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## Appendices

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

Welcome to the 2019/20 Annual Report of the Lancashire County Pension Fund.

Towards the end of the financial year the world underwent an unrecognisable change with the impact of Covid-19. The market volatility and economic uncertainty we have seen is unprecedented and will continue to impact on the economy and investments for a significant period of time. I am however pleased to report that the funding level for the Lancashire County Pension Fund has stabilised to the reported valuation level of 100% and we are well placed to meet our obligations to members. The staff within the administration service responded professionally and effectively to the crisis and quickly adapted to working from home. We are still meeting our performance targets and servicing our calls from employers and members in a timely manner.

Some of the highlights of the year are as follows:

**Funding**

An important function undertaken during the year was the triennial actuarial funding valuation. This assesses the liabilities and assets of the Fund and is used to determine the employer contribution rates with effect from 1 April 2020 to 31 March 2023. Based on the assumptions used by the actuary the Fund was 100% funded which is an improvement from the previous valuation when the funding level was at 90%.

**Investment**

The Fund has seen a positive investment performance in the year with a return of 1.78% over the last 12months. This was higher than the planned benchmark rate of 0.34%. This is a positive outcome of the investment strategy developed by the Fund in addition to individual managers' performance. This performance placed the Fund at the top of the 2019/20 Local Authority Fund league table for total fund performance, from a population of 63 local government pension funds.

Lancashire County Pension Fund is committed to the long-term responsible investment of retirement savings on behalf of Fund members. The Fund prioritises working in partnership with like-minded investors, and favours collaborative partnerships that collectively gain the attention of companies. As a member of the Local Authority Pension Fund Forum (LAPFF) the Fund is placed alongside 79 other UK local government pension funds. The forum represents and promotes the investment interests held in common and helps maximise joint influence as shareholders. Both I and the Head of Fund are members of the executive of LAPFF.

Further details on investment performance is in section F of this report

**Administration**

The administration service performed to a high standard in the year with it achieving an overall performance of 98% with all statutory requirements being met and service level agreement targets being exceeded. Membership has continued to increase with numbers now at 178,150, an increase of 1,674 on the year covering over 400 organisations.

**Pooling arrangements**

Close collaboration continues with our partner LPFA to provide appropriate oversight of our joint ownership of LPP and we would like to thank LPP for successfully mitigating the impact that COVID19 has had on the fund and for ensuring that the needs of members continued to be met. The restructuring of LPP into the Administration unit (LPPA) and the Investments unit (LPPI) in 2020 will create a more efficient operation and provide an enhanced service for their clients.

**County Councillor Eddie Pope**
**Chair of the Pension Fund Committee**

# B Management and financial performance

**Administering authority**
Lancashire County Council

**Pension Fund Committee**
Lancashire County Council committee members
County Councillor J Burrows
County Councillor S Clarke*
County Councillor L Collinge
County Councillor G Dowding
County Councillor C Edwards
County Councillor K Ellard
County Councillor T Martin
County Councillor J Mein
County Councillor E Pope (Chair)
County Councillor A Riggott
County Councillor A Schofield (Deputy Chair)
County Councillor K Snape
County Councillor A Snowden
County Councillor T Ashton**
*Until 20th July 2020
**Appointed w.e.f. 20th July 2020

Co-opted representatives
P Crewe – Trade union
J Tattersall – Trade union
Councillor D Borrow – City and Borough councils
Councillor I Moran – City and Borough councils*
Councillor M Smith – Blackpool Council
Councillor R Whittle – Blackburn with Darwen Council
J Eastham – Further / Higher education
Councillor P Foster - City and Borough councils**
*Until 20th July
**Appointed w.e.f 20th July 2020

**Scheme administrators**
Local Pensions Partnership Limited

**Head of Fund**
A Leech

**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
T Pounder
S Thompson
C Wakeford (County Councillor)*
P Britcliffe (County Councillor)**
K Wallbank
M Salter (County Councillor)***
D Parker****
*Until 12th July 2019
**Appointed w.e.f.12th July 2019 until 8th June 2020
***Appointed w.e.f 8th June 2020
****Appointed w.e.f. 2nd July 2019

**Custodian to the Fund**
Northern Trust

**Independent investment advisors**
A Devitt
E Lambert

**AVC providers**
Equitable Life
Prudential
Utmost Life and Pensions

**Legal advisors**
Addleshaw Goddard
Allen and Overy
Clifford Chance
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**
Lloyds Bank plc
Natwest Bank plc
Svenska Handelsbanken

## Financial performance of the Fund

The Fund asset value increased by £27.6m from £8,410.1m at 31 March 2019 to £8,437.7m as at 31 March 2020 and delivered a 1.8% return on investment assets over the twelve months, outperforming the Lancashire benchmark of 0.34 % and placing the Fund at the top of the 2019/20 Local Authority Fund league table for total fund performance, from a population of 63 local government pension funds.

### Net cash flow, income and expenditure

Benefits payable and transfers out of the Fund exceed the value of contribution income and transfers in to the Fund on a regular basis, resulting in a net cash outflow which is funded from investment income.

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 | 2019/20 | 2018/19 | 2017/18 |
|---|---|---|---|
| | £m | £m | £m |
| Members contributions | 61.4 | 58.7 | 56.5 |
| Employers contributions | 115.6 | 112.2 | 318.4 |
| **Contributions income** | **177.0** | **170.9** | **374.9** |
| Transfers in | 17.0 | 11.0 | 11.5 |
| Benefits payable | (287.1) | (275.3) | (254.8) |
| Transfers out and other payments to leavers | (21.8) | (16.4) | (17.9) |
| **Net additions/(withdrawals) from dealing with members** | **(114.9)** | **(109.8)** | **113.7** |
| Fund administrative costs | (3.4) | (3.7) | **(3.8)** |
| Investment management expenses | (60.4) | (71.7) | (57.3) |
| Oversight & governance costs | (1.2) | (0.9) | **(1.3)** |
| **Net (outflow)/inflow before investment returns** | **(179.9)** | **(186.1)** | **51.3** |
| Investment income | 206.1 | 193.5 | 138.7 |
| Change in market value of investments | 1.4 | 781.5 | 221.9 |
| **Net increase/(decrease) in the Fund** | **27.6** | **788.9** | **411.9** |

Following the actuarial valuation in 2016, 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 2018 include contributions for the 3 years to 31 March 2020, amounting to £218.0m. This had a significant impact on cash flow and reported income in that year. A similar option was offered and exercised following the 2019 valuation, the result of which will be evident in the income to be reported for the year ending 31 March 2021 as the Fund policy is to recognise contribution income in the period of receipt.

Fund administrative costs are paid to the Local Pensions Partnership 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 expenses is based upon the value of the investment portfolio, with charges calculated as a percentage of investment value. An increase in these costs would therefore be expected to follow an increased portfolio value.

The allocation of funds to different types of asset class can also impact on the fees chargeable by investment managers since expected returns and risks differ across asset classes. Some of the Fund's mandates also include payment of a performance fee.

The movement in investment management expenses is in line with expectations following the pooling of assets and the associated economies of scale. More information on investment management expenses 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.

**Budgeting**

A one year budget is prepared for the Fund on an annual basis and both officers and the Pension Fund Committee closely monitor investment performance, contribution income and expenditure against the budget, with committee reporting on a quarterly basis. The most significant budget variance for the year to 31 March 2020 is a favourable investment income variance of £13m.

**Actuarial valuation – 100% 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.

# C Governance of the Fund

## Lancashire County Pension Fund Governance Policy Statement

While the Pension Fund is not technically a separate legal entity, it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework.

Under regulation 55 of the LGPS Regulations 2013, all Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Governance Policy Statement setting out whether the authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority.

Comprehensive terms of reference have been established for all areas of governance of pension fund activities including the Pension Fund Committee, the Investment Panel, the Lancashire Local Pension Board and issues delegated to the Head of the Lancashire County Pension Fund.

The Pension Fund Committee has considered the governance arrangements relating to the administration and strategic management of Fund assets and liabilities in the light of guidance issued by the Ministry of Housing, Communities and Local Government (formerly the Department for Communities and Local Government, DCLG) and the requirement to complete a Governance Compliance Statement for all areas of governance of pension fund activities.

The Fund's Governance Compliance Statement is shown on the following page, and the Governance Policy Statement is included as Appendix 2 to this annual report.

## LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT - JANUARY 2018

| | | |
|---|---|---|
| **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<br><br>(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)<br><br>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.<br><br>(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. | √<br><br>Partial (see Note 1)<br><br>√<br><br>Partial (see Note 3) |
| **B. Representation** | (a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1)<br><br>These include:<br>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)<br>(ii) scheme members (including deferred and pensioner scheme members)<br>(iii) independent professional observers (2)<br>(iv) expert advisers (on an ad hoc basis) | Partial (see Notes 1 and 2) |
| **C. Selection and Role of Lay Members** | (a) 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** | (a) 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.<br><br>(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. | √<br><br>√ |
| **F. Meetings - Frequency** | (a) that an administering authority's main committee or committees meet at least quarterly.<br><br>(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.<br><br>(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. | √<br><br>√<br><br>√ |
| **G. Access** | (a) 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** | (a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | √ |
| **I. Publicity** | (a) 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, district councils and further and higher education employers, are represented. Other admitted bodies only represent 9% 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 Local Pension Board.

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.

3) The members of the investment panel are not voting members on the committee. However, all the panel members attend the committee meetings and are able to contribute to any discussions.

# D Administration of the Fund

**Background to Lancashire County Pension Fund and the Local Government Pension Scheme**
The Local Government Pension Scheme is a statutory public sector pension scheme which operates on a "defined benefit basis".

