4,443 separate resolutions as follows:

Against	Theme	For
208	Election of Directors (& related proposals)	2,263
113	Non-salary compensation	365
0	Anti-takeover & related	24
21	M&A and reorganisations	128
49	Capitalisation	285
36	Routine business	818
33	Shareholder proposals	100
460	Total	3,983

During the financial year ended 31 March 2022, LPPI voted

- Against 23% of management resolutions and in support on 72% of shareholder proposals on remuneration
- In support of 86% of shareholder proposals on human rights issues
- In support of 75% of shareholder proposals related to gender and/or racial diversity (proposals were supported where they requested clear targets or specific information to be reported)
- In support of 100% of shareholder proposals on the health impact of products (e.g. sugar, antibiotics)
- In support of 100% of shareholder proposals on climate change where most proposals sought greater information on how companies are managing risk.
- In support of 86% of shareholder proposals seeking greater information on corporate behaviour relating to political lobbying.

Collaboration

The Fund prioritises working in partnership with like-minded investors to share information and ideas and build influence. We favour collaborative partnerships that build a collective and clear ownership voice capable of gaining the attention of companies. One of our key partners is the Local Authority Pension Fund Forum (LAPFF).

LAPFF's mission is to promote the highest standards of corporate governance and corporate responsibility to protect the long-term value of local authority pension funds. A work programme on behalf of 80+ collaborating LGPS funds includes engaging directly with company chairs and boards on priority issues of collective interest. The Fund is an active LAPFF member. The Chair of the PFC is a member of the LAPFF Executive Committee, and we attend and participate in the AGM and Annual Conference as well as attending the Forum's programme of quarterly business meetings. Our active partnership with other LGPS pension funds via LAPFF is aimed at collectively setting high standards, advocating for progressive policy, and holding investee companies to account as part of safeguarding the value of the portfolio.

Over the last 12 months, the Fund was represented by LAPFF across the range of activities and further detail is provided in LAPFF's Annual Report 2021.

Responsible Investment Case Studies

Our investment portfolio includes numerous examples of assets which provide infrastructure, services and products that are delivering positive social outcomes in addition to investment return. For example, our Real Estate Portfolio includes investments in residential and commercial property in the UK and ex-UK which provide premises to businesses (commerce and logistics), housing for residents and students, and specialist accommodation including residential healthcare.

Our Real Estate investment activity includes assessing the sustainability of buildings by considering their construction standards, energy efficiency, and likelihood of flood risk. We also take the opportunity to generate renewable energy through the installation of solar panels where buildings are compatible

Our direct investments in Real Estate include a County Portfolio which exclusively invests in the County of Lancashire bringing new infrastructure, jobs, and economic benefits to the Northwest. Some examples of investments within the County portfolio, are below.

B&Q Retail Warehouse, Preston

For over 25 years, B&Q have been working to become a more responsible retailer and have been named Greenest Garden Centre and Sustainable Business of the Year.

The retail warehouse in Preston was built to an EPC 'B' standard (an energy efficiency standard) and was the best performing B&Q store in the region, ranking 7th out of 20 local stores in the area.

B&Q also supports local communities through grants to improve homes and local spaces.

Accrol Papers Industrial Unit, Blackburn

The industrial unit was built to an EPC rating of 'C' standard.

The tenant Accrol use FSC certified paper for all of their products. Local paper and tissue waste such as; cardboard, newspaper and recycled tissue is transformed into new products within 14-days of collection.

They have also committed to reducing their carbon footprint year-on-year and plan to have zero waste to landfill within 3-years.

Benson House Office Building, Leeds

Benson is a 1960 refurbishment project, built to BREEAM - a standard of sustainability in buildings - 'Very Good' and EPC 'A' standard. A number of sustainable features were incorporated during the build such as daylight control, LED lighting, high voltage distribution system, air source heat pumps, VRF heating and cooling systems. In addition, they utilise floor to ceiling windows to maximise natural light.

Examples in Real Estate Funds

Blackstone Biomed Life Science Fund

Life science office buildings located in the US and UK, with 80 operational assets totalling 11m square feet. They have implemented several sustainability projects through a "Fast Find & Fix" site assessment, including LED lighting retrofits and upgraded building systems, resulting in annual energy cost savings of $2.2 million.

They build state-of-the-art properties that also deliver energy efficient, sustainable solutions to their clients and communities. This has resulted in a 5.5m kWh reduction to annual energy consumption - the equivalent to removing 840 cars from the road.

G Asset Pools

The tables below show the costs to Lancashire County Pension Fund (LCPF) of setting up the individual pooling vehicles within the pooling company, Local Pensions Partnership Investments Ltd (LPPI).

Pool set up and investment transition costs by year

	2014/15 £'m	2015/16 £'m	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m	2020/21 £'m	2021/22 £'m
Set up costs								
Legal	–	0.1	0.1	0.3	–	0.3	–	–
Professional fees	–	0.1	0.1	0.3	–	0.1	–	–
Other support costs	–	–	–	0.1	–	0.4	–	–
Total	**–**	**0.2**	**0.2**	**0.7**	**–**	**0 .8**	**–**	**–**
Transition costs	**–**	**–**	**2**	**0.3**	**–**	**–**	**–**	**–**

Pool set up and investment transition costs by type of expense

	Current Year Direct £'m	Indirect £'m	Total £'m	Since inception of the pool Cumulative £'m
Set up costs				
Legal	–	–	–	0.8
Professional fees	–	–	–	0.6
Other support costs	–	–	–	0.5
Total set up costs	**–**	**–**	**–**	**1.9**
Transition costs	**–**	**–**	**–**	**2.3**

Total expected costs and savings

The table below compares the fee savings realised from the inception of pooling versus the preceding year, 2015-16. The savings are based on grossed up fees in accordance with the revised CIPFA guidance issued in 2016, whereas in previous years fees may have been reported lower as they would have been netted off against the change in market value. This is consistent with current recommended practice.

	2014/15 £'m	2015/16 £'m	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m	2020/21 £'m	2021/22 £'m
Set up costs	–	0.2	0.2	0.7	–	0.8	–	–
Transition costs	–	–	2	0.3	–	–	–	–
Investment management fee savings	–	–	(0.6)	0.4	(9.1)	(8.1)	(12.1)	(15.0)
Net (savings)/costs realised	–	**0.2**	**1.6**	**1.4**	**(9.1)**	**(7.3)**	**(12.1)**	**(15.0)**

Ongoing investment management costs 2021/22

Investment expenses are shown broken down into their constituent categories and split between those resulting from investments held in the pooled vehicles and those held on the balance sheet of the Fund.

The table below summarises investment management costs for 2021/22. It has been compiled from cost transparency templates completed by each of the Fund's investment managers. The investment expenses are split between those held within LPPI investment pooling vehicles and those non-pooled assets held directly by the Fund.

	LPPI pooled assets			Non pooled assets			Fund total
	Direct £'m	Indirect £'m	Total £'m	Direct £'m	Indirect £'m	Total £'m	£'m
Management fees	52.5	–	52.5	4.2	–	4.2	56.7
Performance	58.1	–	58.1	1.3	–	1.3	59.3
Transaction costs	4.3	0.8	5.1	0	–	0	5.1
Custody	–	–	–	0.1	–	0.1	0.1
Administration	–	8.7	8.7	–	1.1	1.1	9.9
Borrowing and arrangement fees	–	0.9	0.9	–	–	–	0.9
Distribution, comms and client service	–	0	0	–	–	–	0

Governance, Regulation and Compliance	–	6.2	6.2	–	0.2	0.2	6.3
Property expenses	–	4.7	4.7	–	1.6	1.6	6.2
Other fees	–	2.7	2.7	–	–	–	2.7
Total	**114.9**	**23.9**	**138.8**	**5.6**	**2.9**	**8.5**	**147.3**

H Accounts of the Fund

Responsibilities for the Statement of Accounts

The responsibilities of the administering authority

The administering authority is required:

- To make arrangements for the proper administration of the financial affairs of the Fund, and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council (LCC), the respective officer is the Chief Executive and Director of Resources, who is also the Section 151 Officer to the Fund;
- To manage its affairs to secure economic, efficient, and effective use of resources, and to safeguard its assets.

The responsibilities of the Section 151 Officer to the Pension Fund

The Section 151 Officer to the Pension Fund is responsible for the preparation of the Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Section 151 Officer to the Fund has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

In addition, the Section 151 Officer to the Fund has:

- Kept proper accounting records which were up to date;
- Taken responsible steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts relate to the financial year ended 31 March 2022 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Fund.

Angie Ridgwell, Section 151 Officer, Lancashire County Pension Fund

- **Placeholder for new audit opinion**

Independent auditor’s report to the members of Lancashire County Council on the consistency of the pension fund financial statements of Lancashire County Pension Fund included in the Pension Fund Annual Report (Draft Report - Grant Thornton)

Opinion

The pension fund financial statements of Lancashire County Pension Fund (LCPF/the Fund) administered by Lancashire County Council (the "Authority") for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2021 included in the Authority's Statement of Accounts (the “Statement of Accounts”).

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

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

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated **[XX November 2022]**.

Chief Executive and Director of Resources responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Executive and Director of Resources of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

Auditor's responsibility

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

Use of our report

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

[Signature]

Sarah Ironmonger, Key Audit Partner

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

London

[Date]

Lancashire County Pension Fund

Fund account for year ended 31 March 2022

2020/21		Note	2021/22
£m	**Dealing with members, employers and others directly involved in the Fund**		**£m**
416.3	Contributions[1]	6	161.5
10.8	Transfers in from other pension funds	7	15.9
427.1	**Additions from dealings with members**		**177.4**
(291.8)	Benefits	8	(306.6)
(17.3)	Payments to and on account of leavers	9	(14.4)
(309.1)	**Withdrawals from dealing with members**		**(321.0)**
118.0	**Net (withdrawals)/additions from dealings with members**		**(143.6)**
(116.4)	Management expenses	10	(168.1)
1.6	**Net (withdrawals)/additions including fund management expenses**		**(311.7)**
	Returns on investments		
143.8	Investment income	11	200.1
1,022.2	Profit and losses on disposal of investments and changes in the value of investments	13	1,217.8
1,166.0	**Net return on investments**		**1,417.9**
1,167.6	**Net increase in the net assets available for benefits during the year**		**1,106.2**
8,437.7	**Opening net assets of the scheme**		**9,605.3**
9,605.3	**Closing net assets of the scheme**		**10,711.5**[2]

[1] Certain employers can pay contributions earlier than required, referred to as 'prepayment'. Contributions for the year ended 31 March 2021 include pre-paid employer contributions of which £87.3m relates to the year ending 31 March 2022.

[2] The asset values contacted in this section include a further updated amount in respect of the Private Equity asset class.

Net assets statement as at 31 March 2022

31 March 2021		Note	31 March 2022
£m			**£m**
9,490.9	Investment assets	13	10,644.0
108.4	Cash deposits	13	55.4
9,599.3	**Total net investments**		**10,699.4**
12.6	Current assets	19	19.9
(6.6)	Current liabilities	20	(7.8)
9,605.3	**Net assets of the fund available to fund benefits at the end of the reporting period**		**10,711.5**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 24.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2022 and its income and expenditure for the year then ended.

Notes to the financial statements

Note 1 - Pension Fund operations and membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

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

- the Local Government Pension Scheme Regulations 2013 as amended
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Lancashire County Council to provide pensions and other benefits for pensionable employees, whether active, deferred or retired members, of Lancashire County Council, the unitary and district councils in Lancashire and a range of other scheduled and admitted bodies within the geographic county of Lancashire. Teachers, police officers and fire-fighters are not included within the Fund as they come within other national pension schemes.

The Fund is overseen by the Lancashire PFC, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund.

The PFC comprises twelve County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions.

The PFC meets at least quarterly, or otherwise as necessary, with the Investment Panel in attendance and is responsible for fulfilling the role of Scheme Manager (which includes the administration of benefits and strategic management of Fund investments and liabilities), the establishment of policies for investment management, the monitoring and review of investment activity and Fund performance and the presentation of an annual report to Full Council on the state of the Fund and investment activities for the year.

The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at lancashirecountypensionfund.org.uk.

The investments of the Fund are managed by the LPPI Limited and the administration functions by LPPA Limited, which are wholly owned subsidiaries of LPP a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA).

The Lancashire LPB assists Lancashire County Council in its role as scheme manager and provides a scrutiny role to ensure effective and efficient governance and administration of the Fund. The LPB comprises an independent chair together with representatives acting on behalf of employers and members. All members of the LPB must be able to demonstrate the knowledge and skills set out in the terms of reference of the LPB which are available to view on the Fund website at lancashirecountypensionfund.org.uk.

Membership

Membership of the LGPS is automatic although employees are free to opt out of the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Employees are re-enrolled every 3 years under the Government's auto-enrolment Regulations.

Organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership of the Fund, as at 31 March 2022 is detailed in the following table:

31 March 2021	Lancashire County Pension Fund	31 March 2022
313	Number of employers with active members[1]	305
139	Number of ceased employers (no active members but some outstanding liabilities)	157
	Number of active scheme members[2]	
25,594	County Council	26,545
28,683	Other employers	29,142
54,277	**Total**	**55,687**
	Number of pensioners	
26,093	County Council	27,024
26,313	Other employers	27,412
52,406	**Total**	**54,436**
	Number of deferred pensioners[2]	
35,697	County Council	36,583
35,419	Other employers	36,992
71,116	**Total**	**73,575**
177,799	**Total membership**	**183,698**

[1] includes employers for whom admission to the Fund is in progress

[2] March 2021 membership numbers have been adjusted to transfer 3,157 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 3,914 pending leavers has been made at 31 March 2022.

Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS (Amendment) Regulations 2018 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employer contributions are set based on triennial actuarial funding valuations. The contributions in 2021/22 are based on the valuation at 31 March 2019. The latest valuation was at 31 March 2019 for the three years commencing 1 April 2020.

Employer contribution rates for 2021/22 range from 0.0% to 30.3% of pensionable pay, with a primary rate of 17.4%, and are dependent on the assumptions applied by the actuary when carrying out the valuation. Examples of variables which may differ between employers are demographic assumptions regarding the age profile and life expectancy of employees, probability of dependant's pensions becoming payable and the likelihood of ill health retirements.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year. Accrued pension is updated annually in line with the consumer prices index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

The scheme benefits are summarised in the following table.

	Service Pre 1 April 2008	Service post 1 April 2008 and pre 1 April 2014	Service post 1 April 2014
Pension	Each year worked is worth 1/80th x final pensionable salary.	Each year worked is worth 1/60th x final pensionable salary.	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme).
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2021/22* which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2022 but not yet adopted by the Code. There are no such accounting changes to be disclosed for 2021/22.

Note 3 - Accounting policies

Fund account - revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate certified by the Fund actuary, in the payroll period to which they relate. Some employers exercise an option to pay future service rate contributions earlier than the due date, up to a period of 3 years in advance. These early contributions are recognised in the Fund account on receipt.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the scheme.

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the Fund during the financial year and are calculated in accordance with the appropriate legislation.

Individual transfers in or out are accounted for when received or paid, which is when the member liability is accepted or discharged.

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 are included in transfers in.

Investment income

Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Income from pooled funds

Income (distributions) from pooled funds are recognised at the date of issue. It is the policy of the Fund to reinvest distributions on the LPPI Global Equities.

Net income from properties

Rental income from leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Property expenditure is recognised on an accruals basis and is deducted from rental income to report net income from properties.

Any property income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled property funds are recognised on receipt within pooled property income.

Movement in the net market value of investments

Changes in the value of investments (including investment properties) are recognised as income in the Fund account and comprise all realised and unrealised profits or losses during the year.

Fund account – expense items

Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 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 withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Fund discloses its pension fund management expenses on an accruals basis and in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)". Management expenses are broken down into the following categories:*

- Administrative expenses
- Oversight and governance costs
- Investment management expenses

Administrative expenses

Administrative expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the Fund must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;

- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer's help desk or other employer support, and communications with employers; and
- Associated project expenses.

All administrative expenses are accounted for on an accruals basis.

Oversight and governance costs

Oversight and governance expenses include the following costs:

- Investment advisory services (strategic allocation, manager monitoring etc.);
- Independent advisors to the pension fund;
- Operation and support of the PFC (i.e. those charged with governance of the pension fund), LPB, or any other oversight body;
- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc.);
- Legal, actuarial and tax advisory services;
- Non-custodian accountancy and banking services; and
- Internal and external audit.

All administering authority staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. All oversight and governance expenses are accounted for on an accruals basis.

Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers, custody fees and any fees payable to fund managers which are deducted from fund assets together with a recharge of costs incurred by Lancashire County Council in provision of treasury management services to the Fund. Transaction costs for all categories of investment, other than directly held property, are included within investment management expenses. All investment management expenses are accounted for on an accruals basis.

External investment manager and custodian fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of investments under their management and therefore increase or reduce as the value of these investments change.

A number of the fee mandates in place include an element that is performance related.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the latest available market value of their mandate as at the end of the year is used for the inclusion in the Fund account. In 2021/22, 16.8m of fees is based on such estimates (2020/21: £12.1m).

Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial 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 of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). More details can be found at note 16.

Freehold and leasehold properties

The Fund's property portfolio includes directly owned properties which are leased commercially to various tenants. The risks and rewards of ownership of these properties remain with the Fund and therefore the properties are retained on the net asset statement at fair value.

The properties were valued at open market value at 31 March 2022 by independent property valuers Avison Young in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards effective from 31 January 2022

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses are treated as part of a change in market value of investments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

The Fund's loans and receivables comprise of trade and other receivables and cash deposits and are recognised in the net asset statement at amortised cost.

Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised in the Fund account as part of the change in value of investments.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 24).

Additional voluntary contributions

Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The AVC providers to the Pension Fund during the year were Prudential and Utmost Life and Pensions. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Pension Fund accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in note 18.

Note 4 - Critical judgements in applying accounting policies

Pension Fund liability

The net pension fund liability is calculated every three years by the appointed actuary, Mercer, and reviewed by the Fund and actuary during the intervening period. 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 note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted Private Equity, long term credit and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of Private Equity, long term credit and infrastructure investments. They are inherently based on forward looking estimates and it is necessary to apply judgement to the valuation. Unquoted Private Equities, long term credit and infrastructure investments are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines.

Note 5 - Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming year are set out in the following table.

Item	Uncertainties	Impact if actual results differ from assumptions
Private Equity and infrastructure investments	Private Equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of Private Equity and infrastructure investments in the financial statement's totals £2,318.3m (2020/21: £1,884.7m). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.

Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements totals £1,416.7m (2020/21: £1,261.6m excluding investment in loans secured on real assets). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Indirect core property investments	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £944.6m (2020/21: £831.7m). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex assumptions relating to relating to future experience. The main assumptions would be the discount rate used relative to assumed inflation (essentially the assumed rate of return on pension fund assets), the rate at which salaries are projected to increase, changes in retirement ages and future mortality rates. A firm of consulting actuaries (Mercer) is engaged to provide the authority with expert advice about the assumptions to be applied. Areas of uncertainty highlighted by the actuary include Guaranteed Minimum Pension (GMP) equalisation, the impact of Covid-19/ Ukraine and the court of appeal ruling on the Sergeant and McCloud cases. Further information can be found in note 24 to these accounts.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £608m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £132m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £355m. Estimation of the net liability to pay pensions depends on a number of complex assumptions relating to future experience – the main assumptions would be the discount rate used relative to assumed inflation

		(essentially the assumed real return on pension fund assets), the rate at which salaries are projected to increase, changes in retirement ages and future mortality rates. A firm of consulting actuaries (Mercer) is engaged to provide the authority with expert advice about the assumptions to be applied.
Direct property valuations	The valuation of directly held properties is carried out by independent valuers, Avison Young on an individual property basis rather than as a portfolio, by qualified surveyors and in accordance with the RICS Professional Standards, Global and UK, RICS Global Standards effective from 31 January 2022	Investment properties held directly by the Fund are valued at £172.1m (2020/21: £159.7m). At 31 March 2022 this comprises property situated within the county boundary of Lancashire (£130.0m) and properties located in Wales (£35.6m) and Scotland (£6.5m).

Note 6 - Contributions receivable

2020/21		2021/22
£m	**By category**	**£m**
64.5	Members	67.7
	Employers:	
327.4	Normal contributions[1]	86.9
18.0	Deficit recovery contributions[1]	4.9
6.4	Augmentation contributions [2]	1.9
351.8	Total employers contributions	93.7
416.3	**Total contributions receivable**	**161.4**
	By type of employer	
175.8	County Council [1]	59.9

220.5	Scheduled bodies [1]	80.9
20.0	Admitted bodies	20.6
416.3		**161.4**

Note 7 - Transfers in from other pension funds

2020/21		**2021/21**
£m		**£m**
10.8	Individual transfers in from other schemes	15.9
10.8		**15.9**

[1] Following the actuarial valuation in 2019, the Fund gave some employers the option of paying their 3-year future service rate and deficit contributions up front. A number of employers opted to do this and as a result the normal and deficit recovery contributions from the County Council and scheduled bodies for the year ended 31 March 2021 include £178.4m received in advance. £87.3m of the contributions received in 2020/21 was related to contributions for the period 2021/22.

[2] Augmentation contributions comprise additional pension benefits awarded by employers to scheme members in line with the general conditions of employment.

Note 8 - Benefits payable

2020/21		2021/22
£m	**By category**	**£m**
246.9	Pensions	253.1
37.6	Commutation and lump sum retirement benefits	44.6
7.3	Lump sum death benefits	8.9
291.8	**Total benefits payable**	**306.6**
	By type of employer	
120.8	County Council	127.1
147.0	Scheduled bodies	153.8
24.0	Admitted bodies	25.7
291.8		**306.6**

Note 9 - Payments to and on account of leavers

2020/21		2021/22
£m		**£m**
0.8	Refunds to members leaving service	1.0
16.5	Individual transfers	13.4
17.3		**14.4**

Note 10 - Management expenses

2020/21		2021/22
£m		**£m**
4.0	Fund administrative costs	4.1
111.3	Investment management expenses[1]	162.6
1.1	Oversight and governance costs [2]	1.4
116.4		**168.1**

[1]The increase in investment management expenses in 2021/22 is mainly due to a significant increase in the market value of the Fund's assets.

[2]Oversight and governance costs above include external audit fees which amounted to £39,300 (2020/21: £39,300). Additional fees of £9,500 were paid to the external auditor for IAS19 assurance work on behalf of Fund employers within the PSAA regime.

Investment management expenses

31st March 2022

	Total	Management Fees[2]	Performance Related fees	Transaction Costs[1]
	£m	**£m**	**£m**	**£m**
Pooled Investments	148.1	84.7	61.8	1.6
Pooled property investments	9.8	6.4	0.3	3.1
Property	4.5	0.2	4.3	
Cash Deposits	0.1			
	162.5	**91.3**	**66.4**	**4.7**
Custody Fees	0.1			
	162.6			

31st March 2021

	Total	Management Fees[2]	Performance Related fees	Transaction Costs[1]
	£m	£m	£m	£m
Pooled Investments	108.7	49.6	55.9	3.2
Pooled property investments	1.9	1.9	-	0.0
Property	0.7	0.2	0.5	-
Cash Deposits	-			
	111.2	**51.6**	**56.4**	**3.2**
Custody Fees	0.1			
	111.3			

[1] Transaction costs are not directly invoiced to the Fund and are included within the net asset value of investments by investment managers. In accordance with CIPFA guidance these fees are identified and reported through the Fund account.

[2] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the Fund account in accordance with CIPFA guidance. Fees are charged as a percentage of the value of assets held by each manager. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

Note 11 - Investment income

2020/21		2021/22
£m		**£m**
0.4	Fixed interest securities	0.9
120.3	Pooled investment vehicles	166.5
15.1	Pooled property investments	25.1
8.1	Net rents from properties	7.7
(0.1)	Interest on cash deposits	(0.1)
143.8	**Total investment income**	**200.1**

Note 12 - Property income

2020/21		2021/22
£m		**£m**
9.9	Rental income	10.6
(1.8)	Direct operating expenses	(2.9)
8.1	**Net income**	**7.7**

Note 13 - Reconciliation of movements in investments

	Market value as at 1 April 2021	Purchases at cost	Sales proceeds	Change in market value	Market value as at 31 March 2022
	£m	£m	£m	£m	£m
Fixed interest securities	44.5	118.1	(85.1)	(1.1)	76.4
Index linked securities	-	-	-	-	-
Pooled investment vehicles	8,056.7	832.9	(572.9)	1,070.9	9,387.5
Pooled property investments	1,161.8	-	(353.7)	136.5	944.6
Private Equity	12.5	-			12.5
Direct property	159.7	0.9	-	11.5	172.1
	9,435.2	**951.9**	**(1,011.7)**	**1,217.8**	**10,593.1**
Cash deposits	108.4				55.4
Loan Investments	55.0				50.0
Investment accruals	0.8				0.9
Net investment assets	**9,599.3**				**10,699.4**

	Market value as at 1 April 2020	Purchases at cost	Sales proceeds	Change in value during the year [1]	Market value as at 31 March 2021
	£m	£m	£m	£m	£m
Fixed interest securities	142.5	210.2	(313.3)	5.1	44.5
Index linked securities	-	2079.3	(2,079.3)	(0.0)	-
Pooled investment vehicles	6,913.5	508.3	(413.1)	1,048.0	8,056.7
Pooled property investments	1,130.1	59.6	(1.9)	(26.1)	1,161.8
Private Equity	12.5	-	-	-	12.5
Direct property	110.2	54.3	-	(4.8)	159.7
	8,308.8	**2,911.8**	**(2,807.6)**	**1,022.2**	**9,435.1**
Cash deposits	108.8				108.4

Loan investments	3.0				55.0
Investment income due	8.8				0.8
Net investment assets	**8,429.4**				**9,599.3**

Investments analysed by fund manager

31 March 2021			31 March 2022	
£m	**% of net investment assets**		**£m**	**% of net investment assets**
Private Equity investments				
773.8	8.1%	LPPI Private Equity Fund	907.7	8.5%
Private Equity investments managed outside of LPPI Private Equity Fund				
12.4	0.1%	Trilantic Capital Partners	12.1	0.1%
12.5	0.1%	Local Pensions Partnership Limited	12.5	0.1%
798.7	**8.3%**	**Total Private Equity investments**	**932.3**	**8.7%**
Long term credit investments				
1,167.9	12.2%	LPPI Credit Investments	1,342.2	12.5%
Credit investments managed outside of LPPI Credit Investments Fund				
48.3	0.5%	CRC	31.1	0.3%
22.5	0.2%	Neuberger Berman	26.6	0.3%
14.5	0.2%	Pimco Bravo	11.1	0.1%
5.6	0.1%	EQT	4.1	-
2.8	-	Hayfin	1.5	-
1,261.6	**13.1%**	**Total long term credit investments**	**1,416.7**	**13.2%**
Fixed income investments				
309.6	3.2%	LPPI Fixed Income Fund	398.6	3.7%
Liquid credit investments managed outside of LPPI Fixed Income Fund				

208.0	2.2%	LPPI internal and LCC Treasury Management	182.6	1.7%
517.6	**5.4%**	**Total fixed income investments**	**581.2**	**5.4%**
Global equity investments				
4,506.5	46.9%	LPPI Global Equities Fund	5,164.5	48.3%
4,506.5	**46.9%**	**Total global equity investments**	**5,164.5**	**48.3%**
Infrastructure investments				
940.5	9.8%	LPPI Global Infrastructure Fund	1,255.4	11.8%
Infrastructure investments managed outside of LPPI Global Infrastructure Fund				
68.7	0.7%	Arclight Energy	66.9	0.6%
59.8	0.6%	Icon Infrastructure Partners	40.4	0.4%
17.0	0.2%	Highstar Capital	14.1	0.1%
7.9	0.1%	Pike Petroleum Holdings LLC	5.5	0.1%
3.2	-	Eastern Generation Holdings LLC	3.7	-
1.5	-	Capital Dynamics Red Rose	-	-
158.1	**1.6%**		**130.6**	**1.2%**
1,098.6	**11.4%**	**Total infrastructure investments**	**1,386.0**	**13.0%**
Diversifying strategy investments				
94.8	1.0%	LPPI Diversifying Strategies Fund	101.9	1.0%
94.8	**1.0%**	**Total diversifying strategies investments**	**101.9**	**1.0%**
Property investments				

Directly held properties				
159.7	1.7%	Knight Frank	172.1	1.6%
Pooled property funds				
Core property				
831.3	8.7%	LPPI Real Estate Fund	944.6	8.8%
Non-core property				
330.5	3.4%	HH No.1 Limited	-	-
1,321.5	**13.8%**	**Total property investments**	**1,116.7**	**10.4%**
9,599.3	**100.0%**	**Net investment assets**	**10,699.4**	**100.0%**

The investments are primarily held in pooled funds as identified above. These represent more than 5% of the net assets of the Fund but the funds are made up of a range of investments, none of these individual investments represent more than 5% of the Fund.

Fixed interest securities

31 March 2021		31 March 2022
£m		**£m**
18.3	UK corporate bonds quoted	42.8
-	Overseas public sector	-
26.1	Overseas corporate bonds/supernational bonds quoted	33.6
44.4		**76.4**

Pooled investment vehicles

31 March 2021		31 March 2022
£m	**UK funds:**	**£m**
309.6	Fixed income funds	398.6
164.5	Private Equity	185.6
942.0	Infrastructure	1,255.4
1,170.7	Long term credit investments	1,343.8
1,161.8	Property funds	944.6
94.8	Diversifying strategies	101.9
	Overseas funds:	
85.3	Fixed income funds	68.8
621.9	Private Equity	734.2
156.6	Infrastructure	130.6
5.6	Long term credit investments	4.1
4,506.5	Equity funds[1]	5,164.5
9,219.3		**10,332.1**

[1]The LPPI Global Equities Fund includes UK equities.

Direct property investments

31 March 2021		31 March 2022
£m		**£m**
128.4	UK – freehold	134.4
31.3	UK – long leasehold	37.7
159.7		**172.1**

Property holdings

The Fund's investment in property comprises of investments in pooled property funds along with a number of directly owned properties which are leased commercially to various tenants.

Details of these directly owned properties are shown in the table.

31 March 2021		31 March 2022
£m		**£m**
110.2	**Opening balance**	**159.7**
	Additions:	
52.8	• Purchases	-
1.3	• New construction	0.5
0.3	• Subsequent expenditure	0.4
-	Disposals	-
(4.8)	Net increase in market value	11.5
159.7	**Closing balance**	**172.1**

Leases

All directly held investment properties are leased to tenants. There are no investment properties held by the Fund used for purposes other than to generate rental income.

Residual asset risk

The independent valuation of the direct property portfolio considers the level of committed tenancies amongst other variables. Lessees do not have an option to purchase the properties at the expiry of their lease period and all rental contracts include market review clauses in the event that the lessee exercises an option to renew. Rental income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income generally reviewed to market rent five yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). As at 31 March 2022, the Fund has the following future minimum lease payments due from tenants.

2020/21		**2021/22**
£m		**£m**
0.6	Leases expiring within one year	0.3
17.8	Leases expiring between one and five years	12.9
62.9	Leases expiring later than five years	69.2
81.3	**Total future minimum lease payments receivable under existing non-cancellable leases**	**82.4**

The above disclosures have been reduced by a credit loss allowance of 2.6% (2020/21: 2.5%) per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This adjustment is based on experience of rents outstanding 28 days after the due date.

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index.

Cash deposits

31 March 2021		31 March 2022
£m		**£m**
69.1	Sterling	33.2
39.3	Foreign currency	22.2
108.4		**55.4**

Note 14 - Financial instruments classification

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

31 March 2022

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	**£m**	**£m**
Financial assets			
Fixed interest securities	76.4		
Loan investments		50.0	

Pooled investment vehicles	9,387.5		
Pooled property investments	944.6		
Directly held Private Equity	12.5		
Cash deposits		55.4	
Investment accruals	0.9		
Debtors		19.9	
Total financial assets	**10,421.9**	**125.3**	
Financial liabilities			
Creditors			7.8
Total financial liabilities			**7.8**

31 March 2021

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	44.5		
Loan investments		55.0	

Pooled investment vehicles	8,056.7		
Pooled property investments	1,161.8		
Directly held Private Equity	12.5		
Cash deposits		108.4	
Investment accruals	0.8		
Debtors		12.6	
Total financial assets	**9,276.2**	**176.0**	
Financial liabilities			
Creditors			6.6
Total financial liabilities			**6.6**

Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £1206.3m. Note 13 outlines the change in Market Value of Fund Asset's, of which, £841.0m relates to unrealised gains and £365.4m relates to realised gains on the disposal of assets. Direct property is not included within this figure. (2020/21: £1022.2m gain)

Note 16 - Financial instruments – fair value hierarchy

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. Transfers between levels are recognised in the year in which they occur.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, including those held in the LPPI Global Equity Fund, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Level 2 investments 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 valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include overseas quoted fixed income investments, pooled UK fixed income investments, Private Equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in Private Equity and infrastructure are based on valuations provided by the managers of the Private Equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Ordinarily, valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Fair value hierarchy

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into level 1 to 3 based on the level of which the fair value is observable.

31 March 2022

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	5,639.0	944.6	3,838.3	10,421.9
Loans and receivables	29.8	75.6	-	105.4
Non-financial assets at fair value through profit and loss (property holdings)	-	172.1	-	172.1
Net investment assets	**5,668.8**	**1,192.3**	**3,838.3**	**10,699.4**

31 March 2021

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	4,842.3	849.6	3,584.4	9,276.2
Loans and receivables	98.2	65.1	-	163.4
Non-financial assets at fair value through profit and loss (property holdings)	-	159.7	-	159.7
Net investment assets	**4,940.5**	**1,074.4**	**3,584.4**	**9,599.3**

Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled global equities	Level 1	Unadjusted quoted bid market prices.	Not required.	Not required.
Fixed income funds	Level 1	Unadjusted market values based on current yields.	Not required.	Not required.
Corporate and overseas government bonds	Level 2	Market approach – active 'over the counter' markets	Corroborative indicative quotes, interest rates, inflation.	Not required.
Direct property holdings	Level 2	Valuation performed by independent professional valuers Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition).	Comparable recent market transactions on arm's length terms; general changes in property market prices; rental growth; vacant properties ;existing lease terms; nature of tenancies,	Not required.
Pooled property investments - core property	Level 2	Current open market value in accordance with RICS Appraisal and Valuation Standards.	Unobservable fund net asset value.	Ability to exit fund; market opinion; general market movements.
Pooled property investments - non-core property	Level 3	Value of equity holding in Real Estate Investment Trust.	Underlying investment valued at existing use valuation for social housing; discount rates; house price index; retail price index; staircasing rates (the rate of progressive tenant ownership % on a part-rent, part-buy ownership agreement).	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts

Private equity, long term credit and infrastructure investments	Level 3	Annually at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent.	Discount rates, cash flow projections.	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having consulted with the Fund's independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

Description of asset	**Assessed valuation range[1]**	**Value at 31 March 2022**	**Value on increase**	**Value on decrease**
	(+/-)	£m	£m	£m
Private Equity funds	13.5%	932.3	1,057.7	806.9
Infrastructure funds	5.6%	1,386.5	1,464.3	1,308.7
Long term credit	5.6%	1,348.8	1,424.5	1,273.1
Fixed income funds	5.6%	68.8	72.6	64.9
Diversifying strategies	5.6%	101.9	107.7	96.2
Level 3 investments		**3,838.3**		

[1] All movements in the assessed valuation range derive from changes in the underlying profitability of component companies and investments.

Reconciliation of fair value measurements within level 3

	Fixed income funds	Private Equity funds	Infrastructure funds	Long term credit funds	Property funds	Diversifying strategies	Total level 3 investments
	£m	£m	£m	£m	£m	£m	£m
Market value 1 April 2021	**85.3**	**798.8**	**1,098.6**	**1,176.4**	**330.5**	**94.8**	**3,584.4**
Purchases during the year and derivative payments	0.1	130.8	257.7	100.4	0.0	0.0	489.0
Sales during the year and derivative receipts	(17.9)	(378.3)	(62.0)	(41.1)	343.8	(3.2)	(846.3)
Unrealised gains / (losses)	(5.1)	211.7	35.7	40.9	0.0	10.3	293.5
Realised gains	6.4	169.2	56.3	72.2	13.3	0.0	317.5
Market value 31 March 2022	**68.8**	**932.3**	**1,386.5**	**1,348.8**	**0.0**[1]	**101.9**	**3,838.3**

[1]Level 3 Property Funds consisted only of an investment in HH No.1 Limited, which was sold in 2021/22

Note 17 - Nature and extent of risks arising from financial instruments

Risk and risk management

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 aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

Responsibility for the Fund's risk management strategy rests with the PFC. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

Market risk

Market risk is risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

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 (other than those arising from interest rate risk or foreign exchange risk), whether those 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 exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund investment strategy.

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 managers, the Fund has determined that the following movements in market price risks are reasonably possible for the 2021/22 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	5.8%
Total equities	13.5%
Alternatives	5.6%
Total property	4.2%

The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market place would have been as follows (the prior year comparator is also shown):

Asset type	31 March 2021	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total equities	5,305.2	13.5%	6,018.8	4,591.7
Alternatives	2,764.6	5.2%	2,907.8	2,621.4
Total property	1,321.5	2.0%	1,347.6	1,295.3
Total bonds (including index linked)	44.5	5.4%	47.0	42.1
Total assets available to pay benefits	**9,435.8**	**6.3%**	**10,028.4**	**8,843.3**

Asset type	31 March 2022	Potential market movements (+/-)[1]	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total equities	6,097	13.5%	6,917	5,277
Alternatives	3,303	5.6%	3,489	3,118
Total property	1,117	4.2%	1,164	1,070
Total bonds (including index linked)	76	5.8%	81	72
Total assets available to pay benefits	**10,593**	**6.4%**	**11,267**	**9,919**

[1]The potential market movement has been separately assessed for each asset class including the total assets of the Fund, as such, the sum of the potential change in individual assets may not equal the potential change of the total assets of the Fund.

Direct Property – Price Risk

The Fund invests in and holds a direct property portfolio to obtain a return on investment via rental income. The properties are valued in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition). The valuer considers the equivalent yield, which represents the return a property will produce, to value the properties.