Lancashire County Council as "Administering Authority" is required by law to administer the scheme within the geographical area of Lancashire.

Pension administration services are provided to Lancashire County Pension Fund by the Local Pensions Partnership (LPP). Due to an internal reorganisation, in June 2020, LPP is now LPPA (Local Pensions Partnership Administration) and operates as a standalone administration business separate to the investment side of the business.

**Response to Covid 19 coronavirus pandemic**

The administration service has essentially maintained 'business as usual' throughout the pandemic with all employees working from home since late March 2020. With the emergence of local lockdowns in Lancashire, LPPA staff are unlikely to return to offices until at least January 2021.

Performance against service level agreements has remained consistent with productivity unaffected by working remotely and pension increases, P60's and annual benefit statements have been applied and issued ahead of statutory deadlines.

In response to the transition to home working, a planned improvement to the help desk system was implemented early, providing enhanced call and e-mail functionality. Despite a temporary increase in call-waiting times, customer satisfaction scores increased in April and May and have normalised in June and July.

Face to face member engagement has been suspended with 'virtual' employer visits being introduced on a limited basis.

Guidance produced by the Local Government Association regarding the pandemic has been distributed to employer organisations and members where appropriate and a link to the Local Government Association employer coronavirus webinars is available on the Your Pensions Service website.

Other changes made in response to the pandemic have included the updating of forms on the administration service website to enable electronic completion, the issuing of reminders to employers and members that scanned and photocopied versions of key documents and certificates are acceptable and the development of a guide on the treatment of furloughed members.

**Review of the Year**

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

- Member services
- Engagement and communications
- Helpdesk (formerly Contact Centre)

For the year 19/20, casework service performance metrics have been consistently achieved.

| | Q1 | Q2 | Q3 | Q4 | Annual |
|---|---|---|---|---|---|
| **Performance against SLA** | 95% | 98% | 99% | 99% | 98% |
| **Complaints** | 64 | 43 | 27 | 38 | 172 |

During the year to 31 March 2020, 39,406 individual calculations and enquiries were completed, of which 34,783 met the performance standard; an overall performance of 98%.

Satisfaction surveys have been introduced during the year to measure member satisfaction at key points in the member journey. A summary of the results is detailed below:

| | Q1 | Q2 | Q3 | Q4 | Annual |
|---|---|---|---|---|---|
| **Calls into the helpdesk** | 96% | 93% | 84% | 85% | 90% |
| **Emails into the helpdesk** | 62% | 69% | 67% | 77% | 69% |
| **Retirement cases** | 61% | 72% | 69% | 75% | 71% |

The calls into the helpdesk and email scores are across multiple schemes administered by LPPA. The question for the call survey was changed between Q2 and Q3 which accounts for the falling score.

The retirement survey is specific to Lancashire County Pension Fund.

The next phase of the service improvement programme will include enhancements to the member and employer experience through new technologies and digital solutions. Notably a full review of the workflow and calculations system will take place in the next financial year (20/21) alongside investment in the engagement and communications team.

**Membership and employers**

The Scheme is administered on behalf of over 400 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'.

Scheduled bodies listed in Part 1 of Schedule 2 of the LGPS regulations must participate in the scheme. Those scheduled bodies listed in Part 2 of Schedule 2 are eligible to participate.

Admitted bodies participate through a written contractual agreement and the majority of cases 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 re-enrolled every 3 years under the government's auto-enrolment regulations.

| **Fund membership** | **31 March 2019** | **31 March 2020** |
|---|---|---|
| **Active scheme members** | | |
| Lancashire County Council | 25,721 | 25,614 |
| Other employers | 27,422 | 28,340 |
| Total* | **53,143** | **53,954** |
| | | |
| **Pensioners** | | |
| Lancashire County Council | 24,692 | 25,497 |
| Other employers | 24,651 | 25,674 |
| Total** | **49,343** | **51,171** |
| | | |
| **Deferred members** | | |
| Lancashire County Council | 37,691 | 36,753 |
| Other employers | 36,299 | 36,272 |
| Total* | **73,990** | **73,025** |
| | | |
| **Total membership** | **176,476** | **178,150** |

*The number of active scheme members at 31 March 2020 includes 2,985 pending leavers who are accounted for as a deferred member for the purpose of this report.

** The number of pensioner members of the Fund has continued to rise in common with other local government pension funds, reflecting the increasing maturity of the Fund.

New pensioners during the year to 31 March 2020 are analysed in the following table.

| | |
|---|---|
| **Pensioners at 1 April 2019** | **49,343** |
| Normal retirements | 1718 |
| Early retirements | 549 |
| Dependants | 535 |
| Late or flexible retirements | 268 |
| Ill health retirements | 139 |
| Retirements through redundancy | 182 |
| Trivial Commutation | (266) |
| Deaths | (1410) |
| **Pensioners at 31 March 2020** | **51,058** |

## Performance

The Pension Fund Committee receives quarterly reports on the administration of the Fund ensuring that best practice standards are satisfied and met and to satisfy itself and justify to all stakeholders, including employers that the Fund is being run on an efficient and effective basis.

Specific service level standards and corresponding service level targets have been agreed between the Fund and the Local Pensions Partnership and an Annual Administration Report is presented to the Pension Fund Committee. A copy of the report for the year to 31 March 2020 is included as Appendix 3 to this annual report.

## Customer Service

Each year the service's dedicated engagement and communications team undertakes a variety of events, courses and presentations. In addition the team visits scheme employers to maintain and improve working relationships. The engagement team also undertakes annual pension surgeries and pension drop-in sessions as well as facilitating an annual employer conference.

The annual employer conference was held on 15 November 2019 at the Hallmark Hotel in Leyland, with over 100 employers in attendance. The service also hosted an employer forum in April 2019 on behalf of the Fund with over 40 finance professionals in attendance. These events included an update on the administration service and regulatory developments alongside focuses sessions on the retirement process.

A dedicated helpdesk provides the first point of contact for members and employers. The contact centre has a target to answer 90% of calls received. Between 1 April 2019 and 31 March 2020, 35,502 LCPF calls were received and 95% of them were answered.

During the year to 31 March 2020, 172 complaints were received (208 in the previous year). The complaints in general related to delays in processing benefits. It is worth noting that this was at times due to pending information from the employer or previous scheme provider. In the next year, LPPA have introduced targets to reduce the time taken (elapsed time) for key retirement and bereavement cases.

## Legislative Changes

During the year there were 2 sets of legislation coming into force which directly affected the LGPS.

The first of these was The Local Government Pension Scheme (Amendment) Regulations 2019 which were laid in December 2019 in

response to The Civil Partnership (Opposite sex couples) Regulations 2019 which allowed opposite-sex couples to apply for civil partnerships in England and Wales. As such from 31 December 2019, following the death of an LGPS member in an opposite-sex civil partnership, death benefits are now provided to surviving partners.

The second of these was the laying of The LGPS (Amendment) Regulations 2020. These regulations give effect to the proposal contained in the local valuation cycle and the management of employer risk consultation, to allow administering authorities to take account of an employer's exposure to risk when calculating an exit credit. More recently the laying of The LGPS (Amendment) (No.2) Regulations 2020 on 27 August 2020 allows Funds greater flexibility on employer exit payments and the ability to review employer contributions between valuations.

Additionally a number of consultations were on-going through the year. Most notably was the McCloud consultation. A consultation on draft Regulations introducing amendments to the statutory underpin for the Local Government Pension Scheme (LGPS) in England and Wales was released on 16 July 2020. The proposals look to remedy the unlawful discrimination, identified by the court judgement on the McCloud case, which ruled the protection of older members was discriminatory when this was introduced following the reforms of the LGPS in April 2014. Effectively active members within ten years of their 2008 Scheme normal pension age on 31 March 2012 were granted transitional protection by means of a final salary underpin, i.e. a comparison of the benefits that could have been accrued under the previous final salary scheme. As a consequence the draft regulations set out in the consultation will essentially remove the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 April 2012 to be eligible for underpin protection.

Legislation requires HM Treasury and the Scheme Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Earlier calculations for the 2016 process found that the cost "floor" had been breached, which meant that improvements to benefits or changes to member contributions would be required (with effect from 1 April 2019) to bring the cost of the LGPS back to the target level. However, the processes were paused pending the outcome of McCloud. On 16 July 2020 the government announced that the cost cap process would now be restarted to take account of the changes brought in by McCloud in the cost assessment. As a result once the costs of the McCloud rectification are allowed for this may reduce or eliminate the need for any further cost/benefit changes.

Draft regulations for capping public sector exit payments were also published on 21 July 2020, effectively legislating for the implementation of the proposed £95,000 cap on public sector exit payments.

**Service Developments**

The Fund's administration service processed 39,406 items of work in the twelve months to 31 March 2020.

Working closely with employers helps to enhance the quality and timeliness of data meaning that Annual Benefit Statements for the year ended 31 March 2020 were published in line with the statutory deadline of 31 August 2020.

Pension surgeries are hosted throughout the county on an annual basis from October through to March. The sessions help members to understand their annual benefit statements and members can also be helped through the process of registering to use the online self-service portal.

Additionally, 20 pre-retirement presentations and 10 scheme basic presentations have been delivered during the year. These events are being migrated to online webinar sessions in line with Covid-19 imposed working restrictions.

## Online Services

My Pension Online is an online facility allowing members to view their details and also securely update any changes in contact details.

Members who are registered can run various pension estimates assisting with planning for retirement. Members can also view their P60 and annual benefit statement via My Pension Online. Payslips are also published monthly.

Other benefits of the system include: allowing members to view their nominated beneficiaries; access to a host of forms and guides and also allows the administration service to communicate with registered members via email.

Currently around 35% of Lancashire County Pension Fund members are registered online.

## 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 Local Government Pension Scheme 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 appointed by the administering authority to review the disagreement.

## Charges and value for money

The administration business charges the Fund on a per member basis. The Head of Fund is advised of the proposed charges for the upcoming financial year in writing and these charges are reviewed for value for money and consistency with market rates by the Pension Fund Committee and Head of Fund on an ongoing quarterly basis.

The shareholder agreement principles include a requirement for any decision made by the Local Pensions Partnership to ensure long term value for money, evidenced by savings, efficiencies or service improvements when compared to the arrangements and costs of the combined predecessor organisations. Where a new service is carried out by the partnership then comparison should be to wider market benchmarks.

## Other information

For further information relating to the administration of the scheme please refer to the Communication Policy Statement and the Pensions Administration Strategy Statement included as Appendix 4 and Appendix 5 to this annual report respectively.

# E Knowledge & skills framework

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.

**CIPFA pensions finance knowledge and skills framework**
The Chartered Institute of Public Finance and Accountancy (CIPFA) first published a code of practice on public sector pensions finance knowledge and skills in October 2011 which was revised in 2013 to reflect the provisions of the Public Service Pensions Act 2013 and remains a definitive guide to expected standards.

The Code of Practice works in conjunction with detailed knowledge and skills frameworks (KSF) also published by CIPFA which support knowledge and skills development by all those involved in the management and oversight of public sector pension funds.

In 2015 a new KSF focussed on the knowledge requirements of Local Pension Board members was introduced to reflect the Pensions Regulator Code of Practice No 14 which came into force in April 2015. CIPFA has identified a syllabus of 8 core areas of knowledge across the KSFs it has published to date:

1. pensions legislation;
2. public sector pensions governance;
3. pensions administration;
4. pensions accounting and auditing standards;
5. financial services procurement and relationship management;
6. investment performance and risk management;
7. financial markets and product knowledge;
8. actuarial methods, standards and practices.

**Training approach**
Since its adoption of the CIPFA Code of Practice in February 2012 the Pension Fund Committee has reviewed the Fund's training approach at regular intervals. The current training policy for the Fund is aimed at ensuring the Fund is overseen by individuals who:

- have appropriate levels of knowledge and skill;
- understand and comply with legislative and other requirements;
- act with integrity and;
- are accountable to the Fund’s stakeholders for their decisions.

The competency and performance of senior officers charged with managing and directing the Lancashire County Pension Fund fall under the auspices of Lancashire County Council's Performance Management process and wider continuing professional development (CPD) frameworks. For this reason, officers are outside the scope of this training policy which focusses specifically on the training needs of members of the Pension Fund Committee and Lancashire Local Pension Board.

The policy provides a framework for ensuring members receive appropriate support (both collectively and individually) for gaining the knowledge and understanding they need. Training is responsive to the learning needs of individuals in their different roles and members have regular opportunities to build skills and knowledge through a range of methods and approaches including:

- in-house training from officers and/or external advisors
- external training events by recognised bodies
- attendance at external seminars and conferences
- practical support and guidance through recommended reading and targeted information
- key documents/learning materials made accessible via a secure online library

Committee and Board members are personally responsible for identifying gaps in their knowledge which could prevent them performing their duties effectively. They are expected to undertake self-directed learning to complement the training provided and to seek additional support and advice from fund officers as required.

Details of training provided internally and attended externally by members of the Pension Fund Committee (PFC) and Lancashire Local Pension Board (LLPB) during the year ended 31 March 2020 are detailed below.

| Date | Subject | Venue | Attendees | |
|---|---|---|---|---|
| | | | PFC | LLPB |
| 2 April 2019 | Workshop on the Service Improvement Plan for LPP pension admin service | County Hall, Preston | 2 | 3 |
| 9 May 2019 | ESG & Sustainable Investments For Pension Funds Conference | London. | 1 | 0 |
| 13 May 2019 | Local Authority Conference 2019 | Gloucestershire. | 1 | 0 |
| 15 May 2019 | Workshop on Employer Covenant Risk and Emerging Issues | County Hall, Preston. | 6 | 3 |
| 7 June 2019 | Responsible Investment update (from 23rd January 2019) - viewed online | County Hall, Preston | 0 | 1 |
| 21 June 2019 | Pre Committee briefing on the 2018/19 Annual Report and accounts | County Hall, Preston | 11 | 0 |
| July 2019 | Investment and LGPS issues Conference | Watford | 0 | 1 |
| 11 Sept 2019 | Workshop on LCPF Risk Framework | County Hall, Preston | 7 | 4 |
| 22/23 Sept 2019 | Pension Trustees Circle Seminar | York | 1 | 0 |
| 25 Sept 2019 | Introduction to the LGPS | London | 1 | 0 |
| Oct 2019 | Briefing on LGPS valuations | London | 0 | 1 |
| 15 Oct 2019 | Pre Board briefing – data recording and reporting breaches of the Law | County Hall, Preston | 0 | 9 |
| 16/18 Oct 2019 | Annual Conference and Exhibition 2019 | Manchester | 3 | 0 |
| 17 Oct 2019 | 'Fundamental' training programme | Leeds | 0 | 1 |
| Nov 2019 | Room 151 LGPS Investment issued Conference | London | 0 | 1 |
| 5 Nov 2019 | Workshop on the role of LAPFF – Climate Change and lobbying | County Hall, Preston | 9 | 2 |
| 14 Nov 2019 | ESG & Topical Investment Issues for Local Authority Pension Investors. | London | 2 | 0 |
| 14 Nov 2019 | 'Fundamental' training programme | Leeds | 0 | 1 |
| 15 Nov 2019 | YPS Practitioners Conference | Leyland | 0 | 1 |
| 27 Nov 2019 | 2019 LGPS Indaba | London | 0 | 1 |
| 4/6 Dec 2019 | LAPFF Annual Conference | Bournemouth | 1 | 0 |
| 5 Dec 2019 | 'Fundamental' training programme | Leeds | 0 | 1 |
| 15 Jan 2020 | Local Authority Responsible Investment Seminar | London | 1 | 0 |
| 22 Jan 2020 | Workshop on the role of The Pensions Regulator | County Hall, Preston | 7 | 3 |
| 23 Jan 2020 | Annual LGPS Governance Conference | York | 1 | 2 |

| | | | | |
|---|---|---|---|---|
| Feb 2020 | Local Pension Board Spring Seminar | London | 0 | 1 |
| 6 Feb 2020 | Strategic Investment Forum | London | 1 | 0 |
| 7 Feb 2020 | Pre Committee briefing on the 2019 Actuarial Valuation | County Hall, Preston | 7 | 0 |
| 7 Feb 2020 | Workshop on Local Pension Partnership Budget | County Hall, Preston | 6 | 2 |
| 17 Feb 2020 | LGPS Local Pension Board Members Spring Seminar | Leeds | 0 | 2 |
| 6 Mar 2020 | Pre Committee briefing on Responsible Investment | County Hall, Preston | 14 | 0 |
| 11 Mar 2020 | Workshop on the Local Pension Partnership Governance Charter 2020 | County Hall, Preston | 4 | 4 |
| 18 Mar 2020* | UCEA Annual Higher Education Pensions Conference | London | 1 | 1 |
| 19 Mar 2020* | Local Authority Pension Fund Issues Conference | London | 0 | 1 |

* Two Conferences in March 2020 were cancelled following the introduction of the Lockdown by the UK Government in response to the outbreak of the Covid-19 pandemic. Officers are monitoring the situation with regard to the Conferences being rescheduled to a later date in 2020.

In addition a total of 16 of the modules listed below from The Pension Regulators Public Service Toolkit have been completed by 3 members of the Lancashire Local Pension Board during the specified period:

1. Conflict of interest.
2. Managing risk and internal controls;
3. Maintaining accurate member data;
4. Maintaining member contributions;
5. Providing information to members and others;
6. Resolving internal disputes;
7. Reporting breaches of the law.

# F Investment Policy and Performance

## Performance

As a pension fund, the Lancashire County Pension Fund's ("the Fund") investment horizon is long-term. The investment strategy is based on the Fund's objectives of balancing capital growth with capital preservation, maintaining adequate cash flows to cover all liabilities as they fall due. Correspondingly, 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.

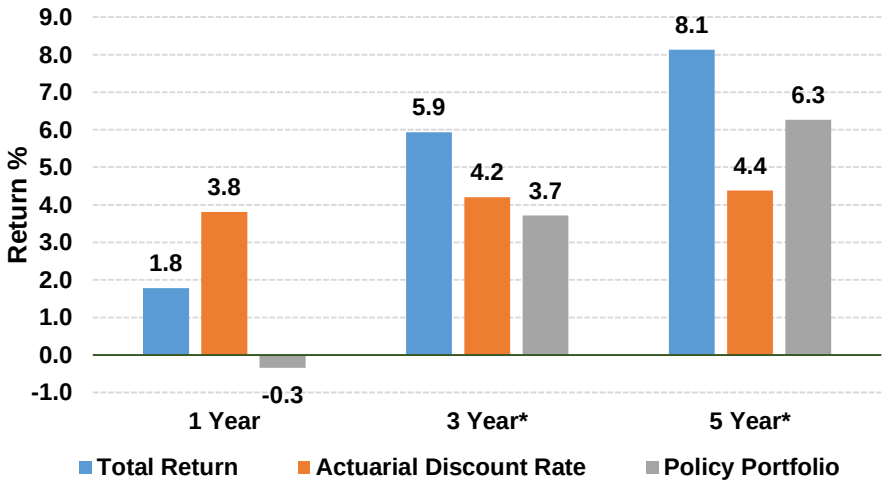
All the performance figures presented here are as at 31 March 2020. Over the year, the Fund's assets delivered a total return of +1.8%, outperforming its "policy portfolio" (an aggregate benchmark return comprised of each asset classes' target return) by over 2%. However, the portfolio's total return lagged the "actuarial benchmark / discount rate" (the rate that The Fund's liabilities are assumed to grow at) by a similar margin.