The below table shows the market value of the portfolio after a potential movement in the equivalent yield being obtained by the properties.

		Potential Movement in Equivalent Yield				
Asset type	**Asset value as at 31 March 2022**	**-0.50%**	**+0.50%**	**+1.00%**	**+1.50%**	**+2.00%**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Direct Property	159.7	167.4	150.2	143.2	137.2	131.8

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 risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2021	Asset type	31 March 2022
£m		£m
108.4	Cash and cash equivalents	55.4
108.4	**Total**	**55.4**

Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 100 basis points for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

		Impact of	
	31 March 2022	1% increase	1% decrease
Asset type	£m	£m	£m
Cash and cash equivalents	55.4	0.6	(0.6)
Total change in assets available		**0.6**	**(0.6)**

		Impact of	
	31 March 2021	1% increase	1% decrease
Asset type	£m	£m	£m
Cash and cash equivalents	108.4	1.1	(1.1)
Total change in assets available		**1.1**	**(1.1)**

Currency risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£). The Fund holds both monetary and non-monetary assets denominated in currencies other than Sterling.

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

The following table summarises the Fund's currency exposure as at 31 March 2022 and as at the previous year end.

31 March 2021	Currency exposure – asset type	31 March 2022
£m		£m
5,128.3	Overseas equities	5,898.7
247.6	Overseas alternatives	203.5
26.2	Overseas bonds (including index linked)	33.6
5,402.1	**Total overseas assets**	**6,135.8**

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment managers, the Fund considers the likely volatility associated with foreign exchange rate movement to be 5.5%. A 5.5% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2020/21: 6.1%).

A 5.5% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value at 31 March 2022	Potential market movement +/- 5.5%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	5,898.7	323.1	6,221.8	5,575.6
Overseas alternatives	203.5	11.1	214.6	192.4
Overseas bonds (including index linked)	33.6	1.8	35.4	31.6
Total assets available to pay benefits	**6,135.8**	**336.0**	**6,471.8**	**5,799.6**

Currency exposure - asset type	Asset value at 31 March 2021	Potential market movement +/- 6.1%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	5,128.3	311.7	5,440.1	4,816.7
Overseas alternatives	247.6	15.0	262.5	232.5

Overseas bonds (including index linked)	26.2	1.6	27.8	24.6
Total assets available to pay benefits	**5,402.1**	**328.3**	**5,730.4**	**5,073.8**

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 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 asset 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 minimise the 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 receipts that remain outstanding, and the cost of replacing the derivatives 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 over-the-counter derivatives contracts is minimised as counterparties are recognised 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 independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution. The Fund's cash holding under its treasury management

31 March 2021	Summary	Rating	31 March 2022
£m			£m
	Bank deposit accounts		
72.0	Northern Trust	A2	33.3
-	Svenska Handelsbanken	AA2	21.0
36.0	Natwest	A1	0.9
	Cash float with property manager		
0.4	Barclays Bank Plc	A1	0.2
108.4	**Total**		**55.4**

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flow. The appropriate strategic level of cash balances to be held forms part of the Funds investment strategy.

The Fund has financial liabilities of £7.8m at 31 March 2022, all of which is due within one year.

Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Utmost Life and Pensions and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2020 to 31 March 2021 for Prudential and are the latest available to the Fund due to delays in the production of the annual benefits statement by the AVC provider and 1 September 2019 to 31 August 2020 for Utmost Life and Pensions and are not included in the Pension Fund accounts, in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.*

	Utmost Life and Pensions	Prudential	Total
	£m	£m	£m
Value at start of the year	**0.6**	**31.1**	**31.7**
Income (incl. contributions, bonuses, interest and transfers in)	-	7.8	7.8
Expenditure (incl. benefits, transfers out and change in market value)	-	(4.3)	(4.3)
Value at the end of the year	**0.6**	**34.6**	**35.2**

Note 19 - Current assets

31 March 2021		31 March 2022
£m		£m
7.0	Contributions due – employers	10.5
5.4	Contributions due – members	6.4
0.2	Sundry debtors	3.0
12.6		**19.9**

Note 20 – Current liabilities

31 March 2021		31 March 2022
£m		£m

0.5	Unpaid benefits	1.5
6.1	Accrued expenses	6.3
6.6		**7.8**

Note 21 - Contractual commitments

As at 31 March 2022 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the Private Equity and infrastructure part of the portfolio totalled £526.1m (2021: £657.1m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of a fund investment is typically 10 years. Realisation of these investments in the form of distributions normally occurs in the second half of the fund life, when portfolio companies have built value and can be sold.

Commitments to outstanding call payments for credit strategies stood at £65.2m (2021: £79.9m). The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

There are no outstanding commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio (2021: £0m).

There are no outstanding commitments in relation to the Pooled Real Estate fund (2021: £0m)

Note 22 - Related party transactions

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions.

There are three groups of related parties; transactions between Lancashire County Council as administering authority and the Fund; between employers within the Fund and the Fund; and between members and senior officers and the Fund.

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council.

The Council incurred costs of £1.0m (2020/21: £0.8m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £32.5m to the Fund in 2021/22. A prepayment of contributions for the 3-year period starting 1st April 2020 totalling £120.5m, of which, £40.2m relates to 2021/22. Total employer contributions from the Council in 2020/21 amounted to £149.8m. All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the LPP, having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses and liability modelling. Payments made for the year to 31 March 2022 amount to £4.9m (2020/21: £5.2m).

The Fund has a Private Equity investment of £12.5m in the LPP as at 31 March 2022.

Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2022 payroll, are included within current assets in note 19.

Pension Fund Committee, Local Pensions Board and Senior Officers.

The PFC, LPB members and senior officers of the Pension Fund were asked to complete a related party declaration for 2021/22 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2022.

Each member of the PFC and LPB formally considers conflicts of interest at each meeting.

Note 23 - Key management personnel

The key management personnel of the Fund are the Lancashire County Council Chief Executive and Director of Resources, the Lancashire County Council Director of Finance, and the Head of Fund.

Total remuneration payable to key management personnel is set out below:

2021/22

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/21 – 31/03/22	74,932	12,738	87,670
Director of Finance	01/04/21 – 31/03/22	2,269	359	2,627
Chief Executive and Director of Resources	01/04/21 – 31/03/22	4,560	-	4,560

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

2020/21

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund[2]	01/04/20 – 20/10/20 & 01/03/21 – 31/03/21	38,956	6,622	45,578
Director of Finance	01/04/20 – 31/03/21	2,232	352	2,585
Chief Executive and Director of Resources	01/04/20 – 31/03/21	4,443	-	4,443

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work

[2] The position of HoF was covered on an interim basis by an agency member of staff from 20/10/21 – 01/03/21, the total cost of this appointment was £58,500 and is in addition to the costs outlined above.

Note 24 - Funding arrangements

LANCASHIRE COUNTY PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2022 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £8,410 million represented 100% of the Fund's past service liabilities of £8,398 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £12 million.

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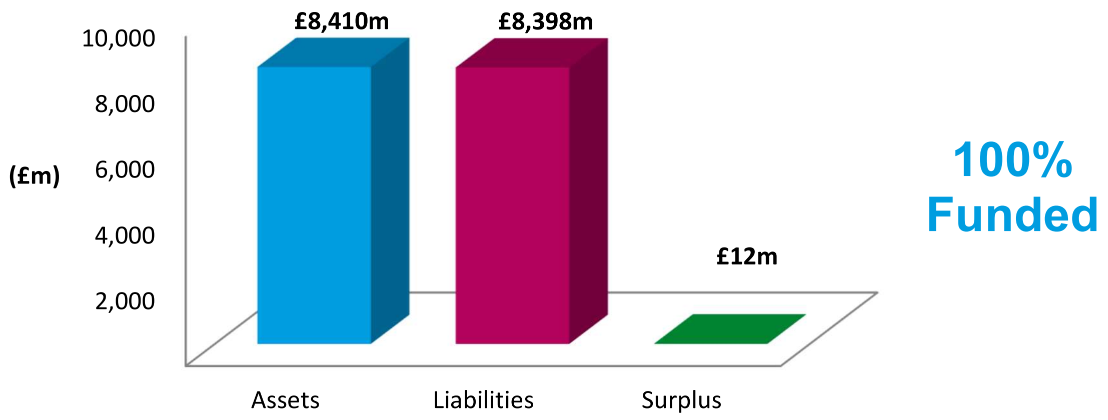


The valuation also showed that a Primary contribution rate of 17.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At the last actuarial valuation the average recovery period adopted was 16 years, and the total initial recovery payment (the “Secondary rate” for 2020-2023) was an addition of approximately £2m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process. The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.8% per annum	4.55% per annum
Rate of pay increases (long term)	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014. In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include a specific allowance for the estimated cost of the McCloud judgment (although there is a margin within the assumptions that may be used to absorb costs arising). At the overall Fund level we estimate that the cost of the judgment was an increase in past service liabilities of broadly £68 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum at 31 March 2019.

Impact of Covid-19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the Covid-19 pandemic and more recently the situation in Ukraine. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be updated as a general rule but the Administering Authority has the power to review contributions between valuations where there is a material change in employer circumstances, in line with the new Regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.
To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	3.3% per annum
Rate of pay increases	4.2% per annum	4.8% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.8% per annum	3.4% per annum

The demographic assumptions are the same as those used for funding purposes, but we have used the most recent CMI future improvement tables (CMI2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.
During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1%). This on its own would have led to a significantly lower value placed on the liabilities but it was largely offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.3%.
The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £13,126 million including the potential impact of the McCloud Judgment.
Interest over the year increased the liabilities by c£273 million and allowing for net benefits accrued/paid over the period also increased the liabilities by c£207 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £301 million due to "actuarial gains" (i.e. the effects of the *changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2022 pension increase award was more than assumed).*

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2022 is therefore £13,305 million.

GMP Indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Leanne Johnston

Fellow of the Institute and

Faculty of Actuaries

Mercer Limited

May 2022

Mark Wilson

Fellow of the Institute and

Faculty of Actuaries

I Lancashire Local Pension Board Annual Report

The Lancashire County Pension Fund's (the Fund) Local Pension Board (LPB) has been up and running for seven years. As a reminder to readers, our legal duty is to assist the Pension Fund Committee (PFC) and we are not an executive body. Because Board members explicitly represent either employers or scheme members, we also have a representative role in the governance structure of the Fund.

After seven years, the LPB has established an effective way of using its members' expertise to add value to the PFC's work. We create an annual Work Plan to ensure that we cover all the activities we should and that our workflow is aligned with that of the PFC. The core of our work is to review the reports and compliance assurances which support the Fund's activities and comment on them to the PFC.

Where specific expertise is helpful, members of the LPB may work with Officers or the PFC on projects or areas. Two Board members, Yvonne Moult and Steve Thompson, have for several years sat on a Working Party to provide feedback on administration matters, and Carl Gibson spent time this year on reviewing the Risk Register which I comment on below.

We are always aware that our role is to assist the PFC and a good relationship between the two bodies is essential. I meet County Councillor Pope (Chair of the PFC) regularly and attend as many Committee meetings as I can. We also welcome County Councillor Pope and other Committee members to our meetings.

At an operational level, the Officers involved in managing the Fund, and to a large extent the LPPI Limited and LPPA Limited staff who provide the bulk of services to the Fund, have continued to work from home during this year. With the help of IT improvements, service levels have generally remained high throughout this period, and towards the end of it there has been a partial return to the office.

Membership of the Pension Board

The LPB has nine members: four Employer representatives, four Scheme Member representatives, and an Independent Chair. Except for the Chair, Board Members serve a maximum of eight years, and are not remunerated, other than for expenses incurred in attending meetings or training.

During the year, there was one change to the membership of the LPB when Tony Pounder, the Director of Adult Services at Lancashire County Council retired in January 2022. Glyn Peach, Director of Digital Services was appointed as the replacement employer representative from the County Council. I would like to thank Tony for his time on the LPB and to welcome Glyn.

There will be significantly more change next year when four members and I come to the end of our second and final four-year terms.

The LPB has a budget to cover both its expenses and to allow it to commission reports if required. During the year the cost of running the Board came to £9,105.

Attendance of Board members at meetings

The LPB has met remotely and in person (with provision for members to attend virtually if necessary), during the year. Looking forward, we expect meetings to be in person, although we will use the benefits of technology to allow presenters to do so virtually if required.

Each year the LPB agrees a programme of four meetings, the first being in July followed by meetings in October, January, and April so that each LPB meeting follows a meeting of the PFC. Details of individual members' attendance at Board meetings together with in-year changes to the membership of the LPB, are set out below.

Name	Representing	6th July 2021	19th October 2021	18th January 2022	26th April 2022
W Bourne	Independent Chair	✓	✓	✓	✓
County Councillor M Salter	Employer rep – LCC	✓	✓	✓	✓
T Pounder	Employer rep - LCC	✓	✓	✓	N/A
G Peach	Employer rep - LCC	N/A	N/A	Observer	Absent
S Thompson	Employer – Unitary, City, Borough, Police & Fire	✓	✓	✓	✓
C Gibson	Employer rep - Others	✓	✓	✓	✓
K Haigh	Scheme Member rep	✓	✓	✓	✓
Y Moult	Scheme Member rep	✓	✓	✓	✓
D Parker	Scheme Member rep	✓	✓	✓	apologies
K Ellard	Scheme Member rep	✓	✓	✓	✓

Changes to the membership of the Local Pension Board

Glyn Peach, Director of Digital Services at Lancashire County Council, replaced Tony Pounder, Director of Adult Services as an employer representative on the LPB.

Training

The LPB is under a legal obligation to ensure its members maintain their levels of knowledge and understanding through regular training. We conduct an analysis of training needs once a year as part of our Annual Review, which becomes an agenda item at our next meeting. Internal training workshops during this year were conducted by webinar in conjunction with the PFC, with recordings being made available for those unable to attend. This appeared to increase participation levels considerably and will continue for most future training. LPB members will still have opportunities to attend external training events during the year and are expected to complete the online training modules from The Pension Regulator's Public Service toolkit.

During the year training sessions were held on the following subjects:

Jun 2021- Audit, risk, and governance – LCC Statement of Accounts
Sep 2021 - LCPF Annual Report and accounts
Oct 2021 - Update on Responsible Investment
Dec 2021 - McCloud
Dec 2021 - Update on the LCPF Investment Service Based Review
Feb 2022 - LCPF Valuation
Feb 2022 - Local Pensions Partnership Budget 2021/22
Mar 2022 - Employer Risk and Engagement

The table below shows the number of internal/external training events individual LPB members attended during the period 1st April 2021 to 31st March 2022.

Name	Internal Events	External Events	Total
W Bourne	7	1	8
County Councillor M Salter	5	0	5
T Pounder (up to January 2022)	1	1	2
G Peach (from January 2022)	2	1	3
S Thompson	3	0	3
C Gibson	4	1	5
K Haigh	4	0	4
Y Moult	5	0	5
D Parker	9	1	10
D Ellard	5	1	6
			51

Note – during 2021/22 external events continued to be impacted by the restrictions introduced in response to the Covid-19 pandemic.

Further information about the LPB, including agenda and minutes of meetings can be viewed on the Fund website at https://lancashirecountypensionfund.org.uk

Activities

The LPB's focus is much more on administration and governance than it is on investments. During the year we spent considerable time on two topics in particular.

The first was verifying the control framework which lies behind the assurance statements we receive from LPPA. Here we were behind the commissioning of a report from PwC, received in early 2021, which led to tightening up a number of areas. LPPA will implement their remaining recommendations after the switch to a new pensions administration system in 2022.

Preparation for this latter project was the second major topic. We have discussed it at every meeting and following our input LPPA commissioned an independent audit ahead of the project going live to identify and mitigate potential risks. A project of this size will almost inevitably hit some bumps along the way, but the scrutiny provided by the LPB has helped to maximise the chance that it is successful. The Fund is expected to move to the new pension administration system in Autumn, 2022.

Regardless of events elsewhere, the core of the LPB's work remains one of oversight. At every meeting, we look at any breaches of the Regulations and consider the Key Performance Indicators agreed with LPPA as indicators or performance levels. We also reviewed various policy documents, including this year the Cyber Security annual report and Death Grants policy, and the results of appeals. The wide range of expertise among LPB members as well as the fact that they are all users of the Fund, either employers or members of the Fund, means we are well placed to provide useful and relevant feedback to the PFC.

During the year we spent significant time on the Fund's Risk Register, where the LPB has worked with officers to make the document more 'live' and to develop a heat map. We have also encouraged a greater awareness of who is responsible for monitoring each risk, what the key metrics should be, and the need for regular updating of the underlying environment for each risk. We hope the result will help both the PFC and LPB to monitor risks as they evolve, and to focus their limited time usefully.

In the next year the key task will be ensuring that the implementation of the new pension administration system happens without major problems. This is inevitably taking up a lot of LPPA's time and resources, and we therefore expect to be alert to signs of any potential lapses from normal service elsewhere. One area we expect to spend some time on is communications and engagement, which will be important given the new administration system.

I commented last year that we were expecting significant regulatory change over the following 12 months. In practice, Parliament's busy legislation schedule has delayed much of what we expected. That means we are still waiting for the following: The Pensions Regulator to combine the public sector Code of Practice 14 with nine other codes covering pension funds; the newly named Department of Levelling Up, Housing and Communities to publish new guidance on maintaining investment strategy statements, including further requirements on pooling, climate change risk disclosure, and possibly levelling up; and new statutory guidance to implement the recommendations made in the Scheme Advisory Board's Good Governance project back in 2019.

The LPB's role in all of these will be to act as a second pair of eyes to help the PFC ensure the Fund is compliant with these changes as they become legal or regulatory requirements.

Under the LPB's Terms of Reference, I am required to make a statement in respect of my annual review of the Board's effectiveness. I conducted the review in January 2022, and the recommendations I made were again relatively minor as reported to Page 80 the LPB in April 2022. I believe the LPB operates effectively and efficiently and fulfils its legal and regulatory requirements.

I would like to finish by thanking the officers at the County Council who support us in our duties. As part of the annual review, I speak individually to LPB members, and I can record full agreement that in another challenging year we have been ably and effectively supported by the whole team. It gives me pleasure to recognise that publicly in this report.

William Bourne, Independent Chair of the Lancashire Local Pension Board
April 2022

J Actuarial Valuation

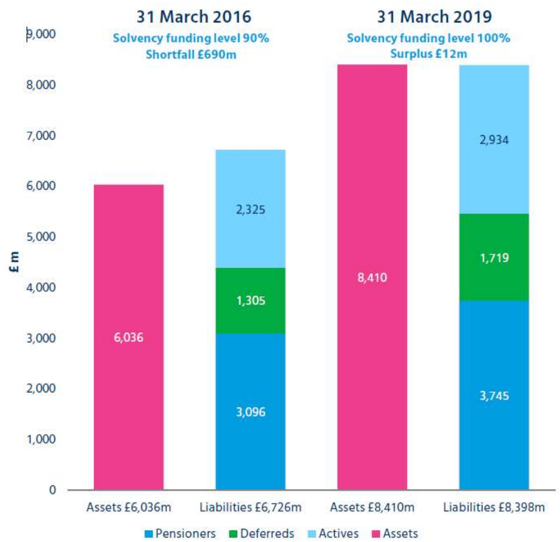
An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2019 which determines contribution rates effective from 1 April 2020 to 31 March 2023.