The value of the Fund's investment assets at 31 March 2020 was £8,321 million, (2019: £8,327 million). 2019/20 was a challenging year for asset returns, due to the market volatility and unprecedented levels of economic uncertainty caused by Covid-19 during the final quarter of the financial year, and into 2020/21. The impact of the pandemic on the worldwide economy and on the Fund's investment portfolio is expected to continue for a significant period of time. Despite these conditions, private equity was by the far the standout contributor with returns in excess of 25%, while the Fund's public equity allocation demonstrated its defensive and quality characteristics by outperforming relative to its benchmark. Longer-term (over a 3-year or 5-year horizon) the Fund's returns have been strong, comfortably outpacing both its actuarial benchmark and its policy portfolio.

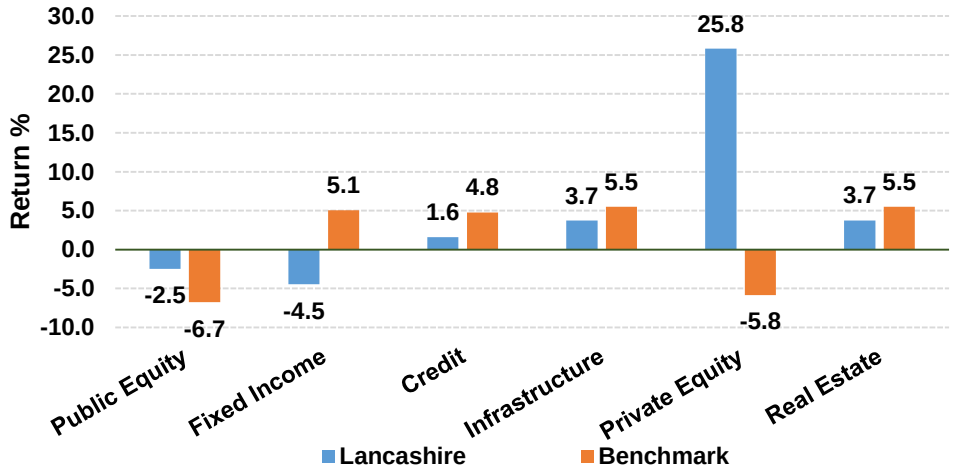
| Return Metric | 1 Year | 3 Year* | 5 Year* |
|---|---|---|---|
| **Investment Assets Return** | 1.8% | 5.9% | 8.1% |
| **Actuarial Benchmark** | 3.8% | 4.2% | 4.4% |
| **Policy Portfolio** | -0.3% | 3.7% | 6.3% |

Asset returns are shown net of fees
* Annualised Returns

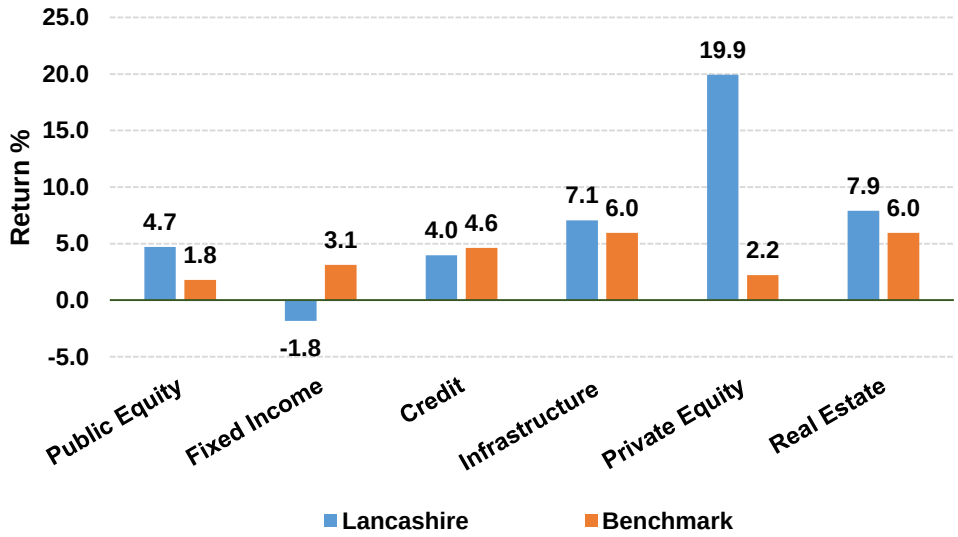
**Total Fund performance at 31 March 2020**



**One-year Fund performance by asset class at 31 March 2020**




**Three-year Fund performance by asset class at 31 March 2020**




**Investment pooling**

In 2016, the Fund appointed Local Pensions Partnership Investments Limited ("LPPI") to manage its assets. LPPI is a Financial Conduct Authority ("FCA") regulated Investment Company which is wholly owned by Local Pensions Partnership Limited, a 50:50 joint venture between Lancashire County Council and London Pensions Fund Authority (LPFA). LPFA has also appointed LPPI to manage its assets, in addition to The Royal County of Berkshire Pension Fund ("RCBPF") which joined the pooling initiative in May 2018. LPPI's in-house investments teams, which began as a blend of personnel from each of the three Fund' internal resources, have bloomed with the addition of external hires – including the current Chief Investment Officer. LPPI has created seven asset "pools" vehicles to manage clients' assets across public equities, fixed income, diversifying strategies, credit, infrastructure, private equity and real estate. The real estate pool was created in Q4 2019.

Further information regarding the Local Pensions Partnership pools in which the Fund participates, 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, provides an analysis of investments between those held within the LPPI pools and those assets within the Fund's portfolio that are not.

**Current and Strategic Asset allocation**

In recent years, the Fund has focused on reducing its equity risk, increasing allocations to other asset classes such as infrastructure, real estate and credit with the intention to better diversify its exposure and to increase its allocation to greater income generating assets. Over the course of 2019, public equity markets rallied strongly and led to an overweight position for the Fund. Steps were taken to mitigate the Fund taking excessive public equity risks by rebalancing back towards the strategic benchmark with excess reallocated into fixed income and establishing a position in diversifying strategies. Both proved to be beneficial for the Fund, protecting from the significant market drawdown in Q1 2020.

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 current asset allocation versus strategic target at the end of March 2020

| Asset Class | March 2020 | | March 2019 | | Strategic Allocation (%) | Range |
|---|---|---|---|---|---|---|
| | Assets (GBP Million) | Allocation (%) | Assets (GBP Million) | Allocation (%) | | |
| Public equities | 3,455 | 41.0% | 3,730 | 44.4% | 42.5% | 40% - 50% |
| Fixed income | 333 | 4.0% | 315 | 3.8% | 2.5% | 0% - 5% |
| Diversifying strategies | 90 | 1.1% | - | - | 0.0% | 0% - 5% |
| Credit | 1,098 | 13.0% | 1,486 | 17.7% | 15.0% | 10% - 25% |
| Infrastructure | 1,181 | 14.0% | 1,146 | 13.7% | 15.0% | 10% - 20% |
| Private equity | 778 | 9.2% | 650 | 7.7% | 5.0% | 0% - 10% |
| Real estate | 910 | 10.8% | 886 | 10.6% | 15.0% | 10% - 20% |
| Legacy shared ownership* | 331 | 3.9% | - | - | 4.0% | 0% - 5% |
| Cash | 253 | 3.0% | 182 | 2.1% | 1.0% | 0% - 5% |
| **Total** | **8,429** | **100%** | **8,395** | **100%** | **100%** | |

*As reported in the Fund's 2019 Accounts, the Legacy shared ownership (Heylo Housing) resided within the Credit allocation. It has since been separated out into its own allocation grouped within Real Estate.

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.

The Fund's SAA targets and ranges have been adjusted slightly following the restructure of the legacy shared ownership investment – Heylo Housing. Consequently, the investment has been moved out of the Fund's credit allocation and now has its own SAA target and range, albeit grouped under the Fund's wider real estate allocation. All other SAA targets and ranges have remained unchanged since December 2017. The next SAA review is in progress (at the time of writing) and is to be discussed with the Fund's representatives later in 2020.

**Macro outlook – the last 12 months**

This fiscal year saw a period of slowing global economic activity, although there is a stark contrast between growth levels exhibited in the first three quarters and the last quarter (through March 2020) amid the COVID-19 outbreak. Gross domestic product ('GDP'), inflation and real rates are key macroeconomic variables for our "top-down" asset class analysis.

Between April and December 2019, the global deceleration in GDP growth was not as uniform as was seen in 2018. The U.S. and China fared better among major economies, whilst countries including the U.K., Germany, France, Italy, Japan and India were key contributors to the drag on global activity. Amid this macroeconomic backdrop, price pressures (i.e. inflation) held mostly stable from a global standpoint, as decreasing growth was balanced by tighter labour markets (i.e. increasing employment), higher wage growth and ongoing accommodative policies.