The Funding objective is to achieve and then maintain assets equal to the Funding Target. The Funding Target is the present value of 100% of projective accrued liabilities. This is to comply with the requirements of the LGPS Regulations to secure the solvency of the Fund and is in accordance with the FSS. The methodology and assumptions by which the Funding Targets and contribution rates are calculated have also been determined in accordance with the FSS.

The FSS specifies an average period for achieving full funding of 13 years. The FSS sets out the circumstances in which this may vary from one employer to another where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put into place which requires additional contributions to correct the shortfall.

The valuation (effective from 1 April 2020) revealed a funding level of 100% and an average employer's contribution rate of 17.4% plus a deficit contribution in 2020/21 of £3m.

The chart below, taken from the certified actuarial valuation as at 31 March 2019, compares the assets and liabilities of the Fund at 31 March 2019. Figures are also shown for the last valuation as at 31 March 2016 for comparison.



The employer contributions for 2020/21 are based on the 2019 valuation and the recommended employer contributions for the period 1 April 2020 to 31 March 2023 are set out in the Schedule to the Rates and Adjustments in the actuarial valuation report.

The projected unit method of valuation was used for the valuation and is in common use for funding pension funds in the United Kingdom. The valuation results depend on financial and demographic assumptions and these are detailed in full in the Actuarial Valuation and at Appendix A of the Funding Strategy Statement. The actuarial valuation report as at 31 March 2019 has been included as Appendix 7 to this Annual Report.

K Contacts

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AVC providers
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BN15 8GB

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L Glossary

Absolute return
Measure of how much an asset has increased or decreased in value over a given period of time.

Accounting policies
The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Actuarial strain
This is a charge paid by employers to the pension fund for paying pensions early.

Actuarial valuation
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits.

Actuary
An independent consultant who advises the scheme and every three years formally reviews the assets and liabilities of the scheme and produces a report on the scheme's financial position, known as the Actuarial Valuation.

Additional voluntary contributions (AVC's)
This is an extra contribution a member can pay to their own pension scheme to increase future pension benefits.

Administering authority
A local authority required to maintain a pension fund under LGPS Regulations. Within the geographical boundary of Lancashire this is Lancashire County Council.

Admitted bodies
An organisation which, under Pension Scheme Regulations, is able to apply to the administering authority to join the scheme (e.g. a contractor providing services to the council or another scheduled body). Upon acceptance, an admission agreement is prepared admitting the organisation and allowing its employees to join.

Alternative investments
Investments considered outside of the traditional asset classes of stocks, bonds, cash or property.

Asset-Based Lending
Providing a loan to a borrower that is secured against an asset.

Asset allocation
Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return and is a central concept in financial planning and investment management.

Assumed pensionable pay
Where an employee loses pay due to sickness or reduced pay family related leave, the pay received is substituted with "assumed pensionable pay" when calculating "career average" benefits and employer contributions. Assumed pensionable pay is the average of pay in the three months prior to the month in which the reduced pay occurs.

Auditor
An independent qualified accountant who is required to verify and agree the Pension Fund accounts and issue an opinion on their accuracy.

Auto enrolment
UK employers have to automatically enrol their staff into a workplace pension if they meet the criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark
These are investment performance standards that we expect our investment managers to achieve and against which we measure their investment return.

Bid price
The price a buyer pays for a stock.

Bonds
Loans, with a fixed rate of interest, made to an issuer (often a Government or a company) which undertakes to repay the loan at an agreed later date.

Career average revalued earnings (CARE) scheme.
With effect from 1 April 2014, the benefits accrued by members of the LGPS will be in the form of CARE benefits. Every year a member accrues a pension benefit equivalent to 1/49th of their pensionable pay in that year. The pension accrued will increase in line with the annual change in the consumer prices index over the period to retirement.

Cash and cash equivalents
Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collateral
An asset (cash or securities) posted from one counterparty to another and held as a guarantee against the value of a specified portfolio of trades or other transactions.

Conflicts of interest
Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of those conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. Those conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer price index (CPI)
CPI is a measure of inflation based on the change in the price of a fixed basket of goods and services. The difference between CPI and retail price index (RPI) is that CPI excludes some items used in RPI such as mortgage interest payments and council tax, and includes other items not used in RPI. The basket of goods and services on which CPI is based is expected to provide lower, less volatile, inflation increases.

Core assets / strategies
Long-term stable cash flows and have low operational or development risk.

Corporate Direct Lending
Involves lending direct to companies, fulfilling the role that a bank may have historically provided. Borrowers are typically small to medium size enterprises as opposed to large companies.

Corporate governance
The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

Creditors
Amounts owed by the Pension Fund for work carried out, goods received or services provided, which has not been paid by the date of the net assets statement.

Credit strategies
Credit strategies involve investing in loans or the provision of other credit. At the safest end this this may involve investing in Gilts – debt issued by Government, where risk is perceived to be minimal but where returns are very low; at the other end of the spectrum are loans to heavily indebted companies or even companies who have credit difficulties, where there are higher levels of risk but where significantly enhanced returns are available.

Currency forward
An agreement between two counterparties to buy/sell a specified quantity of the underlying currency at a specified future date. Contracts are settled in cash on the expiration date.

Current assets and liabilities
Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

Custody / custodian
Safekeeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Debtors
Amounts owed to the Pension Fund which had not been paid by the date of the net assets statement.

Deficit
The extent to which the Fund's past service liabilities exceed the value of the Fund's assets.

Defined benefit
An employer sponsored retirement plan where employee benefits are sorted out based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS are defined benefit.

Discount rate
The rate of interest used to convert a future cash amount to a present-day value. It is a measure of the 'time value' of money.

Diversifying Strategies
Diversifying Strategies seeks to generate a diversifying, liquid source of return to compliment traditional asset allocation in client portfolios. The pool seeks to achieve this through exposure to a variety of approaches in traditional markets, alongside alternative investment opportunities. The pool aims to provide returns that have a low correlation to equities – particularly in times of market stress.

Diversified Credit
Involves investing in a broad spectrum of public market bonds, loans and other instruments.

Emerging markets
Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Equities
Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

ESG (environmental, social and corporate governance)
Responsible Investors understand that ESG characteristics are financially material to investment decision-making if they are likely to have an impact on a company and its performance within the period of their ownership. Long term investors such as pension funds which aim to hold assets for an extended period of time need to assess the impact of a variety of potential influences, some of which are systemic risks which are not possible to predict with certainty (such as climate change).

Investors who integrate the consideration of ESG characteristics are seeking insight into future risks and opportunities which may be financially material to the investments they are already holding or those that are under consideration.
Environmental criteria look at how a company performs as a steward of the natural environment both as a consumer of resources and a producer of goods, services and waste.
Social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities where it operates.
Governance criteria examine a company's management and decision-making framework, the corporate culture this creates and the quality of corporate leadership offered.
ESG is often used as a catch-all term for the approach to assessing these various criteria as part of being an informed and Responsible Investor.

External management
Refers to assets that are managed by a third-party manager outside of LPPI, but for which LPPI maintain oversight.

Financial instrument
A contract between two parties that involves a monetary exchange for some type of debt or asset.

Fixed interest securities
Investments in stocks mainly issued by governments, which guarantee a fixed rate of interest.

Future service contribution rate
The contribution rate payable by an employer, expressed as a % of pensionable pay. This rate is the rate which will be sufficient to meet the costs of new benefits being accrued by active members in the future.

Funding level
The ratio of a Pension scheme's assets to its liabilities. Used as a measure of the scheme's ability to meet its future liabilities.

GDP (Gross Domestic Product)
Represents the total value of goods produced and services provided in a country during one year. It is often seen as a measure of the strength of a country's economy.

Growth
Typically involves investing in proven companies that are looking for capital to expand, restructure, finance an acquisition, or enter new markets, with the aim of making them more profitable within a few years.

Index/Indices
These are used for comparison purposes – as a benchmark – and references throughout the Annual Report to various benchmarks are contextual to the asset class being discussed. For example, the MSCI World Index is used as a benchmark for Private Equities.

Index-linked securities
Investments in stock where the interest payments and the final redemption proceeds are linked to the retail price index. Such stocks provide protection against inflation.

Inflation
Term used to describe rising prices. How quickly prices go up is known as the rate of inflation.

Infrastructure
The public facilities and services needed to support residential development, including highways, bridges, schools and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Internal management
Assets that are managed directly by teams at LPPI (i.e. in the case of Public Equities, where the LPPI team chose which stocks to hold)

Investment management expenses
All expenses relating to managing the Fund's investments.

Investment strategy
Investor's long-term distribution of assets among various asset classes taking into consideration, goals of the Fund, attitude to risk and timescale.

Liabilities
Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pension liabilities are the pension benefits and payments that are due to be paid when someone retires.

LPP – Local Pensions Partnership
The Local Pensions Partnership (LPP) is a collaboration between two successful LGPS funds – Lancashire County Pension Fund and London Pensions Fund Authority, with the goals of creating:

- A best-in-class, end-to-end pensions services organisation for public sector funds; LPP currently provide pensions administration services to 13 funds, including LGPS, fire and police schemes.
- An FCA-regulated structure for asset pooling.
- An organisation focused on managing assets and liabilities (risk) together in order to improve long-term fund performance, stabilise contributions and reduce deficits.
- A partnership which is open to other LGPS and public sector funds to join as owner shareholders or as investors only in LPP's pool.

Market value
The price at which an investment can be bought or sold at a given date.

Maturity date
Agreed-upon date at which an investment ends.

Multi-Strategy
Investing involves deploying capital across multiple sub-strategies (including, but not limited to, those listed earlier in this section).

Over the counter (OTC)
A security traded in some context other than on a formal exchange. The phrase "over the counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralised exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Past service liability
The value, in present day terms, of the benefits accrued by members up to the valuation date. Calculated on the basis of a set of assumptions agreed between the administering authority and the actuary.

Pension boards
The role of each board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.

Pension boards need to have an equal number of employer representatives and member representatives. They may also have other types of members, such as independent experts. All pension board members have a duty to act in accordance with scheme regulations and other governing documents.

Pooled investment vehicles
Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Private Equity
Shares in un-quoted companies.

Property
All buildings and land that the Fund owns, including pooled property funds.

Related party
A person or organisation which has influence over another person or organisation.

over the same given period of time.

Relative Value (RV) strategies
Those which seek to benefit from the relative mispricing of related securities.

Responsible Investment
An approach to investment which recognises that the consideration of ESG factors forms an important part of the evaluation of the future risks and opportunities facing investee companies. Responsible Investors seek to understand the influences that are likely to impact the performance of investments during their period of ownership in order to assess the balance of risks relative to returns.

Pension funds invest the retirement savings of scheme members in order to fund the benefits they are entitled to receive in the future. There is an underlying fiduciary duty to protect the financial interests of scheme beneficiaries which is exercised through the approach to investment and the evaluation of risks and opportunities as part of investment stewardship.

Scheduled bodies
Organisations which are listed in parts 1 and 2 of schedule 2 to the LGPS Regulations 2013. These bodies automatically have the right to offer LGPS membership to eligible employees.

Organisations listed in part 1 are required to enrol eligible employees into the LGPS. This list includes but is not limited to: County and District Councils, Combined Authorities, Fire and Rescue Authorities, Police and Crime Commissioners, Chief Constables, Further and Higher Education Corporations, Sixth Form Colleges and Academies.

If an organisation is listed in part 2 it can choose to offer membership to all or some employees. This list includes, but is not limited to: Parish Councils, subsidiaries of County or District Councils, Other precepting authorities not listed in Part 1.

Service level agreement
A commitment between a service provider (for example LPP) and a client (for example, the Fund) that defines exactly which services will be provided and the level or standard expected for those services.

Stock lending
The act of loaning securities to another investor in return for a fee. When a security is loaned the ownership is also transferred to the borrower.

Transfer values
The value of a pension scheme members benefits available to buy benefits in another scheme.

Triennial actuarial valuation
Every three years the actuary formally reviews the assets and liabilities of the Lancashire LGPS scheme and produces a report on the scheme's financial position.

Venture capital
Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

50:50 scheme
In the LGPS, active members are given an option to accrue a lower benefit in return for paying a lower level of contribution.

Appendices

Appendix 1
Scheme employers with active members at 31 March 2022

	Contributions Receivable 2021/22[1]		
Employer Name	**Employer (£'000)**	**Employee (£'000)**	**Deficit (£'000)**
Total Active Employers	**86,739**	**67,652**	**5,013**
Lancashire County Council	**32,247**	**27,391**	**-**
Lancashire C.C excl schools	2,276	17,213	-
Lancashire C.C Schools	29,971	10,178	-
Scheduled Bodies[2] (191) are broken down as follows:	**40,403**	**34,486**	**4,360**
Blackburn With Darwen B.C.	3	4,573	-
Audley County Infant	1	23	-
Avondale County Primary	-	33	-
Brookhouse Primary School	-	12	-
Holy Trinity CE Primary	-	15	-
Longshaw County Infant	-	21	-
Longshaw County Junior	-	24	-
St Barnabas & St Pauls CEP	-	42	-
St James CE Primary School	2	21	-
St Michael with St John CE Primary School	-	14	-
Turncroft Nursery	-	9	-

[1] These contributions figures do not include pension strain amounts of £1.9m. However, total contributions of £161m referenced elsewhere do include pension strain amounts.
[2] Some employers are required to participate in the scheme (known as scheduled bodies)

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
Blackpool B.C exc Schools	9	4,296	-
Blackpool B.C Schools	0	473	-
Burnley B.C	1,121	426	304
Chorley Borough Council	1,382	546	-
Fylde Borough Council	84	438	-
Hyndburn B.C.	1,038	490	-
Lancaster City Council	780	1,292	-
Pendle B C	-	329	-
Preston City Council	0	960	-
Ribble Valley B.C	880	334	-
Rossendale B.C	-	283	-
South Ribble B.C	496	597	-
West Lancashire B.C	-	886	-
Wyre B.C	97	487	-
Blackpool Transport Servs.Ltd	-	24	-
Edge Hill University	4,242	1,722	394
Univ.of Central Lancashire	6,520	2,688	218
Lancaster & Morecambe College	588	197	9
Blackpool & The Fylde College	1,831	723	-
Preston College	758	288	20
Runshaw College	959	328	-
Blackburn College	942	374	-
Burnley College	763	313	-
Nelson and Colne College	1,082	398	79

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
Myerscough College	1,108	382	82
Blackpool Sixth Form College	312	131	-
Cardinal Newman College	393	172	-
Blackburn St Mary's	96	38	-
QEGS BBurn Academy (FS)	195	66	-
Lancs Fire and Rescue Service	-2	381	-
Penwortham Town Council	20	8	-
Blackpool Coastal Housing	720	328	-
Pilling Parish Council	9	2	-
Kirkland Parish Council	0	0	-
Catterall Parish Council	8	2	-
Garstang Town Council	9	2	0
United Learning (Accrington Academy)	191	79	-
ANWET (Darwen Aldridge Comm)	409	162	-
Fulwood Academy	87	53	-
St Annes on Sea Town Council	14	5	4
Active Lancashire Limited	165	86	-
Lancaster Girls GS (Academy)	129	59	32
Lancaster RGS (Academy)	257	80	84
Clitheroe Royal GS (Academy)	190	56	54
Hodgson Academy	194	62	56
FCAT (Hambleton Primary Academy)	33	12	14
Ripley St Thomas C E (Academy)	321	103	69
St Michael's CE High (Academy)	139	45	17

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
ATCT (Bowland High Academy Trust)	117	37	39
St Wilfrid's C of E Academy	169	54	94
Lostock Hall Academy Trust	98	31	33
St Christopher's CE (Academy)	162	49	91
Bishop Rawstorne High Academy	108	32	39
Belthorn Primary Academy	58	18	11
Garstang Community Academy	132	36	39
Parbold Douglas CE Academy	40	12	14
FCAT (Westcliff Prim Academy)	42	13	19
All Saints CE Prim Sch (Academy)	50	16	29
Tarleton Academy	141	50	49
FCAT (Montgomery HS Academy)	178	55	89
Morecambe Town Council	22	-	-
Parklands High School Academy	186	64	47
Penwortham Priory Academy	134	46	20
Albany Academy	170	52	38
Norbreck Primary Academy	92	29	26
Waterloo Primary Academy	160	56	35
Hawes Side Academy	99	30	30
The Lancashire Colleges Ltd	18	7	-
Academy at Worden	89	32	14
Wensley Fold CE Primary Academy	94	30	52
Star Academies	614	325	51
Bacup Rawtenstall GS (Academy)	159	54	42

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
ATCT (Roseacre Primary Academy)	94	32	37
Star Academies (Islam Boys HS)	40	17	7
Thames Primary Academy	140	45	45
Maharishi School (Free School)	57	16	3
Pendle Educ Trust-Colne Primet	128	39	9
Pendle Education Trust - Walter St	104	34	19
Moorside Community Academy	72	26	14
Fylde Coast Academy Trust	93	39	11
Blackpool MAT (Devonshire Academy)	125	38	51
Blackpool MAT (Park Academy)	168	66	83
Blackpool MAT (Anchorsholme Academy)	114	33	56
FCAT (Unity Academy)	235	77	119
Langdale Free School	14	6	1
Star Academies (Olive Blackburn)	72	31	5
Star Academies (Olive London)	65	29	4
Educ Partner Tr (The Heights)	68	27	39
Preesall Town Council	8	2	1
BFET (South Shore Academy)	176	59	75
Darwen Town Council	1	0	0
Habergham Eaves Parish Council	0	0	0
Old Laund Booth Parish Council	1	0	0
Police & Crime Commissioner	108	61	-
Blackpool MAT (Revoe)	98	35	70
Cidari Educ (St Georges)	102	30	61

Employer Name	Contributions Receivable 2021/22[1] Employer (£'000)	Employee (£'000)	Deficit (£'000)
ATCT (Witton Park Academy Trust)	168	55	71
Cidari Educ (Lukes & Philips)	37	13	40
Cidari Educ Ltd (St James)	52	16	29
Cidari Educ Ltd (St Barnabas)	31	10	27
Cidari Educ Ltd (St Aidans)	42	13	30
Blessed Edward MAT (St Marys)	191	63	71
Blessed Edward MAT (St Cuth)	51	16	37
FCAT (Aspire Academy)	166	45	70
Blessed Edward MAT (Christ)	45	14	18
ANWET (Darwen Vale Academy)	125	41	104
Star Academies Eden GS Waltham	45	21	3
Star Academies Eden GS Coventry	64	26	8
Star Academies Eden BS Bolton FS	59	21	8
Lancashire Chief Constable	2	4,278	-
BFET (Marton Primary Academy)	91	27	37
Educ Partner Tr (Burnley High FS)	52	21	2
Cliviger Parish Council	1	0	-
Star Academies Islam Girls HS	78	29	31
Cidari Education Trust	62	37	10
Cidari Edu Ltd(Baines Endowed)	116	36	62
Cidari Ed Ltd(Marsden St John)	39	12	10
ANWET (Sudell PS Academy)	39	10	28
Blackpool Housing Company Ltd	148	66	22
Pendle Edu Trust (Castercliff)	65	21	32