Regarding policy, the Federal Reserve decreased its target rate by 0.75% in the first three quarters to a range of 1.50% to 1.75%, reversing all monetary tightening implemented in the previous fiscal year. Despite this, the dollar strengthened moderately against major currencies during this period, as uncertainties abroad (related to an escalation of trade tensions with China, as well as the U.K.'s exit from the European Union) unfolded.

During the last three quarters of 2019 broader investment performance has been strong across most asset classes and strategies due to a particularly strong finish at the year end. Global equities returned approximately 13% during this period, with various credit assets as well as government bonds, also performing well. As 2019 drew to a close optimism for the year ahead swelled due to strengthening asset performance, improved investor sentiment, looser monetary and in some cases fiscal policies, the U.K.'s withdrawal from the E.U. in an orderly way, as well as the trade agreement between the U.S. and China.

However, the COVID-19 outbreak swiftly changed all of this during the first quarter of 2020. In mid-February as the virus continued to spread within China and make its first appearances internationally no one could foresee the full toll it would have on the global economy. At that time the IMF was still forecasting growth to rebound to 3.3% globally in 2020 from 2.9% the prior year.

However, as COVID-19 transformed into a pandemic and governments started to impose lockdowns and unprecedented restrictions on social life, work and travel, the dreadful impact became clearer by the day.

The first quarter of 2020 saw some of the worst economic results in decades. When compared to consensus estimates, the majority of realised results were unsurprisingly mostly on the downside. This occurred even whilst most lockdown measures were only in place for a limited period in the first quarter, such was the speed of the reaction to the crisis. It is widely expected that Q2 GDP and other economic results will be worse still. It is anticipated that a reversal of social restriction measures will start lifting activity from Q3 on a quarter-by-quarter basis, although on a year-by-year basis the result will be lower. For many regions, GDP is not expected to reach 2019 levels until the end of 2021 or even 2022.

For the U.K., this fiscal year has been a tough one with the economy failing to grow in three of the past four quarters. Brexit, political uncertainty and headwinds from a weakening global economy meant the U.K. entered the COVID-19 crisis on a weak footing. Despite not being evident in official results, unemployment started to rise in March as businesses closed down, temporarily or permanently laying off employees.

In an economy where consumption is a key driver of growth, maintaining a strong labour market and consumer purchasing strength is key to recovery. The U.K. was among the first countries to push for a coordinated response to the pandemic (between its central bank and government) and both have implemented a variety of measures since March. These included a 0.65% reduction to the Bank of England (BOE) base rate to 0.1%, additional central bank asset purchases of government and corporate bonds, low cost business loans, various tax cuts, deferrals and grants, as well as a government commitment to support furloughed and self-employed workers. Although these will not deter the expected economic strain in Q2, they are significant levers for future economic recovery.

In Q1 2020 asset volatility spiked with strong performance in January giving way to a significant drawdown in February and March. In these latter months, daily price swings in equity markets reached extreme levels and government bond yields plunged as investors reversed their positions into “safe heaven” assets; Gold prices rose strongly too. A second hit came from the steepest decline in decades for oil prices at the beginning of March, which affected oil producers heavily, whilst benefiting consumers little amid lockdown restrictions.

The Fund entered this crisis positioned conservatively without significant overweight positions (versus target strategic weighting) in risk assets, including public equities, which saw the most pronounced drawdowns. Prior to the equity market drawdown, the Fund reduced its overweight position built up in public equities. Furthermore, overweight positioning in cash, fixed income and diversifying strategies proved helpful, as their performance was better in relative terms than equities during this period. The latter two were funded as a result of trimming down the public equities allocation which grew as bearish sentiment transformed into significant declines for public equities. LPPI transitioned a moderate allocation from the client's excess cash balance back into equities, which have since risen strongly.

Although there is still uncertainty around the pace of economic recovery, COVID-19 itself and other medium-term risks, the Fund's portfolio continues to be well diversified across different asset classes, regions and sectors. LPPI will continue to invest in line with the Fund's long-term investment horizon and objectives of balancing capital growth with capital preservation, whilst maintaining adequate liquidity to cover all liabilities as they fall due.

**Global public equities**

Public equities are commonly viewed as one of the highest-returning liquid asset classes and represents the largest asset class exposure for the Fund. The entirety of the Fund's allocation to public equities is invested in the LPPI Global Equity Fund ("GEF"); a combination of an internally managed portfolio with a variety of external equity managers, which operate with differing and complementary styles of investment selection. During the year LPPI has not changed the composition of external managers within its GEF. The GEF maintains a quality (factor investing style) bias, however other styles are included to provide diversification.

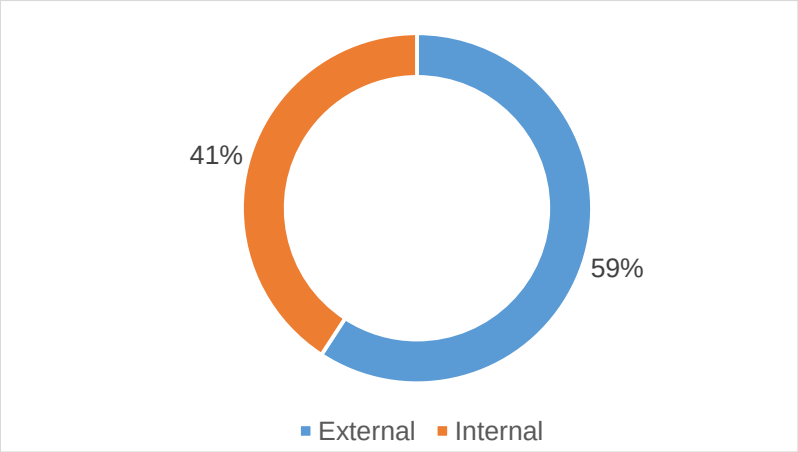
Supported by thawing trade concerns and central bank easing, global equity markets rebounded strongly over 2019 following a turbulent end to 2018. Markets however dropped in unison over Quarter 1 2020 as the coronavirus (COVID-19) spread globally, leading to one of the fastest declines in stock market history. Against a challenging backdrop, the Fund's public equities portfolio generated a return of -2.5%. The GEF's tilt towards companies with more stable and durable business models can be attributed to its outperformance of the wider equity market by 4.6%, as stocks in GEF showed greater resilience in the downturn. The GEF's relative performance over the year mirrors its outperformance since its inception in October 2016.

The GEF exhibited a low turnover of holdings and a stable roster of external managers, reflecting a long-term investment philosophy. This translates to broadly unchanged sector and regional exposures compared to the benchmark, the MSCI All Country World Index (MSCI ACWI), over the year. From a sector exposure perspective, the GEF maintained an overweight to consumer staples versus its benchmark, which follows naturally from the bias towards holding the stock of high-quality companies. From a regional exposure perspective, Western Europe (which includes the UK) remains the largest overweight position, whilst the Asia-Pacific region is the Fund's largest underweight. Overall, the GEF maintains an underweight position to emerging markets compared to benchmark.

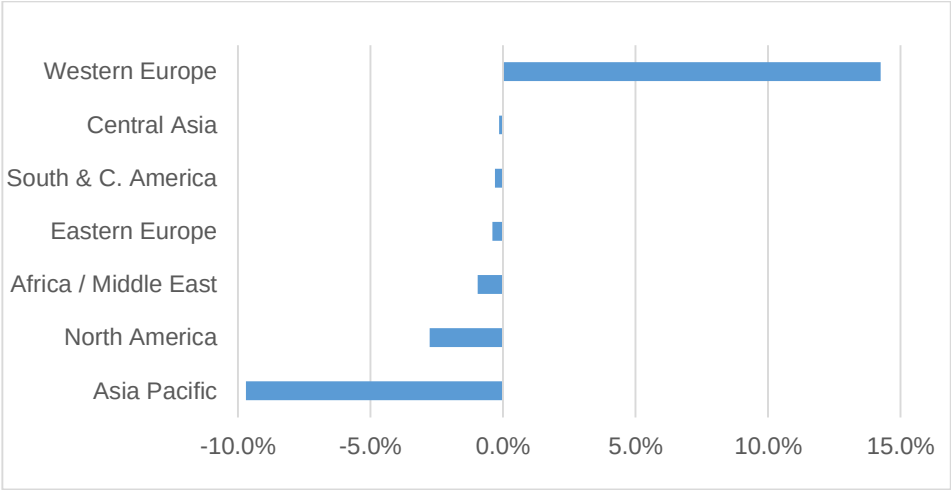
A significant development within LPPI's internally managed portfolio was the formalisation of the mandate focusing on opportunities within small and mid-cap companies. Intentions are to increase this segment to a target weight of 5% of the Fund over the course of 2020.

Looking ahead, LPPI remain confident that the bias towards equity managers who exhibit a significant tilt towards quality stocks will continue to provide superior risk adjusted returns versus the wider global equity markets over the longer term.