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
Educ Partner Tr (Coal Clough)	104	37	16
Star Academies (Eden BS Preston)	32	14	2
Star Academies (Eden GS Slough)	70	29	8
Star Academies (Eden BS Birming)	53	20	9
FCAT (BPool Gateway Academy)	69	23	11
Eden School	39	16	4
Whittle le Woods Parish Coun	3	2	0
Educ Partner Tr (Pleckgate HS)	172	52	104
Freckleton Parish Council	1	0	-
PET (West Craven)	104	34	13
Star Academies Highfield Humanities	135	42	46
Pendle Education Trust	45	23	-
Education Partnership Trust	74	42	54
Blessed Edward Trust	18	8	-
Star Academies Olive Bolton	41	18	-
Star Academies Olive Preston	45	19	-
Star Academies Olive Birmingham	63	25	-
Clayton-Le-Woods Parish Council	5	2	-
FCAT (Mereside)	96	27	52
Tor View SLC	359	132	59
FCAT (Westminster Primary Academy)	95	29	21
Mosaic Academy Trust	103	36	19
Cidari (Newchurch PSM)	15	4	2
Star Academies - Eden Girls Manchester	55	23	-

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
Cidari Educ (St Silas)	56	17	14
Bay Learning Tr (Morecambe Bay Academy)	209	74	-
Star Academies (The Valley Leadership Academy)	70	25	-
Star Academies (Eden Boys LA Birmingham East)	32	11	-
Learning Together Trust (Adlington PS)	30	8	5
Blackpool Waste Services	352	128	-
Nelson Town Council	6	3	-
Bay Learning Tr (Central Lancaster HS)	101	35	-
Star Academies (Eden Girls LA Birm)	46	20	-
Star Academies (Eden Boys LA Bradford)	33	14	-
Educ Partner Tr (The Heights Burnley)	56	20	-
Romero (St Mary's RC)	49	16	-
Champion Educ Tr (Blackburn Central HS)	158	58	28
Champion Educ Tr (Crosshill Specialist Sch)	57	20	9
Romero Catholic Academy Trust (St John the Baptis	48	17	-
Romero CAT (St Augustines)	55	19	-
Romero CAT (All Saints RC HS)	93	33	-
Romero CAT (Blessed Trinity RC)	225	80	-
Endeavour Learning Trust (Northbrook PS)	37	13	-
Champion Educ Tr (Lotus School)	39	14	-

	Contributions Receivable 2021/22[1]		
Employer Name	**Employer (£'000)**	**Employee (£'000)**	**Deficit (£'000)**
Cidari Educ (St Pauls CE PS)	4	1	-
Cockerham Parish Council	0	0	-
Nether Wyresdale Parish Council	1	0	-
United Learning (The Hyndburn Academy)	112	37	16
Pendle Education Trust (Casterton Primary Academy)	76	24	10
Bay Learning Tr (Carnforth High School)	111	34	22
Star Academies (Bay Leadership Academies)	155	48	29
FCAT (Armfield Academy)	112	41	-
Endeavour LT (Burscough Priory Academy)	63	19	15
United Learning (Marsden Heights)	212	76	-
Rowan LT (Farington PS)	46	15	-
Endeavour Learning Trust (Central Team)	99	37	-
Mater Christi MAT St Joseph's Catholic Primary	42	14	-
Chorley Leisure Ltd	74	34	-
South Ribble Leisure Ltd	128	45	-
Star Academies - Eden Boys Manchester	57	23	-
Admitted Bodies[3] (113) are broken down as follows:	**14,089**	**5,776**	**653**
UCST (AKS Arnold)	24	11	4
Lancaster University	5,262	2,142	-

[3] Some employers are admitted to the scheme following application for membership (known as admitted bodies

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
Lancashire County Branch Unison	12	4	-
NW Inshore Fisheries & Conserv	127	44	-
UCST (AKS Lytham)	29	10	-
University of Cumbria	2,059	842	314
Whitworth Town Council	8	3	2
Kirkham Grammar School (Ind)	93	24	1
Caritas Care Limited	276	90	43
Community Council of Lancs	28	9	-
Progress Housing Group	248	111	-
Pendle Leisure Trust Ltd	282	123	-
Together Housing Assoc Ltd	1,972	774	-
Leisure in Hyndburn	195	73	27
Adventure Hyndburn	40	12	22
Blackpool Zoo (Grant Leisure)	17	14	-
Rossendale Leisure Trust	-	24	-
Marketing Lancashire Ltd	33	33	-
Liberata UK Ltd (Pendle)	34	63	-
West Lancs Community Leisure	81	40	-
Community Gateway Assoc Ltd	224	101	-
Chorley Community Housing Ltd	93	39	-
Capita(Rossendale BC Transfer)	14	8	-
Consultant Caterers Ltd	6	3	-
Alternative Futures Group Ltd	-	3	-
Creative Support Ltd	-	10	-

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
Community and Business Partn	56	21	-
I Care (Home)	-	2	-
Fylde Coast YMCA (Fylde TUPE)	0	1	-
Cofely FM Ltd (Lend Lease)	4	7	-
Creative Support Ltd (Midway)	17	7	-
Mellor's (Bishop Rawstorne)	11	3	1
Andron (formerly Solar)	-	1	-
Cofely FM Ltd (Pleckgate)	2	2	-
Liberata UK Ltd (Burnley)	194	70	-
Elite Cleaning and Environment	3	1	-
Eric Wright FM - Site Supervisors Highfield HC	10	3	-
Mellors (Little Hoole)	3	1	-
Mellors (Holy Cross)	10	4	-
Service Alliance Ltd (Altham)	1	0	-
Lancashire Care Foundation	-	2	-
Burnley Leisure	313	126	-
CG Cleaning (Kennington Road)	3	1	0
Compass Contract Services (UK) Ltd	28	7	-
Service Alliance (St Wilfrid)	2	1	-
Blackpool, Fylde and Wyre CU	7	3	-
Service Alliance (Whalley PS)	1	0	-
FCC Environment	24	8	-
County Councils Network	19	23	5

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
Urbaser Ltd	55	13	2
Service Alliance (ClithPendle)	2	1	-
I Care	14	5	-
Ind Living Fund (Blackpool BC)	9	2	0
Elite CES (Fulwood & Cadley)	1	0	-
Elite CES Ltd(Moor Nook School)	2	1	0
Elite CES Ltd (Carr Hill)	2	1	-
Premiserv (St Peters)	1	0	-
5AM Contract Cleaning (Blackpool Coastal)	3	1	-
RCCN (Burscough)	2	1	-
Elite CES (Hambleton)	3	1	0
Elite CES Ltd (St Annes)	1	0	-
Bulloughs (BFET Marton)	3	0	-
Mellors (Delph Side)	2	1	-
Mellors (Lostock Hall Academy)	7	2	-
Capita (Property & Infrastructure)	14	6	-
Maxim (St Georges CE PS)	1	0	-
Compass CS Ltd (Highfield)	5	1	-
Greenwich Leisure Limited (Preston City)	46	15	-
Clarets in the Community Ltd	4	1	-
Compass Contract Services (Hodgson Academy)	4	1	-
Mellors (Parklands High School)	7	2	-
Noonan (Hyndburn CCTV)	4	2	-

	Contributions Receivable 2021/22[1]		
Employer Name	**Employer (£'000)**	**Employee (£'000)**	**Deficit (£'000)**
Mellors (St Michaels CE Academy Trust)	16	4	-
Compass CS (Mer/Mon/Uni)	21	5	-
Mellors (Tarleton Community PS)	1	0	-
Andron (Longridge High School)	0	0	-
Maxim (Bolton le Sands Primary School)	0	0	-
Maxim (St Augustines)	2	1	-
Laneshaw Bridge Primary School	43	16	8
Andron (Cidari - St Georges School)	4	1	-
Blacko Primary School	18	5	5
Colne Park High School	163	51	33
Lord Street Primary School	87	34	19
The Pennine Trust	32	12	-
Wolseley UK	4	1	-
Local Pensions Partnership Inv.	116	74	40
CG Cleaning Ltd (Burnley St Peters)	3	1	-
CG Cleaning Ltd (Moorside PS Lancaster)	2	1	-
CG Cleaning Ltd (St Wulstans & St Edmunds)	6	2	-
Bulloughs (Balshaw HS)	4	1	-
Mellors (Cidari - Multi Academies)	24	6	-
Mellors (Cidari - St Silas)	6	2	-
Orian Solutions Ltd (Layton PS)	1	0	-
Maxim FM (St James PS Clitheroe)	1	0	-

	Contributions Receivable 2021/22[1]		
Employer Name	**Employer (£'000)**	**Employee (£'000)**	**Deficit (£'000)**
Lancashire Care NHS Foundation Trust (EIS)	13	4	-
Aspens Services Ltd (AE - Sudell Primary School)	4	1	-
Progress Housing Association	457	144	-
Aspens Services Ltd - (AE - DACA/DAES)	16	5	-
Aspens Services Ltd - (AE - Darwen Vale HS)	4	1	-
Maxim (Deepdale PS)	2	1	-
Bulloughs Cleaning Services Ltd- (AE - Sudell Prim	1	0	-
Local Pensions Partnership Admin	927	429	36
Tenon FM Ltd (Clayton Brook PS)	2	1	-
Mellor's (Bank Methodist PS)	0	0	-
Midshire Services Ltd (Southlands HS)	9	2	-
CG Cleaning Ltd (Mary Magdalens CE PS)	3	1	-
Safenet Domestic Abuse and Support Services	6	2	-
CG Cleaning Ltd (St Johns PS Poulton-le-Fylde)	0	0	-
Tenon FM Ltd (Morecambe Bay PS)	1	0	-
Orian Solutions Limited (Broughton Primary School)	5	1	-
Forward as One (St Johns with St Michael)	3	1	-

	Contributions Receivable 2021/22[1]		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
South Ribble Community Leisure Ltd	-	-	91
Veolia ES (UK) Ltd (Wyre BC)	27	7	-

Scheme Employers where contributions have been received during 2021/22 but they had no Active Scheme Members as at 31 March 2022

	Contributions Receivable 2021/22		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
Bulloughs (Our Lady)	0	0	-
Preston Care and Repair	1	0	-
Bootstrap Enterprises Ltd	-0	-0	-
Essential Fleet Services Ltd	12	-3	-
Orian Solutions Ltd (Parklands High School)	0	0	-
RCCN (Whitefield)	0	0	-
Maxim (Kelbrook Primary School)	0	0	-
Maxim (Lancaster Girls Grammar)	1	0	-
Maxim (St John with St Michael)	0	0	-
Galloways Society for Blind	221	-	-
QEGS Blackburn Ltd	4	1	-
Burnley and Pendle Transport	-	7	-
Farington Parish Council	2	1	-
Lend Lease Construction (EMEA) (Fulwood)[1]	-28	-	-1
Service Alliance Ltd (Ribblesdale Childrens Centre)	-0	-	-1

	Contributions Receivable 2021/22		
Employer Name	Employer (£'000)	Employee (£'000)	Deficit (£'000)
Churchill (Moorside)[1]	-10	-	-
Lend Lease Construction (EMEA) (Phase 3)[1]	-5	-	-1
RCCN (St Michaels)	-	-	2
Cofely FM Ltd (Witton Park)[1]	-19	-	-1
NSL Ltd.(Lancaster)[1]	-2	0	-

[1]Surplus payments paid to terminated employers

Appendix 2 Annual Administration Report

LPPA Annual
Administration Repc

Appendix 3 Communication Policy Statement

Appendix 4 -
Communications Poli

Appendix 4 Pensions Administration Strategy

Appendix 5 -
Pensions Administrati

Appendix 5 Funding Strategy Statement

Appendix 6 - Funding
Strategy Statement.pc

Appendix 6 Investment Strategy Statement

Appendix 7 -
Investment Strategy S

Appendix 7 Actuarial Valuation

Appendix 8 - LCPF
Actuarial Valuation

Appendix 8 Responsible Investment Policy

lcpf-responsible-investment-policy.pdf

Lancashire County Council

Pension Fund Committee
Meeting to be held on Friday, 16 September 2022

Electoral Division affected:
(All Divisions);

Responsible Investment Report
(Appendices 'A' and 'B' refer)

Contact for further information: Mukhtar Master, Governance & Risk Officer,
Lancashire County Pension Fund (01772) 5 32018
mukhtar.master@lancashire.gov.uk

Executive Summary

Responsible Investment encompasses a range of stewardship activities associated with Lancashire County Pension Fund (the Fund) fulfilling its duty to act in the best long-term interests of fund beneficiaries.

Set out at Appendix 'A' is a report from the Local Pensions Partnership Investments Limited which provides the Committee with an update on responsible investment matters during the second quarter of 2022 (April to June).

Recommendation

The Committee is asked to note the report.

Background

The report at Appendix 'A' has been prepared by the Head of Responsible Investment at Local Pensions Partnership Investments Limited (LPPI) and provides information on how the Fund is being supported to fulfil its commitment to long term responsible asset ownership in line with the approach set out within its Investment Strategy Statement and the Responsible Investment Policy approved by the Committee at its meeting in November 2021.

Attached as Appendix 'B' is the dashboard style report together with the qualitative overview of LPPI stewardship activities for the second quarter of 2022 (April - June).

Other matters of note for the Committee:

Key Points from LPPI Responsible Investment Report Q2 2022

- Compared with Q1 2022, the following Climate Change metrics are as follows:
  - Brown exposure has decreased 2.79% to 2.63%;
  - There has been an increase in green activities from 2.89 to 3.99. This change is a result of a large increased exposure from the Infrastructure asset class.

- GLIL (An innovative collaboration between aligned and like-minded investors who are seeking investment into core infrastructure opportunities predominately in the United Kingdom) has made its first investment) i in renewable energy generated by offshore wind turbines, helping to support the UK's energy transition and Net Zero ambitions. The wind farm, Hornsea One, is located off the Yorkshire coast and spans more than 400 square kilometres.

- LPPI produced a 'Client Update on Net Zero' in July 2022. The update, available in the Pensions Library, covered:
  - Development of LPPI's ESG programme;
  - Selection of a climate change data provider for the provision of data sets and tools to support LPPI; and
  - Progress in agreeing an approach to LPPI setting the required targets.

Local Authority Pension Fund Forum (LAPFF)

LAPFF business meetings continue to be held online. The last meeting held on the 13th July 2022 covered topics such as:

- **LAPFF Engagement with PRI (Principles for Responsible Investment) Advance Human Rights Initiative** – PRI has initiated a human rights programme that it has called 'Advance' to facilitate improved human rights conduct and impacts by companies. LAPFF is to participate as a collaborative partner, rather than a lead partner, in the engagements with the PRI initiative along with the five mining companies it engaged with previously for its mining and human rights report;
- **Electric Vehicle (EV) Charging Infrastructure** – there is recognition that more needs to be done to increase access to charging infrastructure to support a rapid transition to EVs. LAPFF is to engage with carmakers on charging infrastructure (as part of its ongoing engagements on EVs) and with energy companies that own charging networks; and,
- **LAPFF Executive Elections for 2022** - The Chair of the Pension Fund Committee and existing LAPFF executive member, County Councillor E Pope, has submitted a nomination form to continue in his role for a further year.

Papers from the meeting can be made available on request.

Public Campaign Queries

The Fund have not received any queries in the last quarter.

Consultations

Frances Deakin, the Head of Responsible Investment at the Local Pensions Partnership Investments Limited, was consulted regarding this report.

Implications:

This item has the following implications, as indicated:

Risk management

It is an important component of good governance that the Fund is an engaged and responsible investor committed to actions which are in the best long-term interests of fund members and beneficiaries.

The monitoring of investee companies and the promotion of good corporate governance practices can help to reduce the risk of unexpected losses resulting from poor oversight and lack of independence.

Responsible investment practices underpin the fulfilment of the Fund's fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by Local Pensions Partnership Investments Limited.

Quarterly Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by Local Pensions Partnership Investments Limited and enable the Committee to monitor the activities undertaken.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Robeco Active Ownership Report Q2-2022	01/04/22 to 30/06/22	Mukhtar Master (01772) 532018
LPPI Client Update on Net Zero	July 2022	Mukhtar Master (01772) 532018

Reason for inclusion in Part II, if appropriate
N/A

Lancashire County Pension Fund (LCPF) Responsible Investment Report – Q2 2022

This report has been prepared by LPPI for Lancashire County Pension Fund (LCPF) as a professional client.

1. Introduction

This report on Responsible Investment (RI) is a companion to the LPPI RI Dashboard (Appendix B) and the Quarterly Active Ownership Report (available from the online Pensions Library).

It covers stewardship in the period 1st April - 30th June 2022 plus insights on current and emerging issues for client pension funds.

[R] This symbol indicates a term explained in the reference section at the end of this report.

Key takeaways for the period:

- In Q2 2022 LPPI voted on 98% of company proposals, supporting 89% of these.
- Investments in Brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 2.63% of the portfolio.
- Investments in Green sectors (renewable energy generation, clean technology, and decarbonising activities) are 3.99% of the portfolio.
- LPPI attended the Full Council of the Occupational Pension Scheme Stewardship Council (OPSC) where priority work strands for next year were discussed and agreed preparatory to planning getting underway.
- GLIL[R], has made its first investment in renewable energy generated by offshore wind turbines, helping to support the UK's energy transition and Net Zero ambitions.
- LPPI entered its second year as a supporter of the 10,000 black interns programme, hosting two interns for a 6-week training programme.

2. RI Dashboard – Portfolio Characteristics

This section of the report shares key takeaways from the RI Dashboard at Appendix B.

Asset class metrics (*Dashboard pages 1 & 2*) offer insights on the composition of the portfolio and its general characteristics. See the summary for Q2 2022 outlined below.

<u>Listed equities (Dashboard p1)</u>

Sector Breakdown

Categorised by GICS[R] the largest sectoral exposures for the GEF are Information Tech. (26%), Consumer Staples (16%), and Financials (13%).

Comparing the GEF with its benchmark (MSCI ACWI)[R] gives insight into how sector exposures for the fund differ from a global market index. The length of each horizontal bar indicates by how much exposures differ in total (+ or –) compared with the benchmark, which is the outcome of active managers making stock selection decisions rather than passively buying an index.

Top 10 Positions

The top 10 companies (10 largest positions) make up 24% of the total LPPI GEF.

In Q2 2022 Microsoft remains the largest holding in the GEF. Visa, Nestlé, and Accenture also remain in the top four, although Visa moved up 1 position. Pepsi moved down 3 positions, whilst SPDR Gold Shares and Alphabet moved up 1 and 4 positions respectively. Starbucks was replaced by AutoZone, which makes up the last position in the top 10.

Portfolio ESG Score

The GEF's Portfolio ESG score has increased from 5.4 to 5.8 between Q1 and Q2. In the same period the equivalent score for the benchmark increased from 5.2 to 5.5. Methodology changes implemented by MSCI is the main driving factor for the increased scores.

Transition Pathway Initiative (TPI)

Monitoring against TPI[R] Management Quality ratings confirms the GEF continues its relatively low exposure to highly carbon intensive activities with minimal changes in ratings since Q1. By value, the coverage of the GEF represented within the globally high emitting companies under TPI assessment has decreased from 11% to 10%**,** between Q1 and Q2. This change is a reflection of the fluctuations in the % of market value for the companies under TPI.