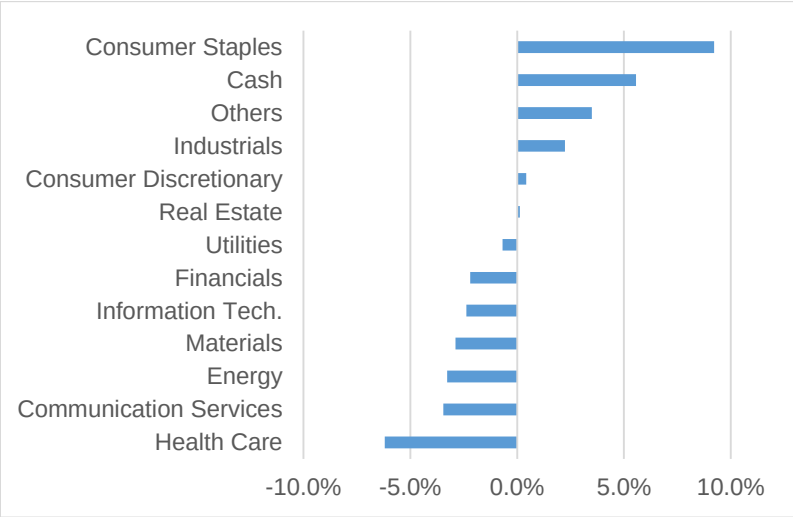
**LPPI GEF – internal vs external breakdown as at 31 March 2020**




**LPPI GEF–regional weights v MSCI ACWI as at 31 March 2020**




**LPPI GEF – sector weights v MSCI ACWI as at 31 March 2020**



**Fixed income**

LPPI's Fixed Income Fund ("FIF") was launched in February 2018 and the Fund committed capital on launch day. The FIF currently consists of two complementary managers, one with a "top down" investment style and the other with a "bottom up" focus.

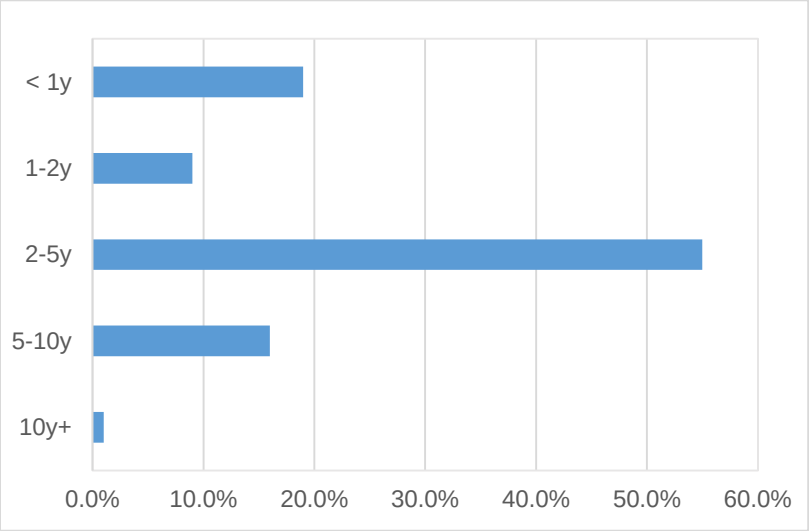
Prevailing themes of trade tensions between the US and China, decelerating world economies and the change in tack by central banks through the revival of monetary stimulus efforts largely underpinned fixed income market dynamics in 2019. Against this backdrop both risk (credit) and safe-haven (government issuance) assets performed well. However, this uniform ascension in value was short lived. The negative impact of COVID-19 on businesses and the wider economy over the first quarter of 2020 triggered sharp declines in risk assets, including investment-grade corporate bonds as well high yield debt. Meanwhile government bonds benefited from a flight to quality sentiment.

The trend of falling interest rates in recent years forms doubt regarding the ability to profit from them falling further. This view is reflected in the FIF's low duration / interest rate risk exposure. The FIF's prudent stance on rate risk led to performance lagging the benchmark (Bloomberg Barclays Global Aggregate Bond Index GBP-Hedged) to the end of the reporting period. However, heading into 2020 the FIF exceeded its target return of LIBOR + 2% with positioning benefiting from the macro environment. The unanticipated arrival of the COVID-19 pandemic and extreme caution shown in response by investors impacted the credit focus of the FIF. Spreads on a range of credits and securitised products widened significantly as a result, hurting returns and undoing much of the positive gains made within 2019. Over the reporting period, the FIF returned -4.5% against the benchmark return of +5.1%.

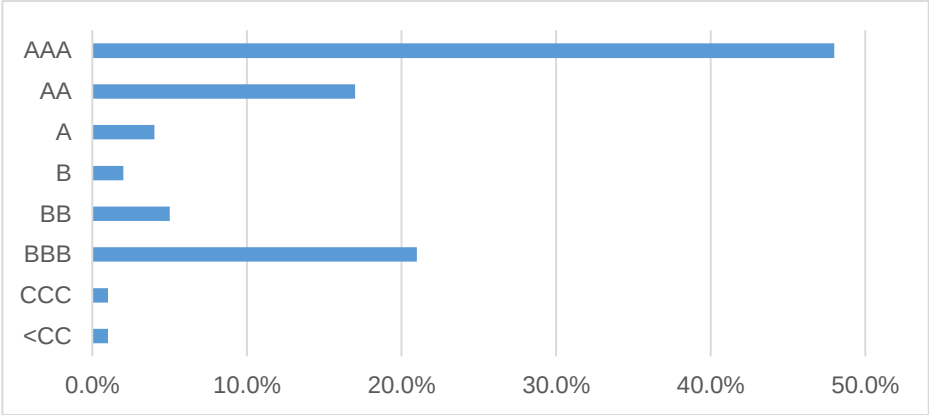
On the following page are three charts, exhibiting the FIF's aggregate positioning as at 31 March 2020. Please note that individual exposures may not total 100% due to derivative contract positions.

Based on LPPI's investment outlook, the FIF will continue to be credit focused with prevailing market conditions providing opportunities to generate target returns.

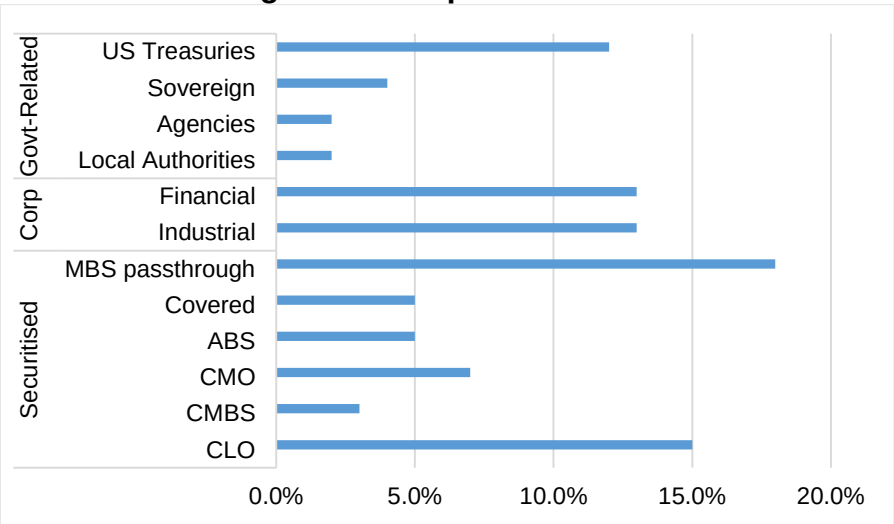
**LPPI FIF – holdings maturity as at 31 March 2020**




**LPPI FIF – holdings by credit rating as at 31 March 2020**




**LPPI FIF – holdings sector exposure as at 31 March 2020**



**Private equity**

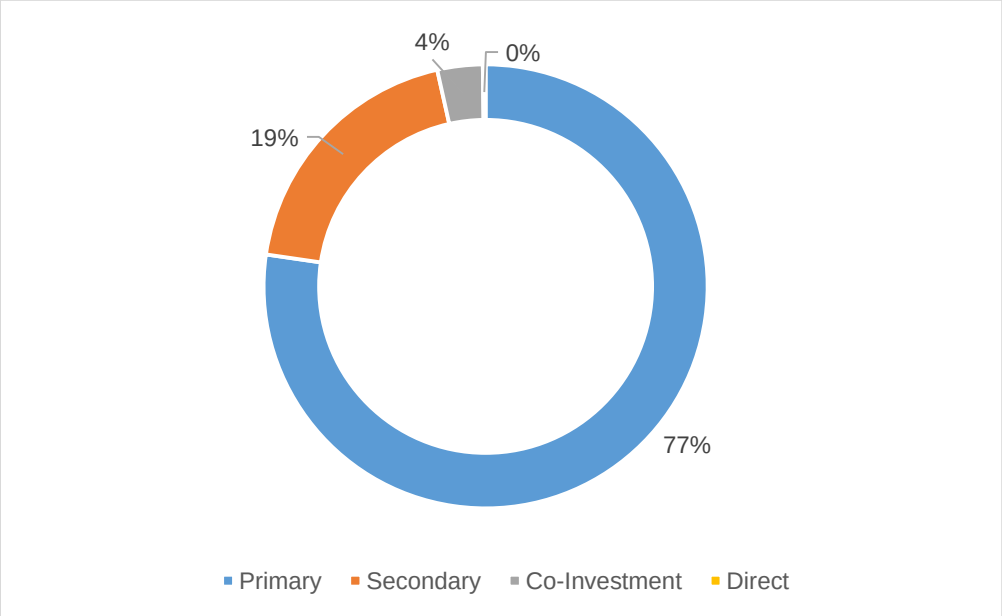
Compared to public equity, private equity offers a higher return and risk profile. This comes from generally investing in smaller companies with higher leverage and hence higher growth expectations. Private equity also has lower liquidity – a 10-year fund life is common – which is also compensated through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

Improving economic fundamentals, low interest rates and higher valuation multiples have bolstered private equity in the last ten years. The Fund's private equity portfolio has been a recipient of these favourable conditions having generated strong returns and consistently outperforming its return benchmark due to a well-diversified allocation to many top quartile managers.

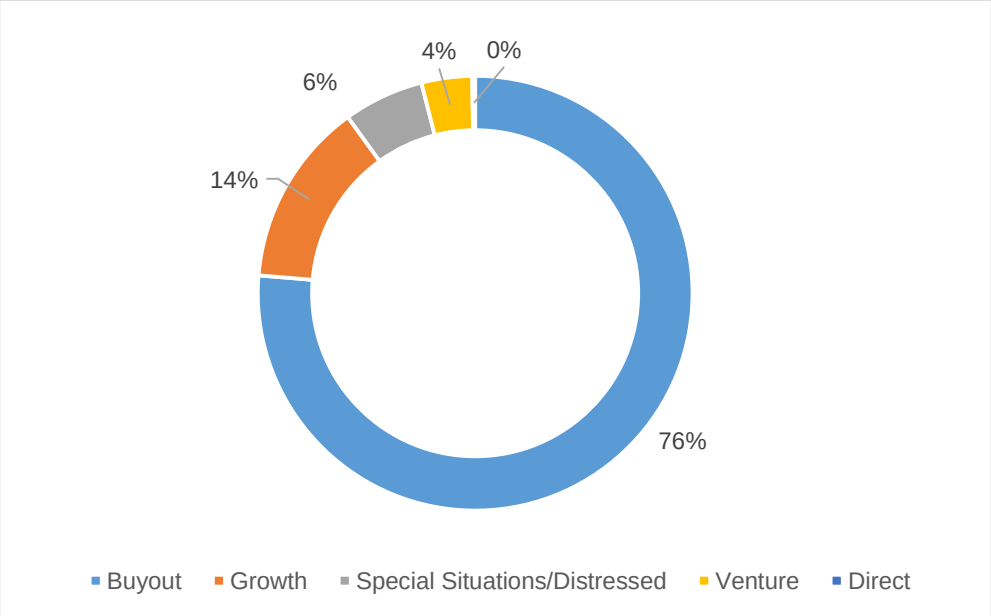
Over the shorter 1-year horizon, the private equity portfolio significantly outperformed its target with a return of +25.8%. Due to the reporting lag that is common with private market investments, the effect of COVID-19 on private equity valuations has yet to be realised but we anticipate this to be reflected later in 2020. While there was no discernible impact on valuations, the same cannot be said for transactional activity, as deal flow shrank in the first quarter of 2020 and is expected to decline further over the rest of 2020.

The Fund has reduced the rate of commitment to new private equity funds in accordance with its strategic asset allocation. This has been gradually achieved in a carefully, managed approach that ensures vintage diversification and manager relationships are maintained. Within the portfolio, there has been a reduction in exposure to large buyout funds, where valuations and leverage are currently at high levels. This is being achieved through new commitments to other private equity investment types and is likely to be reflected in portfolio exposures over the next few years as capital is drawn down. In a competitive market environment that has led to elevated pricing and scarcer opportunities, the Fund's capital continues to be prudently deployed.

**Private equity portfolio – investment strategy breakdown as at 31 March 2020**




**Private equity portfolio – investment type breakdown as at 31 March 2020**




**Private Equity Strategy Definitions**:
**Primary** fund investments are made *indirectly* through private equity funds into a portfolio of companies
**Secondary** fund investments are also made *indirectly* through private equity funds but involve buying and selling *pre-existing commitments of other investors*
**Co-investment** is an investment *directly* into a company *alongside other investors*
**Direct** investing is an investment *directly* into a company *solely by the investor*. It can involve buying the entire company or a minority investment

**Real estate**

Real estate plays a strategically important role within the Fund's overall investment portfolio, both because of its diversification benefits as well as the rental income generated that is used to fund member benefits without the need to liquidate other investments.

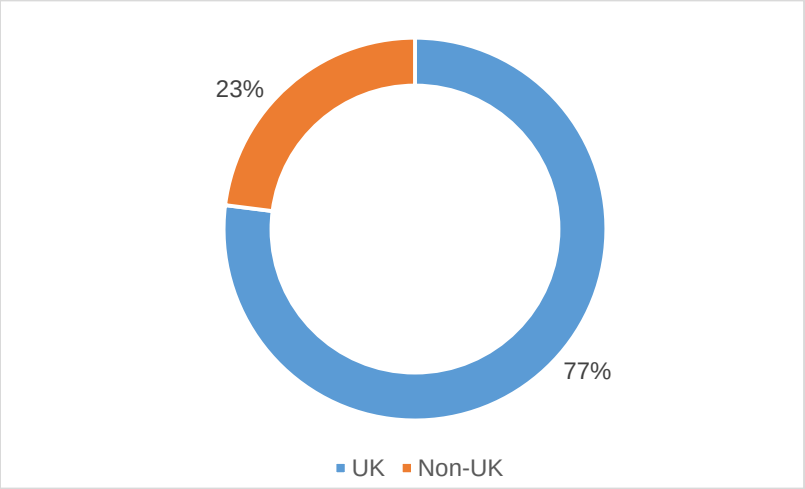
A key milestone was achieved over the year with a significant portion of the Fund's direct and indirect real estate assets being pooled into the LPPI Real Estate Fund (REF). This process started in October 2019 and was completed in the first quarter of 2020. Through the pooling process, the Fund has achieved greater regional and sector diversification as well as underlying property and fund manager diversification. The Fund has retained direct ownership of its national and county portfolio managed by Knight Frank. Elsewhere, the Fund has exposure to UK social housing through its investment in Heylo Housing.

Given the long-term nature of real estate investments, performance should be assessed over longer time horizons. Over the longer three-year and five-year horizon, the Fund's real estate portfolio has produced strong absolute and relative performance. Over the last twelve months, the portfolio (covering both the pre and post-pooling periods) generated a positive return of +3.7%, underperforming the benchmark return. The double-digit gains produced by Fund's national portfolio was only slightly diminished by the negative return of the county portfolio (property investments focused in the Lancashire region).

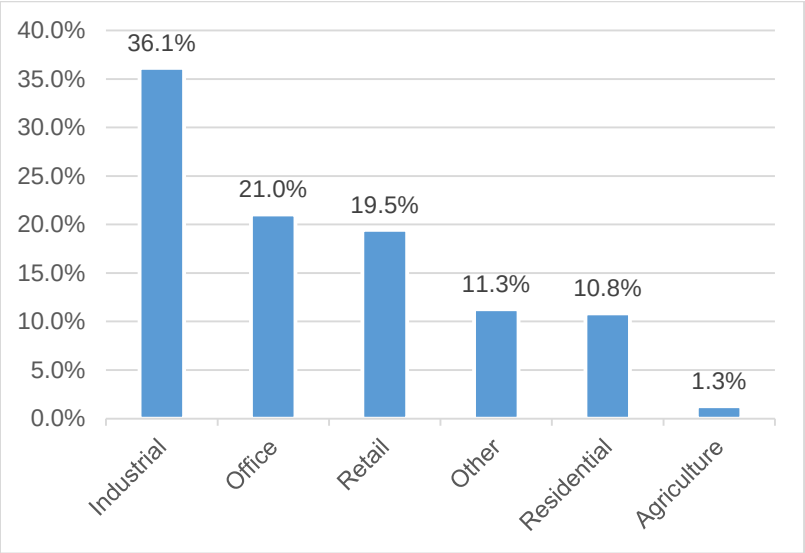
The pooled REF is invested with a focus on rental income, with assets selected to produce levels similar to that of the benchmark index. The real estate portfolio reflects the investment philosophy ingrained throughout LPPI whereby a focus is placed on the selection of high-quality investments with strong fundamentals to preserve value, maintain liquidity and ensuring continuity of tenant income. The above criteria are believed to be of benefit to the portfolio in the current climate where the COVID-19 crisis is causing rental payments to slow down, with tenants seeking deferments and concessions. At a sector level, there is a positive bias to office and industrial and relative underweight positioning to retail properties which has helped to protect the portfolio against capital loss. The retail sector suffers from secular headwinds, as online shopping grows, which has been exacerbated by the effects of the COVID-19 lockdown.

Moving forward the incumbent crisis is anticipated to accelerate existing trends within property valuations and we could see a redefining of property requirements. Furthermore, LPPI are conscious of any impact on rental income and are closely monitoring the properties within the REF. Despite these concerns, confidence remains that property fundamentals are largely unchanged, quarterly income distributions should be maintained and well-located quality properties should continue to outperform.

**LPPI REF – geographical breakdown as at 31 March 2020**




**LPPI REF – sector breakdown as at 31 March 2020**



**Infrastructure**

Infrastructure as an asset class typically offers long-term returns that are aligned to the Fund's investment objectives whilst also providing diversification and broadly resilient cashflows with a degree of inflation linkage. The majority of the Fund's infrastructure exposure is through LPPI's Global Infrastructure Fund ("GIF"). This comprises allocations to a variety of global infrastructure funds, and direct investment projects.

A key component of the GIF is GLIL (LPPI is the appointed alternative investment fund manager of GLIL), a distinctive platform designed to fully align the interests of like-minded investors who wish to exploit the very long-term investment opportunities in infrastructure investing. Through GLIL, 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.