The number of GEF companies in scope of TPI scoring has increased by 2 since Q1 2022, changing from 23 to 25. The two new companies came into scope at TPI 2 and TPI 4.

Of the 25 companies in TPI scope:

- 96% (by value) are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI 3) and into their strategic planning (TPI 4). This is unchanged from Q1 2022.
- 5 companies are scored below TPI 3 and are under monitoring.

Governance Insights

These metrics provide insights on governance issues for the GEF using data from ISS DataDesk (Institutional Shareholder Services) our provider of shareholder voting services.

Women on the board: A measure of gender diversity confirming the average proportion of female board members for companies in the GEF (where data is available).

In Q2 2022, an average of 29% of board members were female in the GEF. There was a coverage of 84% data availability, which was a result of several companies not being in scope of the ISS database.

Board independence: The average proportion of board members identified by ISS as independent. Please note independence expectations vary across markets with LPPI generally favouring greater independence as a route to an appropriate breadth of ideas, skills and experiences being drawn upon.

In Q2 2022, on average 68% of board members were independent in the GEF. There was a coverage of 83% data availability, which was a result of several companies not being in scope of the ISS database.

Say-on-pay: The average level of investor support for the most recent say-on-pay vote at a company meeting. Please note not all markets require say-on-pay votes. A vote of greater than 20% against (support < 80%) is generally considered significant.

In Q2 2022, an average of 88% were in support for say on pay, which indicates a high proportion of investors were supportive of the pay policies of investee companies. There was a coverage of 75% data availability, which was a result of several companies not being in scope of the ISS database.

<u>Other asset classes (Dashboard p2)</u>

Private Equity

Sector and geographical exposures remained similar to those reported in Q1 2022. The portfolio continued to have a strong United States presence (49%) and largest sector exposure is to Information Technology (31%).

Infrastructure

The geographical exposures to UK based infrastructure slightly increased, moving from 47% exposure in Q1 to 52% in Q2. The largest sectoral exposure remained in Traditional Energy, Renewable Energy, Waste, which makes up 35% of the portfolio.

Real Estate

The geographical exposures continued to be largely deployed in the UK, remaining unchanged from Q1 2022 at 74%. The largest sectoral exposure continued to be Industrial assets, slightly increasing from 40% in Q1 2022 to 43% of the portfolio in Q2.

The Real-World Outcomes section of the dashboard features examples of socially positive investments and this quarter the focus is on Real Estate. Pages 6-7 share information on a selection of investments within the LCPF portfolio which are based in the UK and abroad.

Green & Brown Exposures

Calculation of the Fund's exposure to Green and Brown activities focusses specifically on equity assets (Listed Equity, Private Equity, and Infrastructure) plus corporate bonds within Fixed Income. Figures give an <u>indication</u>, rather than a precise measure, as an assistance to reviewing the overall position.

Green activities are those directly contributing to real world decarbonisation, principally through renewable energy generation, but include other activities supporting lower emissions including district heating, and waste management. Brown activities are those directly involved with extracting, transporting, storing, and otherwise supplying fossil fuels, or using them to generate energy.

The dashboard presents information on the trend in Green and Brown exposures (commencing in Q4 2019). Quarterly changes in Green and Brown exposure reflect multiple factors at play including funds reaching maturity, assets being revalued, and investments being made and sold. The total value of the Lancashire County Pension Fund (LCPF) portfolio (as the denominator) also affects Brown and Green % shares quarterly.

Compared with Q1 2022, Brown exposure has had a minor decrease from 2.79% to 2.63%. The biggest contributor to the decreased exposure is from the Infrastructure asset class. This quarter, figures reflect several companies identified as Brown having exited from their respective funds. This has decreased Infrastructure's Brown exposure from 2.33% in Q1 to 2.19% of the portfolio in Q2. Other contributing factors have been a mark-to-market decrease in the respective sector's performance of Brown positions held in Infrastructure and the Global Equities Fund, as well as several Brown positions exiting the Fixed Income fund.

Compared with Q1 2022, Green activities have increased from 2.89% to 3.99% of the portfolio. The change is a result of a large increased exposure from the Infrastructure asset class. The figures reflect several new companies being added to existing funds, which have been identified as Green. This has increased Infrastructure's Green exposure from 2.77% in Q1 to 3.87% of the portfolio in Q2. Another contributing factor has been a mark-to-market increase reflecting the sector's strong performance of Green positions held in Infrastructure.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 84% of total Green exposure, and 97% of Green exposure is via Infrastructure assets.

3. Core Stewardship

This section of the report gives an overview of stewardship activities in the last quarter. Client pension funds delegate day to day implementation of the Partnership's Responsible Investment approach to Local Pensions Partnership Investments Ltd (LPPI). Ongoing stewardship activities by LPPI include portfolio and manager monitoring and the exercise of ownership responsibilities via shareholder voting, and engagement.

Shareholder Voting - LPPI Global Equity Fund (GEF) *(Dashboard page 3)*

Shareholder voting is overseen centrally by LPPI rather than by individual asset managers. LPPI receives analysis and recommendations from an external provider of proxy voting and governance research. We follow Sustainability Voting Guidelines focussed on material ESG considerations and liaise with providers and asset managers as needed to reach final voting decisions.

Full details of all shareholder voting by LPPI are publicly available from the LPP website within quarterly shareholder voting reports.

The period 1st April – 30th June 2022 encompassed 233 meetings and 3207 resolutions voted. LPPI voted at 98% of the meetings where GEF shares entitled participation. The shortfall reflects the application of Do Not Vote to a Russian position that was not fully liquidated before trading restrictions were introduced, two companies in shareblocking markets where LPPI applied Do Not Vote, and two custodian errors in the voting chain. LPPI has worked with the custodian to fix the latter.

Company Proposals

LPPI supported 89% of company proposals in the period.

Voting against management concentrated on:

- the election of directors (addressing individual director issues, overall board independence, and over-boarding), 38% of votes against company proposals.
- non-salary compensation (addressing inadequate disclosure of underlying performance criteria, use of discretion, and the quantum of proposed rewards), 18% of votes against company proposals.
- the support of shareholder resolutions, covering topics including climate change, human rights, diversity, and political lobbying (25%).

Case Study – Directors Related

LPPI voted against 145 directors-related resolutions across 66 companies. This was approximately 8% of all directors-related votes.

LPPI voted against 31 resolutions across 11 companies due to a lack of Board independence. Results (where disclosed): 8.9% - 49.3% Against.

LPPI voted against 18 directors across 16 companies due to the lack of diversity on the Board. Results (where disclosed): 0.9% - 63.3% Against.

LPPI voted against four directors across two companies due to overboarding. Results not disclosed.

Case Study – Non-Salary Compensation

LPPI voted against 66 compensation resolutions across 156 companies. This was approximately 22% of compensation-related votes. Of the 66 votes LPPI opposed, five received a majority of votes against.

At Agnico Eagle Mines Limited (USA: Gold), LPPI voted against the say-on-pay. This was driven by the fact that pay, persistently above the peer group median, has not reflected company performance vs the peer group over the one, three, and five year time periods. Result: 75.6% Against.

At Masimo (USA: Health Care Equipment), LPPI voted against the say-on-pay. This was driven by the presence of a single-trigger provision allowing the executive the ability to unilaterally discontinue employment and receive excessive severance pay-outs in the event of a change in control event (e.g. acquisition). Result: 52.6% Against.

At Netflix (USA: Movies and Entertainment), LPPI voted against the say-on-pay. This was driven by a lack of performance conditions linked to significant options grants. It also follows a lack of responsiveness to low support for previous say-on-pays. Result: 72.9% Against.

Shareholder Proposals

LPPI supported 115 out of 163 (71%) shareholder resolutions over the quarter.

LPPI supported 17 out of 22 (77%) diversity related shareholder resolutions. At McDonalds (USA: Restaurants), LPPI supported a shareholder resolution requesting the company oversee a third-party civil rights audit analysing its policies and practices on stakeholders. The vote passed with 55.1% support.

LPPI supported seven out of nine (78%) climate-related shareholder resolutions. At The Travelers Companies (USA: Property & Casualty Insurance), LPPI supported a shareholder resolution requesting the company issue a report considering how it intends to measure, disclose, and reduce GHG emissions associated with its insurance practices in line with the Paris Agreement[R]. The vote passed with 55.2% support.

LPPI supported 13 out of 16 (81%) political lobbying related shareholder votes. At Netflix (USA: Movies and Entertainment), LPPI supported a shareholder resolution requesting that the company increase its disclosures on its lobbying expenses and related policies and procedures. The vote passed with 60.1% support.

LPPI supported six out of six human rights specific shareholder resolutions. None of the votes received majority support. At Amazon (USA: Internet & Direct Marketing Retail), LPPI supported two shareholder resolutions seeking greater information around the human rights due diligence processes linked to surveillance technologies. The votes received 40.3% and 40.7% support.

Case Study – Manager Monitoring

Infrastructure

The infrastructure team has undergone a deep dive exercise to further develop its ESG monitoring approach, focused on what information could be readily identified, measured, and compared. For the most recent quarter, 5 managers who manage approximately 50% of externally managed assets and represent 20% of the total NAV in the investment pooling vehicle (IPV) were chosen. Priority was given to these managers on the basis of sector exposure, holding period and size. A combination of a manager ESG call and review of ESG documentation, was used to build a dashboard of key indicators on manager ESG processes. Our engagement found all 5 managers to be PRI signatories who provided or were in the process of providing some level of carbon reporting. However, managers were behind in setting Net Zero targets or formalised physical climate risk monitoring processes. The findings support LPPI's commitment to engage external managers on developing carbon reporting and integrating physical climate risk assessments into portfolio monitoring.

4. Robeco Summary

Net Zero Emissions

The new Net Zero Emissions theme is an extension of Robeco's existing corporate decarbonisation theme and will work with companies towards achieving net-zero emissions globally by 2050. It will outline expectations for companies to set long-term net-zero targets, and to substantiate them with credible short- and medium-term emissions reduction strategies, as well as transition plans that ensure a reduction in real-world emissions over the next decade reflecting the urgency to act now. Robeco have used external benchmarks such as Climate Action 100+[R] to define their objectives.

The Net Zero Emissions theme also brings an expansion to their company selection process for climate engagement, which has resulted in an additional 15 companies. They are also now co-leading the engagement for Climate Acton 100+[R] for five of the 15 companies and acting as a collaborative engager for a further five. Robeco expect to see quantitative results in 18-24 months' time.

Good Governance

The AGM season (when most companies hold their annual general meeting of shareholders) presents a unique opportunity for investors to engage with companies. The Covid-19 pandemic forced AGMs to be held virtually, with potentially lasting impacts. While digital meetings have allowed a wider set of shareholders to join meetings, it has led to low accountability as management can avoid awkward questions with little opportunity for shareholders to ask follow-up questions when the answers given are too vague. Hybrid AGM meetings are now being incorporated at many companies, as this allows a broad group of shareholders to attend online AGMs and ask questions from their location, whilst also facilitating an in-person attendance.

Over the 2022 AGM season, Robeco have also seen an increasing number of remuneration reports and policies that have been subject to shareholder dissent. Regulations (such as the EU's amended Shareholder Rights Directive) have given more tools to express disapproval, and the Covid-19 pandemic has changed the perspective of what shareholders consider to be acceptable remuneration practices. Robeco's engagement with companies urge remuneration committees to use pay packages to align incentives with long-term value creation considering both financial returns and sustainability.

Social topics are also gaining support, as shareholders are increasingly using their voting rights to push companies to take responsibility for environmental and social issues. Although shareholder proposals are a good way to flag 'E&S' issues, such resolutions are not filed consistently across markets and geographies. Robeco want to push companies to introduce additional mechanisms e.g., submitting their climate transition plan or improving their risk reporting on sustainability issues.

Single Use Plastics

From 2019 to 2022, Robeco engaged with 10 companies with the aim of driving the global plastics value chain towards a more circular economic model. After three years, they have successfully closed 80% of the engagement dialogues. The results from this engagement saw companies implementing innovative recycling initiatives, but there is little progress towards a fully circular model and evidence of more responsible lobbying efforts regarding regulation was limited. Robeco has been leading the call for a UN treaty on plastics and has urged other investors and financial industry stakeholders to sign up to it.

Digital Innovation in Healthcare (DIH)

In May 2022, Robeco closed the DIH theme with two-thirds of the engagement cases closed successfully. Most companies under engagement have defined a comprehensive digital strategy and supported it by integrating newer digital technologies within their innovation process. When it comes to cybersecurity, companies remain reluctant to share detailed information on external attacks and internal policy adherence failures due to commercial sensitivity issues.

The digital transformation that health care has seen over recent decades is now accelerating on a wider scale. The onset of the Covid-19 pandemic has fast-tracked the adoption of digital technologies in the health care sector and also forced companies to overcome their non-technological barriers to adapt to the new dynamic and remain competitive in the post-pandemic era. Robeco have also seen an increased recognition of the importance of sound cybersecurity, either voluntarily, or sometimes involuntarily through learning their lessons following impactful cybersecurity breaches and taking active steps to mitigate third-party risks. However, the engagements Robeco have undertaken show some bottlenecks, for example, health care centres have tightened their budgets and now have more limited resources to invest in high-tech solutions.

Sustainable Development Goals (SDG) Engagement

The SDGs provide a holistic, measurable roadmap to the world, outlining what countries, civil society, organisations, and corporates should do to solve the planet’s most pressing issues. In 2021, Robeco created a new engagement programme, focused on improving companies’ contributions to the SDGs. It marks a new engagement approach that focuses on seeking a measurable improvement in the contribution that investee companies can make to the goals. The SDG engagement theme focuses on companies with a high, unfulfilled potential when it comes to positively contributing to one or more of the 17 SDGs. Robeco selects companies for engagement using their proprietary SDG framework, which assesses contribution to the SDGs throughout the companies’ products, procedures and potential involvement in controversies.

Guiding the SDG engagement are three key processes:

1. Fundamental analysis and engagement strategy
2. Engagement itself
3. Continued evaluation of the engagement impact

During its first year, Robeco have initiated engagement with 35 companies, engaging them on one or more of the 17 SDGs. While companies recognise that the SDGs are in everyone's interest, more structured and integrated approaches are needed to realise the 2030 goals.

Shareholder Engagement - Robeco Active Ownership

Company and manager engagements are underway on an ongoing basis, directly through board seats and Limited Partner Advisory Committees (LPAC) for private market assets, and more conventionally through shareholder engagement with listed companies.

LPPI's engagement partner Robeco has completed a full quarter of engagement activity. The RI Dashboard (page 4) presents engagement headlines for the quarter which confirm the Robeco Active Ownership Team undertook 39 activities in total, and the predominant focus (by topic) was Environmental Management.

Page 5 of the Dashboard summarises the status of each live engagement theme (as it stood at the end of Q2 2022).

The Active Ownership Report provides detailed narrative on thematic engagements underway with listed companies (**representing shares held by the Global Equities Fund, or corporate bonds held by the LPPI Fixed Income Fund**).

5. Collaborations and Partnerships

LPPI participates in a range of investor groups and partnerships which provide opportunities for shared learning and a platform for collective action. The following are headlines for Q2 2022.

OPSC Future Work Streams (Meeting)

LPPI attended the Full Council of the Occupational Pension Scheme Stewardship Council (OPSC) where priority work strands for next year were discussed and agreed preparatory to planning getting underway.

Over the summer, LPPI communicated our areas of focus and ideas for how the OPSC could best support us in 1:1 meeting with the OPSC secretariat. These suggestions were collated across the membership into a longlist of possible themes for the year ahead. LPPI then cast our votes for our priority areas and attended the Full Council meeting where the themes were debated and finalised. The final list includes: climate change and TCFD[R] (approaches and best practice), joint engagement with service providers, workshops to streamline reporting, developing portfolio monitoring and engagement practices for private assets.

Investor Statement to Governments in the Climate Crisis 2022

LPPI once again added our name to the 2022 Global Investor Statement to Governments on the Climate Crisis. LPPI has been a signatory to successive Global Investor Statements to Governments on Climate Change since 2018. The annual statements are co-ordinated by The Investor Agenda and are a collective call to governments to rapidly implement priority policy actions that will enable investment of the trillions in private capital needed to respond to the climate crisis and meet the goals of the Paris Agreement[R]. The 2021 Statement had been the most demanding one to date and was directly cited as part of the COP26 discussions in order to demonstrate financial industry support for greater ambition. The most recent statement calls for governments to keep their COP26 pledges and ensure their targets and actions are in line with limiting global emissions to 1.5C. This is a great example of policy advocacy we carry out which supports our Net Zero by 2050 commitment as part of the NZAMI[R].

6. Other News and Insights

GLIL

GLIL[R] has made its first investment in renewable energy generated by offshore wind turbines through a stake in Hornsea One, the world's largest operational offshore wind farm which is located off the Yorkshire coast and spans more than 400 square kilometres.

As an investor in GLIL[R], the fund is directly helping to support the UK's energy transition and Net Zero ambitions. Further information on this recent investment is available here.

Consideration of Social Risks by Occupational Pension Schemes

In March 2021, the Department for Work and Pensions launched a call for evidence seeking views on whether Occupational Pension Scheme trustees' policies and practices on social factors are sufficiently robust and what the Government could do to ensure that trustees are able to meet their legal obligations in this respect.

LPPI submitted a response welcoming the focus on 'S' within ESG and suggested the Government's most productive role would be as:

- a facilitator using influence to encourage the investment sector to convene and develop standards that will solve perceived issues in a resource efficient way
- an advocate for the good practice being called for
- an exemplar of the processes and outcomes being urged on pension fund trustees (through incorporating material social factors within Covid recovery planning, and improving the ability of investors to hold companies to account by setting high standards for corporate governance via routes including listing rules).

The DWP published its response to the consultation on 15th July 2022 which confirmed the Department's view that *"it is up to schemes to determine how to consider financially material social risks and opportunities and whether to take an integrated approach to ESG or create standalone policies covering specific social factors. Whichever approach is taken, trustees should – where possible – consider financially material social risks and seize opportunities in this space. This will help trustees fulfil their fiduciary obligations by mitigating against financial risk and thereby safeguarding savers' money"*.

The main outcome is the creation of a new cross-department Minister-led working group which will lead work to:

1. Identify reliable data sources and other resources, which could be used by pension schemes to identify, assess and manage financially material social risks and

opportunities; and which could be used to inform guidance on investment risks from social factors;
2. monitor and report on developments with the International Sustainability Standards Board, and other international standards.

The DWP response can be read in full here.

FRC - The Impact of the Stewardship Code

The Financial Reporting Council (FRC) commissioned new research into the impact the revised UK Stewardship Code has had on the practice and reporting of asset managers and owners. The research consisted of a survey and interviews, carried out by a team from Minerva Analytics, the Durham University Business School and The Dickson Poon School of Law, King's College London, on behalf of the FRC. 55 asset managers and owners took part and provided evidence, with both groups providing very positive feedback about the impact of the revised 2020 Code. Notably, there was strong evidence of material changes to practice in the areas of governance and resourcing of stewardship, stewardship activities, processes and outcomes, and monitoring and reporting of stewardship.

Some of the key findings are as follows, with the full report found here.

- All organisations in the sample had undertaken some organisational restructuring to better integrate stewardship within their investment decision-making, a new requirement of the Code.
- 96% of the respondents reported increases in the size of their stewardship teams since the introduction of the revised Code and noted opportunities for more formal career progression in stewardship.
- 77% said the quality of engagement was better because of the Code's influence.
- Asset owners reported the most significant way the Code has influenced their approach is that they now feel more empowered to monitor their investment managers and were supportive of the contribution to industry-wide change on long-term goals for the investment community.

Next steps for the FRC, working with the Financial Conduct Authority, the Department of Work and Pensions and the Pensions Regulator, is to carry out a review of the regulatory framework for effective stewardship including the operation of the Code, from 2023. This research is the first step in assessing whether the Code is creating a market for effective stewardship and the need for any further regulation in this area.

Net Zero Update

Significant progress has been made this quarter on developing LPPI's Net Zero climate action plan. MSCI has been brought on board as our preferred climate data provider for listed equities, and we have used their analytical capabilities to understand the Global Equities Fund's emissions baseline and begun to set targets against this using the IIGCC framework for asset managers. Our focus over the next quarter is on developing an engagement strategy which will underpin these targets and prepare for publication in October. Please see our recent client update for more details.

10,000 Black Interns

This summer, LPPI entered its second year as a supporter of the 10,000 black interns programme. Two interns joined us for a 6-week training programme which saw them rotating between different teams, seeing the full breadth of work that we do at LPPI. Both spent a week with the Responsible Investment team and showed great curiosity and enthusiasm for the work we do Their research projects involved investigating recent incidents of greenwashing across the finance industry and the latest advice on assessing deforestation risk in order to support development of our Net Zero engagement strategy.

Stewardship Code Update

LPPI is preparing its Annual Report on Stewardship and Responsible Investment (2021/22) to the Financial Reporting Council, ahead of the October 2022 deadline. The report is our annual submission as a signatory to the UK Stewardship Code (2020) and reflects LPPI's commitment to high standards of stewardship defined as the responsible allocation, management, and oversight of capital.

This is the second time LPPI is submitting a report under the more demanding requirements of the UK Stewardship Code (2020), we intend to build upon our achievement and continue to improve our stewardship processes. The FRC will assess LPPI's Report and confirm (in early 2023) whether it meets the standard required for retaining signatory status.

For Reference

GICS - Global Industry Classification System
The most widely used approach to categorising activities into industry sectors. The main standard in use for public markets with growing use for other asset classes. For more information on GICS and the activities that fall into each sector, please see:
https://www.spglobal.com/marketintelligence/en/documents/112727-gics-mapbook_2018_v3_letter_digitalspreads.pdf

Climate Action 100+
Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Paris Agreement
The Agreement is a legally binding international treaty to tackle climate change and its negative impacts. The Agreement includes commitments from all countries to reduce their emissions and work together to adapt to the impacts of climate change. It entered into force on 4 November 2016.

The Agreement sets long-term goals to guide all nations to:

- substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees,
- review countries' commitments every five years,

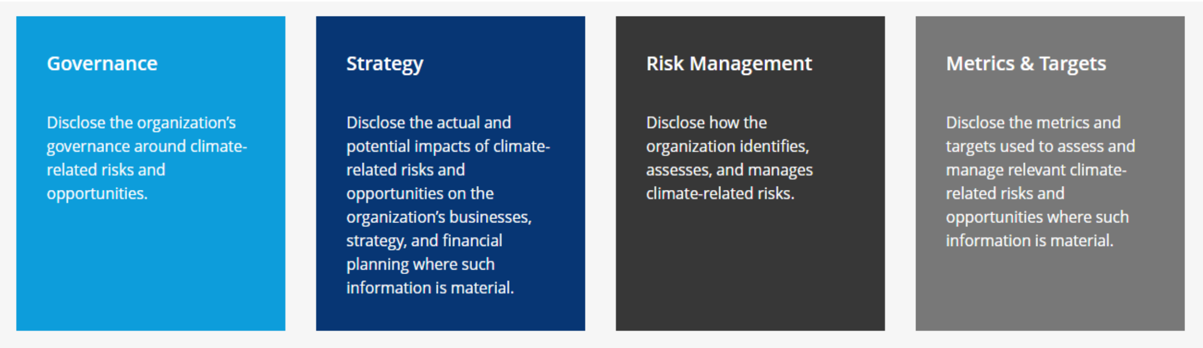
- provide financing to developing countries to mitigate climate change, strengthen resilience and enhance abilities to adapt to climate impacts.

https://www.un.org/en/climatechange/paris-agreement

MSCI ACWI - MSCI All Country World Index
A stock index designed to track broad global equity-market performance. The LPPI Global Equity Fund's benchmark.

MSCI - **Morgan Stanley Capital International**
A global index provider.

TCFD - Taskforce on Climate Related Financial Disclosure
The Financial Stability Board created the Task Force on Climate-related Financial Disclosure (TCFD) to improve and increase reporting of climate-related financial information by companies and investors.
Recommendations include annual disclosure under 4 pillars:



TPI - **Transition Pathway Initiative** https://www.transitionpathwayinitiative.org/
The TPI assesses the highest emitting companies globally on their preparedness for a transition to a low carbon economy. 368 companies are rated TPI 0-4* for Management Quality based on 19 separate datapoints. TPI Management Quality scores provide an objective external measure of corporate transition readiness.

NZAMI – Net Zero Asset Managers Initiative https://www.netzeroassetmanagers.org/
The Net Zero Asset Managers Initiative launched in December 2020 and aims to galvanise the asset management industry to commit to a goal of Net Zero emissions.

GLIL - https://www.glil.co.uk/
GLIL is an innovative collaboration between aligned and like-minded investors who are seeking investment into core infrastructure opportunities predominately in the United Kingdom.

Responsible Investment Dashboard Q2 2022

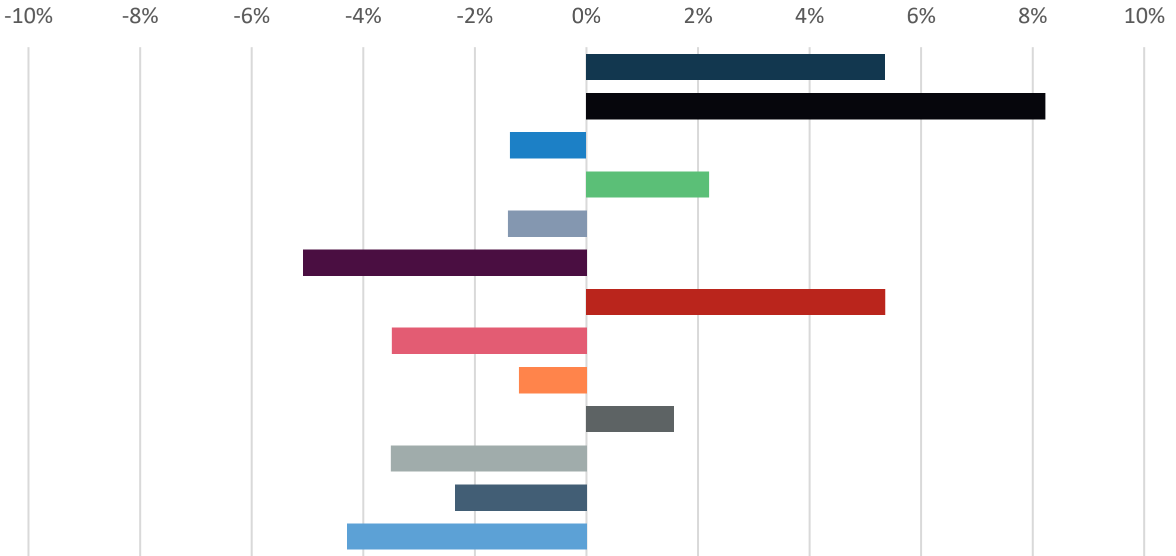
1. Portfolio Insights

Listed Equities (LPPI Global Equities Fund)

Sector Breakdown (%)

Information Tech.	26.2
Consumer Staples	15.8
Financials	13.1
Industrials	11.6
Consumer Discretionary	9.7
Health Care	7.9
Cash	5.4
Communication Services	4.4
Real Estate	1.6
Others	1.6
Materials	1.3
Utilities	0.8
Energy	0.7

LPPI Global Equities Fund Sector Weights vs MSCI ACWI ND



Top 10 Positions

	Portfolio (%)
1. Microsoft	3.8
2. Visa	3.4
3. Nestle	3.4
4. Accenture	2.4
5. Alphabet	2.2
6. Colgate-Palmolive	1.8
7. Diageo	1.8
8. Pepsico	1.8
9. SPDR Gold Shares	1.6
10. Autozone	1.5

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Governance Insights (ISS DataDesk)

Women on the Board (Average)

29%

Coverage of GEF

84%

Board Independence (Average)

68%

Coverage of GEF

83%

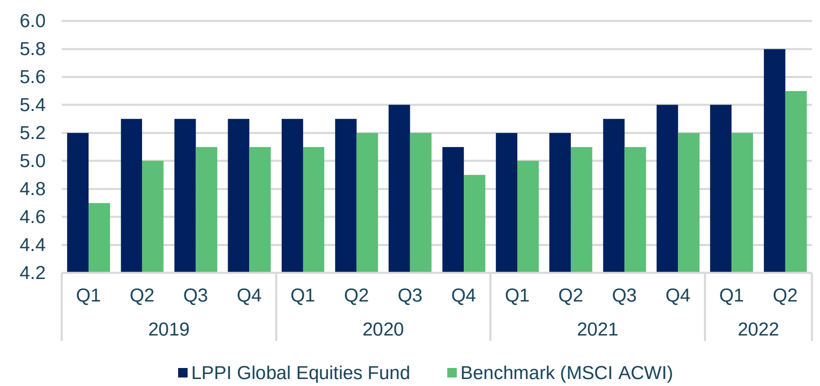
Support for Say on Pay (Average)

88%

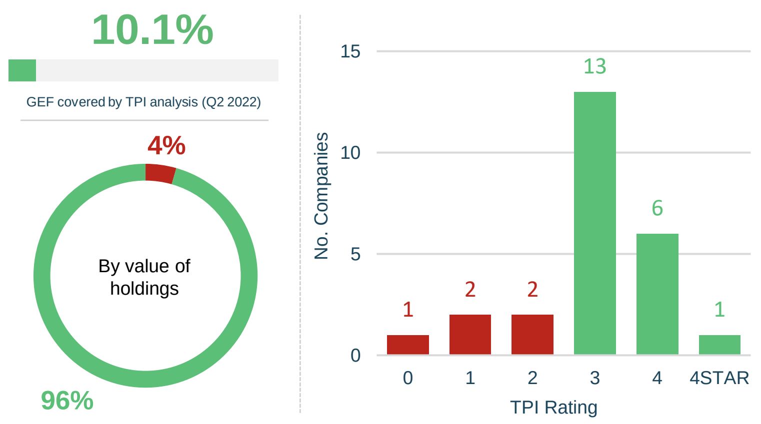
Coverage of GEF

75%

Portfolio ESG Score (MSCI ESG Metrics)



Transition Pathway Initiative – Management Quality Headlines



TPI Management Quality Ranking

0 - Unaware
1 - Aware
2 - Building capacity
3 - Integrated into operational decisions
4 - Strategic assessment

Appendix B

Responsible Investment Dashboard Q2 2022

1. Portfolio Insights

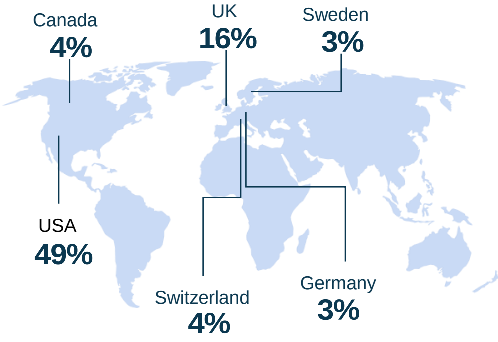
Other asset classes

Private Equity

Industry Breakdown (%)

Information Technology	31	Financials	7
Industrials	15	Remaining Industries	6
Health Care	15	Consumer Staples	4
Other	12		
Consumer Discretionary	11		

Region Breakdown (%)



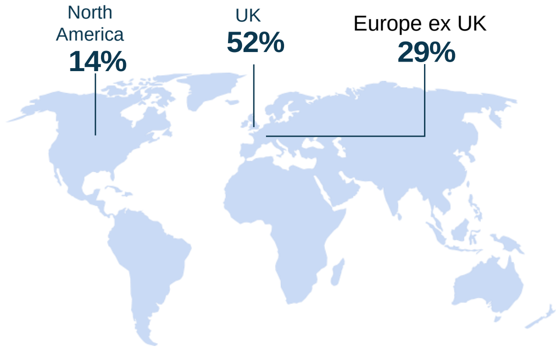
RoW
21%

Infrastructure (LPPI Global Infrastructure Fund)

Industry Breakdown (%)

Traditional Energy, Renewable Energy, Waste	35	Transport and Distribution	19
Social (incl PFI)	23	Regulated Assets	13
		Other	10

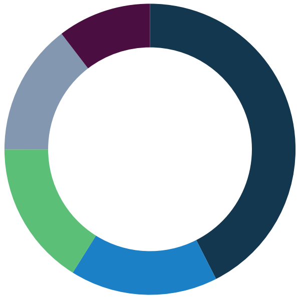
Region Breakdown (%)



RoW
5%

Real Estate (LPPI Real Estate Fund)

Sector Breakdown (%)



Industrial	43	Alternative	15
Retail	16	Living	10
Office	16	Agriculture	0

Geographical Exposure (NAV %)

UK
74%

Non UK
26%

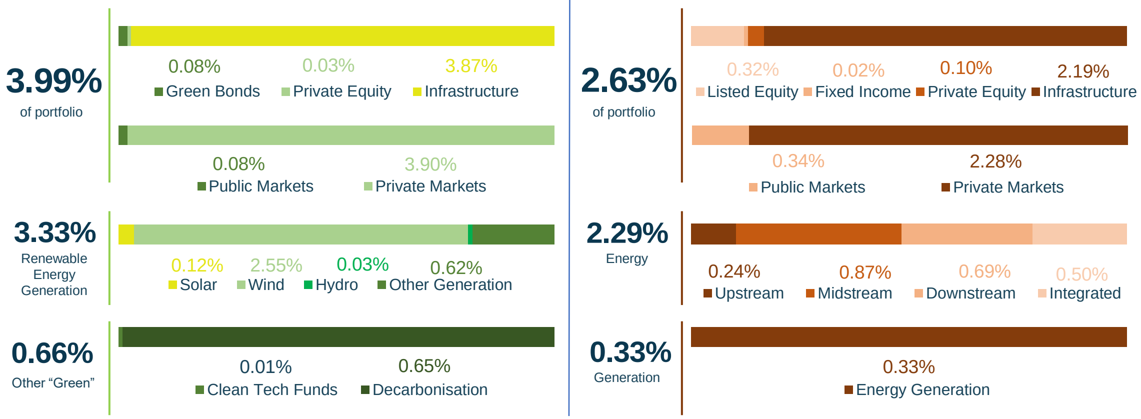
Green & Brown Exposure

Green

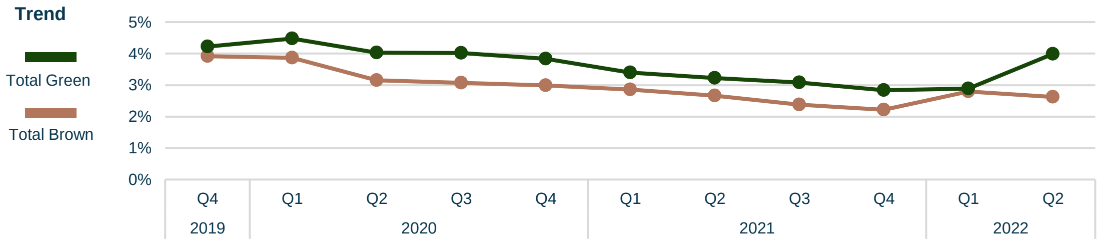
Investments in businesses directly contributing to the global transition to a lower carbon economy, expressed as a % of the total value of the pension Fund.

Brown

Investments in traditional energy (based on fossil fuels) expressed as a % of the total value of the Pension Fund.



Trend



Responsible Investment Dashboard Q2 2022

2. Stewardship Headlines

Shareholder Voting

Shareholder Voting Statistics (LPPI Global Equity Fund)

Headlines

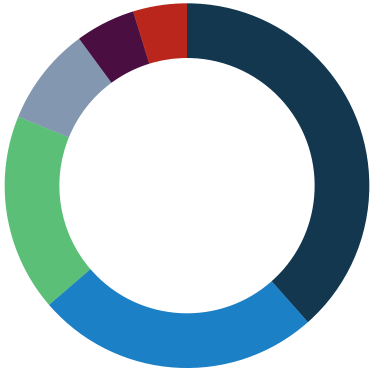
233 Meetings Voted

3207 Proposals Voted

Supported 89%
3044 Company Proposals

Supported 71%
163 Shareholders Proposals

55% Meetings with a vote against Management



Votes Against Management (By theme)

Election of Directors (and related)	145
Shareholder Resolutions	95
Non-salary compensation	66
Capitalisation	33
Mergers, acquisitions and reorganisations	20
Routine business	18
Anti-takeover (and related proposals)	0

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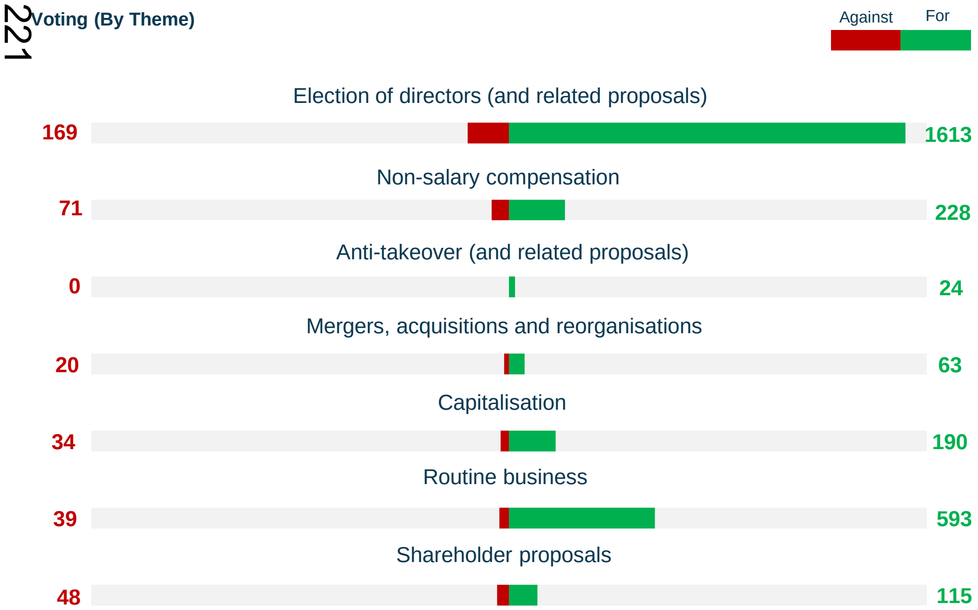
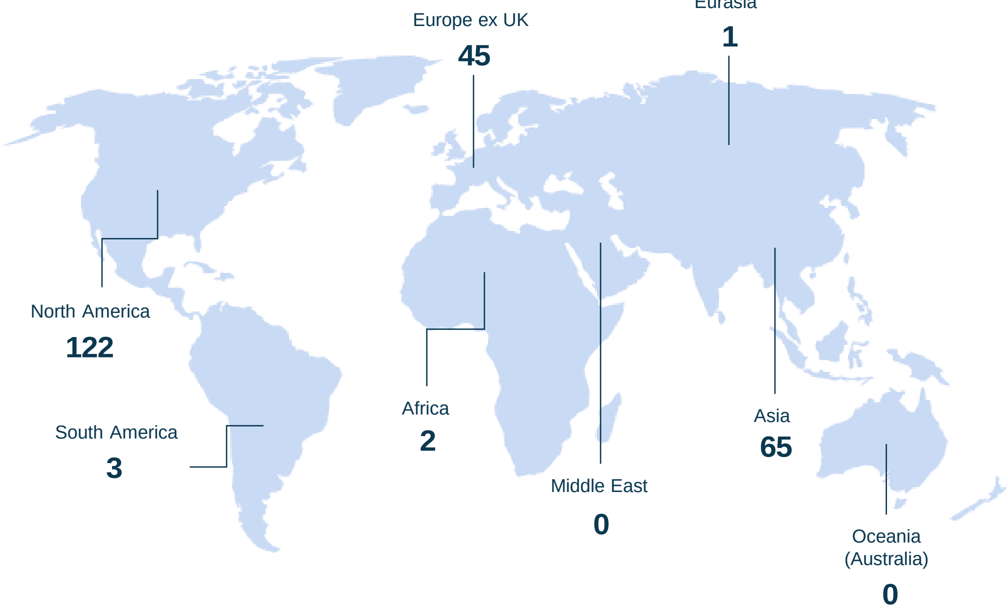
Voting (By Theme)



Voting (By Region)*



*Total votable meetings

Responsible Investment Dashboard Q2 2022

2. Stewardship Headlines

Lancashire County Pension Fund
LPP Local Pensions Partnership Investments

Engagement (Public Markets): Robeco

Activity (By Topic)

Environmental Management	15
SDG Engagement	10
Corporate Governance	4
Social Management	3
Environmental Impact	2
Human Rights	2
Human Capital	2
Global Controversy Engagement	1
Healthy Living	0

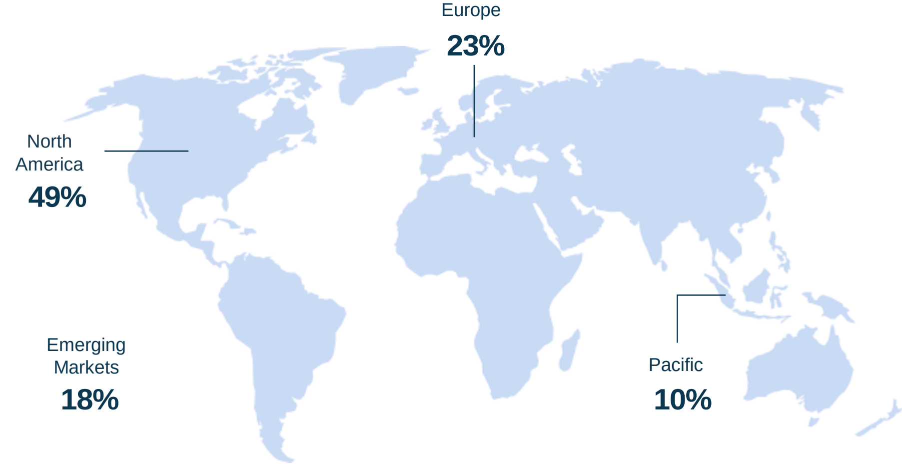
Activity (By Sector)

Financials	12
Information Technology	8
Materials	6
Consumer Staples	4
Consumer Discretionary	3
Energy	2
Utilities	2
Industrials	1
Health Care	1
Telecommunications	0

Activity (By Method)

E-mail	36
Conference call	19
Analysis (no actual contact with company)	11
(Open) Letter	7
Active voting	2
Shareholder resolution	1
Meeting at Robeco offices	0
Speaking at conferences	0
Meeting at company offices	0
Speaking at a shareholder meeting	0

Activity (By Region) (%)



Source: Robeco Active Ownership Report Q2 2022

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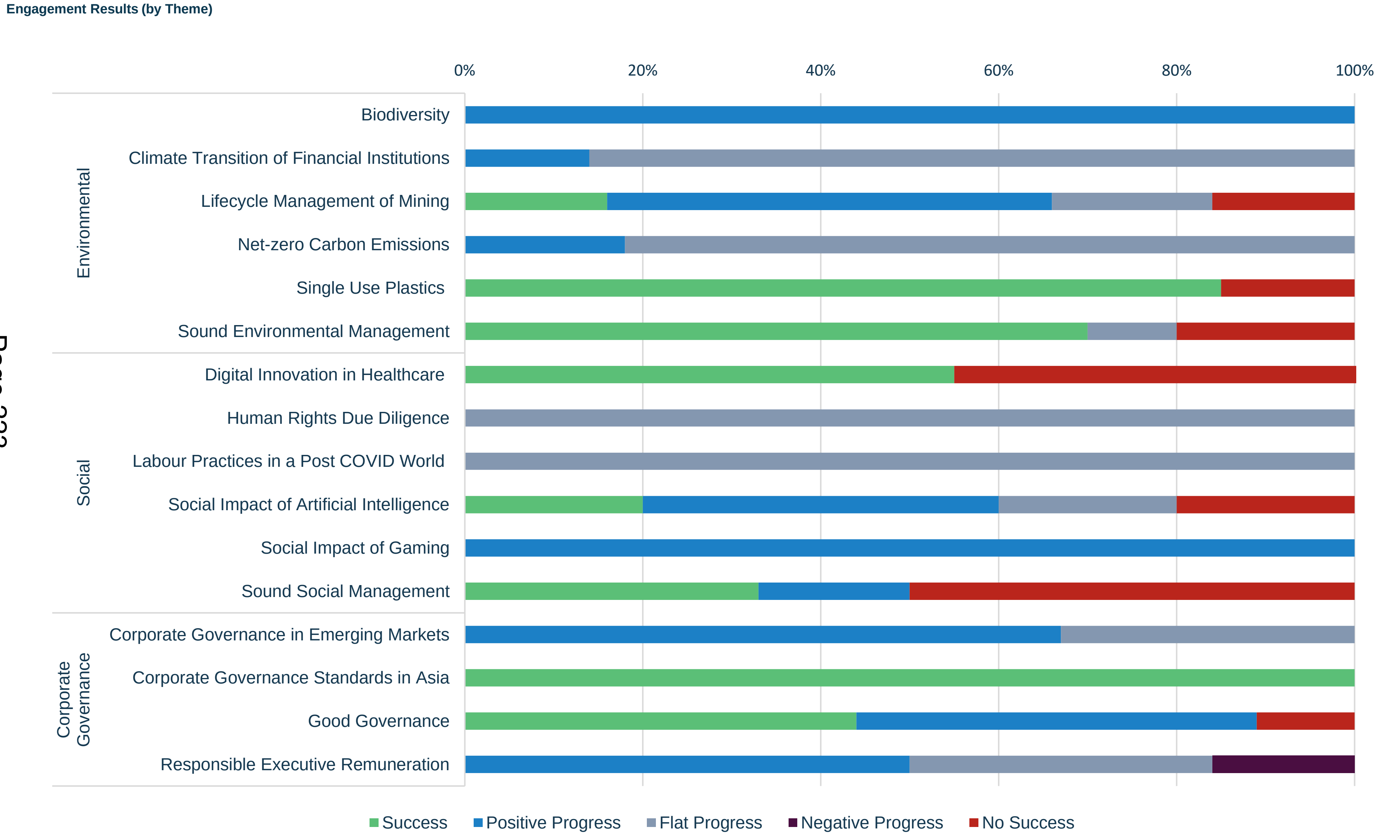
Responsible Investment Dashboard Q2 2022

2. Stewardship Headlines

Engagement (Public Markets): Robeco



Source: Robeco Active Ownership Report Q2 2022

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Direct investments

Direct Real Estate holdings in the UK (examples)

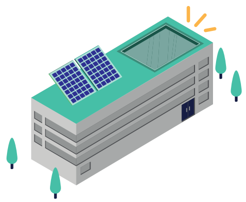
GWR Building
Bristol

designed with sustainability in mind

new planting along the terraces

- **110,000 sq. ft. mixed-use redevelopment** that will have a ground floor eatery with offices on the floors above
- The development has been designed with **sustainability in mind**, replacing old stock with in-demand energy efficient space that will also **support local growth through new employment opportunities**.
- The development is targeting BREEAM '**Outstanding**', the highest possible BREEAM rating
- The asset will be powered by **100% renewable energy**
- The development will benefit from '**green ribbons**' of planting along the terraces to support and increase local biodiversity

Hilton Cross
Wolverhampton



natural light through skylights

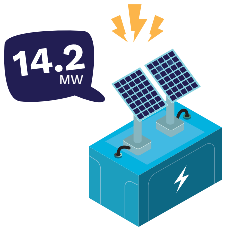
electric vehicle charging

- Project Wolfpack is the acquisition and development of a site in Hilton Cross, Wolverhampton to create **3 logistics units**
- The units will achieve BREEAM '**Excellent**' as well as an EPC '**A**'
- The units will be fitted with **high efficiency air source heat pumps and LED lighting**
- The warehouse will benefit from **10% of the roof producing natural light through skylights** as well as **photovoltaic panels** placed on the roofs
- As part of the development of the site there are a number of contributions to both on-site and **local biodiversity projects including financial contribution and wildlife walkways.**
- The units will be fitted with provision for **electric vehicle charging**, both for employees as well as in the loading bays

Lancashire County Pension Fund | LPP Local Pensions Partnership Investments

Examples of investments in Real Estate Funds

Charter Hall
Prime Industrial Fund



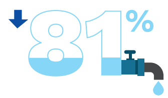
14.2MW of photovoltaic systems installed

partner charities Morsl and Kickstart

- **Charter Hall Prime Industrial Fund (CPIF)** provides exposure to Industrial and Logistics assets within Australia
- Charter Hall scored **80** in their most recent **GRESB assessment** placing them in the **2nd quintile in the GRESB universe**
- The CPIF portfolio is powered by **100% renewable energy**, with all assets having climate change and adaptation plans
- The CPIF portfolio also generates **14.2MW of photovoltaic systems** installed and the fund actively partners with tenants to drive low carbon outcomes
- **100% coverage of scope 1 and scope 2** and **88% of Scope 3 emissions**
- CPIF partners with a number of charities: **Morsl**, which focuses on providing tenants with **healthy food options and supports wellbeing**, **Kickstart**, which runs training programs and supports **creating employment for vulnerable youth** and "Property Industry Foundation", which creates **emergency housing** and focuses on **stopping youth homelessness**

GPT
Wholesale Office Fund

GRESB 5* green rating



reduction in water use since 2005

- **GPT Wholesale Office Fund (GWOF)** provides exposure to office assets across a number of Australia's Central Business Districts
- GWOF have achieved a GRESB 5* green rating, having achieved **93/100 on the development benchmark and 94/100 on the standing assets benchmark.**
- The fund achieved verified **carbon neutral status for 100% of its operating assets** in 2020 (nb. the fund now has some development assets which will remain unrated until they are operational)
- **81% reduction in water use since 2005**
- Using the National Australian Built Environment Rating System (NABERS) the portfolio has an **average score of 6** (maximum available) across all rated buildings
- GPT have established "The GPT Foundation" to engage with their **7 chosen community partners** through skilled and grass roots staff volunteering, the provision of other support using resources available to GPT, and GPT's work place giving program, Give for Change.

Portfolio Insights (Pages 1 - 2)

Sector Breakdown (%)

- Identifies the Global Equity Fund's ("GEF") sector breakdown and their proportions.

GEF Sector Weights

- Comparison of sector weights against their benchmark.
- The larger the bar the bigger the difference between GEF and benchmark weightings.
- Where a positive number is shown, this indicates the GEF is overweight to a sector.
- Where a negative number is shown, this indicates the GEF is underweight to a sector.

Top 10 Positions

- The top 10 GEF companies as a % of the asset class portfolio.

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Governance Insights

- **Women on the board:** A measure of gender diversity based on the average proportion of female board members for companies in the GEF.
- **Board independence:** The average proportion of board members identified by ISS as independent. Please note independence expectations vary across markets with LPPI generally favouring greater independence.
- **Say-on-pay:** The average investor support for the most recent say-on-pay vote at a company meeting. Please note not all markets require say-on-pay votes. A vote of greater than 20% against (support < 80%) is generally considered significant.

Portfolio ESG Score

- This is a relative indicator and not a measure of portfolio ESG risk exposure.
- Individual companies are assigned an ESG score (between 0-10). The final numbers shown in the bar chart are the weighted averages of these scores for the stocks held in the GEF vs its benchmark through time.
- This table is a comparison with the benchmark and reviews changes over time.
- LPPI utilise an established methodology (developed by MSCI) for determining the ESG score of stocks within the GEF. Further details can be found here: https://www.msci.com/documents/1296102/21901542/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+Nov+2020.pdf
- The higher the score shown, the better the ESG credentials of the GEF / benchmark.

Portfolio Insights (Pages 1 - 2)

Transition Pathway Initiative (TPI) Headlines

- TPI assess how well the largest global companies in high carbon emitting sectors are adapting their business models for a low carbon economy.
- The % of GEF covered by TPI shows the portfolio exposure to high emitting companies.
- The number/proportion of companies with top scores (TPI 3 and 4) is a measure of the quality of transition management by the high emitting companies held within the GEF.
- Detailed TPI methodology can be found through the following link: https://www.transitionpathwayinitiative.org/methodology

Private Market Asset Classes

- These metrics indicate the industry sector and regional breakdown as a % of the asset class for Private Equity, Infrastructure and Real Estate investments.

Green & Brown

- These metrics indicate the Pension Fund's total portfolio exposure (%) to green and brown assets. Current coverage extends to: Listed Equity, Fixed Income, Green Bonds, Private Equity, and Infrastructure.
- These are further broken down into their sectors/activities related to green and brown.
- Please be aware that due to rounding within the different breakdowns the totals may not sum correctly.

Green

These are investments in renewable energy and sectors/activities assisting in renewable energy generation, low carbon tech and wider decarbonising activities.

Brown

Investments in energy and power generation based on fossil fuel activities, including: extracting (upstream), transporting (midstream), refining (midstream), supplying (downstream), or some energy companies that legitimately span all aspects (integrated). Fossil fuels used to generate energy is part of electricity generation.

Stewardship Headlines (Pages 3 - 5)

Shareholding Voting

- Key shareholder voting metrics for LPPI's GEF.
- The Headline section provides insight into the scope of voting activity, including how votes against management is concentrated.
- LPPI is responsible for voting on each decision taken, working in partnership with Institutional Shareholder Services to best inform views prior to taking action.
- The map of votes per region is included because different jurisdictions have different voting seasons. This provides context to the reporting of voting statistics quarter to quarter as votes take place in batches depending on the companies domicile at different points throughout the year.

Engagement (Public Markets)

- Engagement is an active, long-term dialogue between investors and companies on environmental, social and governance factors, which can be executed through a variety of channels.
- LPPI has engaged an external provider (Robeco Active Ownership Team) to supplement dialogue underway by LPPI and external delegate managers.
- This section outlines the engagement activities undertaken by Robeco in the public markets by topic, sector, method, and region (indicating the number of companies engaged / geographical distribution).
- "Activity by method" summarises engagements by category / method and can include multiple inputs from the same company.
- The updated Robeco Active Ownership report summarises our engagement activities for the quarter and breaks them down into sub-sectors, where they are rated on success/progress (shown as a %).
- Page 9 of the Robeco stewardship policy outlines further details of their process: https://www.robeco.com/docm/docu-robeco-stewardship-policy.pdf

Real World Outcomes (Pages 6 - 8)

- This section provides real world ESG case studies, relevant to the Pension Fund's holdings, which rotate between asset classes each quarter.
- The focus of the real world outcomes rotates between asset classes for each quarter in the following pattern:
  - Q1 – Infrastructure
  - Q2 – Real Estate
  - Q3 – Private Equity
  - Q4 – GEF
- The case studies are an in-depth review of positive ESG practices for current investments within the portfolio over the past year.

Pension Fund Committee
Meeting to be held on Friday, 16 September 2022

Electoral Division affected:
None;

Feedback from members of the Committee on pension related training.

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, mike.neville@lancashire.gov.uk

Brief Summary

An update on pension related training involving members of the Committee since the last meeting.

Recommendation

The Committee is asked to note the report and any feedback from individual members given at the meeting in relation to training they have received.

Detail

The Training Plan sets out the approach to supporting the learning/development needs of individuals with responsibility for the strategic direction, governance, and oversight of the Fund through their membership of the Pension Fund Committee or the Lancashire Local Pension Board. Since the last meeting members of the Committee have attended the following pension related conference/events.

29 June 2022 Internal workshop - LCPF Project PACE & administration Update
Participants – County Councillors M Clifford, F De Molfetta, A Gardiner, E Pope and Co-opted member Mr P Crewe.

15th July 2022 Online briefing for new members of Pension Fund Committee
Participant – Co-opted Member Ms S Roylance.

20th July 2022 Internal workshop – Cyber Security
Participants - County Councillors M Clifford, F De Molfetta, A Gardiner, E Pope, A Schofield, and D Westley together with Co-opted members Councillor D Borrow and Ms S Roylance.

2nd September 2022 Internal Workshop – Lancashire County Pension Fund Accounts and Annual Report.
Participants – County Councillors M Brown, M Clifford, F De Molfetta, A Gardiner, E Pope, A Schofield, M Tomlinson with Co-opted Members, Councillor M Dad, Mr P Crewe, and Ms S Roylance.

Individual members of the Committee are invited to provide feedback on their experiences at the meeting.

Consultations
N/A

Implications:

This item has the following implications, as indicated:

Risk management

Without the required knowledge and skills, those charged with governance and decision making may be ill-equipped to make informed decisions regarding the direction and operation of the Pension Fund.

The Training Policy seeks to apply best practice and to ensure compliance with guidance from CIPFA and the Pensions Regulator. Failing to implement an adequate Training Policy and Framework and to regularly review the effectiveness of training arrangements would place the County Council (as Administering Authority) at risk of non-compliance with the Pensions Regulator's Code of Practice No. 14 (Governance and administration of public service pension schemes) and the legislative requirements that this Code interprets.

Financial

Decisions made by the Pension Fund Committee have direct financial implications for the Fund. The Fund's Training Policy forms part of its governance and risk management arrangements which seek to ensure that the members of the Pension Fund Committee and the Lancashire Local Pension Board are well-informed, confident, and knowledgeable participants who work effectively and consistently in the best interests of the Fund and its stakeholders.

The cost of attendance at external events, together with associated travel and subsistence costs, were met by the Lancashire County Pension Fund.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Attendance sheet for internal pension related workshop.	29th June 15th and 20th July and 2nd September 2022	Mike Neville (01772) 533431

Reason for inclusion in Part II, if appropriate
N/A

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Appendix A

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Appendix B

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