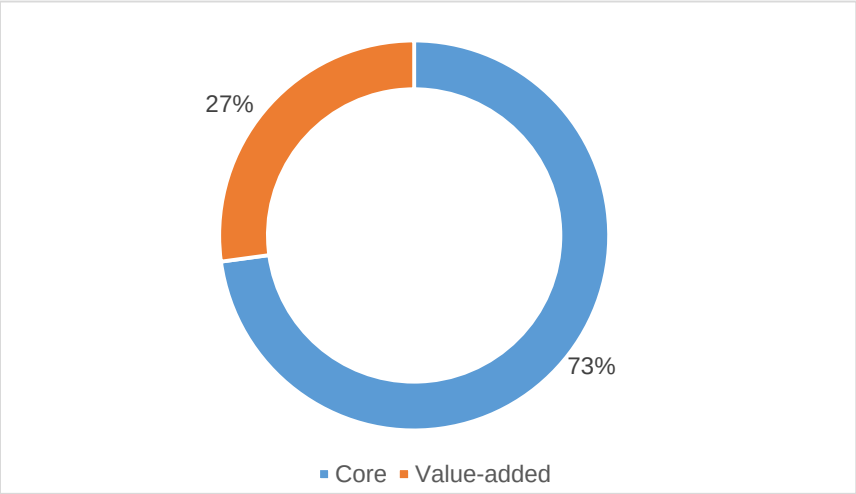
The residual allocation to infrastructure is predominantly invested in energy-related infrastructure projects which remain on the Fund's balance sheet and is expected to continue to roll off in the next couple of years. Their impact on overall performance is minimal given the small exposure to these funds.

Furthermore, the GIF has made an increasing number of direct investments globally with significant allocations in the renewable energy sector. The scale that the GIF brings enables investments to be made on favourable terms, which reduces fee costs over the investment horizon and provides stronger governance rights to protect the Fund's long-term interests. Over the reporting period the fund has experienced significant activity, with two new investments as well as an additional pooling of assets.

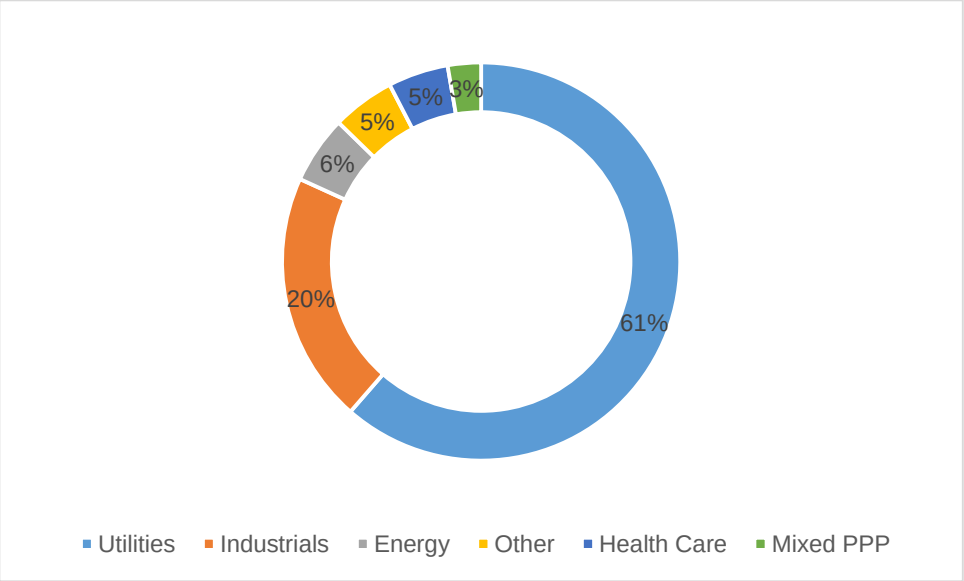
The Fund's infrastructure portfolio delivered a positive return (+3.7%) over the twelve-month period despite facing material regulatory headwinds and a challenging energy market outlook reflected by the double-digit declines in the Fund's on-balance sheet energy infrastructure funds. Similar to other private market assets, infrastructure performance should be assessed over longer horizons in which the Fund's infrastructure portfolio has consistently exceeded its benchmark return. Looking back over the past year, infrastructure stood apart from other asset classes as deal activity did not suffer due to the impact from the COVID-19 pandemic. There was, however, a shift in capital deployment towards more defensive, less cyclical assets such as telecoms and social infrastructure.

The competitive market environment continues to be testing in finding appropriately priced deals. Despite this the LPPI Infrastructure team are working on a number of attractive opportunities and maintain a strong long-term pipeline.

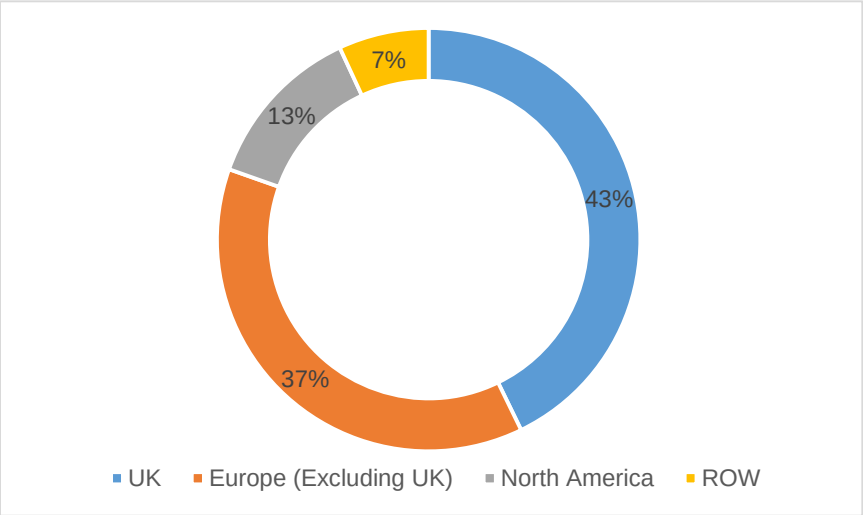
**LPPI GIF portfolio – strategy breakdown as at 31 March 2020**




**LPPI GIF portfolio – sector breakdown as at 31 March 2020**




**LPPI GIF portfolio – geographical breakdown as at 31 March 2020**



**Credit**

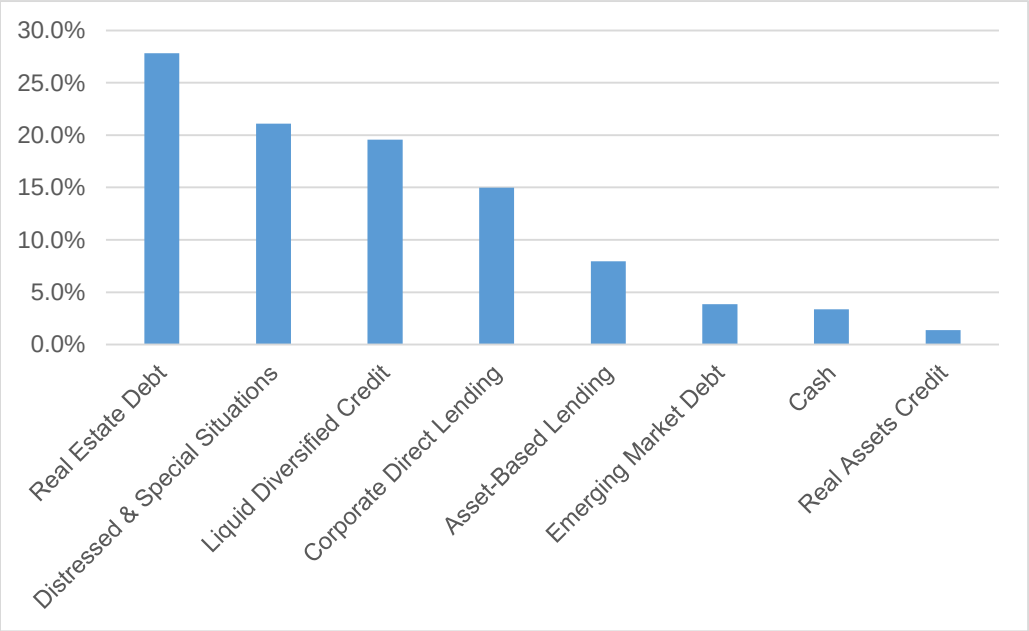
The majority (over 85% as at 31 March 2020) of the Fund's credit exposure is through LPPI's Global Credit Fund (GCF). The GCF invests in a range of credit-linked assets globally across the credit quality spectrum. Credit exposure is predominantly in illiquid investments which are typically held to maturity. The income generated from the GCF is a material source of cash that can be used to meet liability payments and is incorporated into the cash flow modelling that LPPI conducts on behalf of the Fund. Outside of the GCF, the Fund has small exposures in legacy, externally managed credit mandates covering direct lending, distressed debt and loans.

The support to credit markets from a relatively benign credit environment was interrupted by the COVID-19 pandemic and ensuing financial stress. In this environment, the Fund's credit portfolio generated a modestly positive return (+1.6%) but lagged that of the benchmark set for the portfolio. The GCF generated a positive return (+3.5%) over one year but lagged that of the benchmark set for the strategy. Among the different underlying strategies, distressed debt and corporate direct lending were worst affected and detracted from positive performance. However, negative returns in the lower-quality part of the portfolio were offset by resilience shown in liquid diversified credit and asset-based credits. Over the longer-term, performance remains strong with notable outperformance against the benchmark since inception.

Over the course of 2019, steps were taken to incrementally tilt the GCF portfolio towards higher-quality, senior secured and asset-based/asset-backed credits, which are likely to provide greater resiliency in challenging market conditions. The Fund's exposure to emerging market debt has notably decreased following this reorientation. The broad types of investments comprising the LPPI GCF at 31 March 2020 are included in the graph below.

Looking forward, although there has been a substantial retracement of the drawdown since March, LPPI anticipates the next phase of this credit cycle to lead to many investment opportunities in rescue financing, restructuring and special situations while also concentrating on managers that are able to minimise expected losses whilst optimising returns.

**LPPI GCF portfolio – investment type breakdown as at 31 March 2020**



**Diversifying strategies**

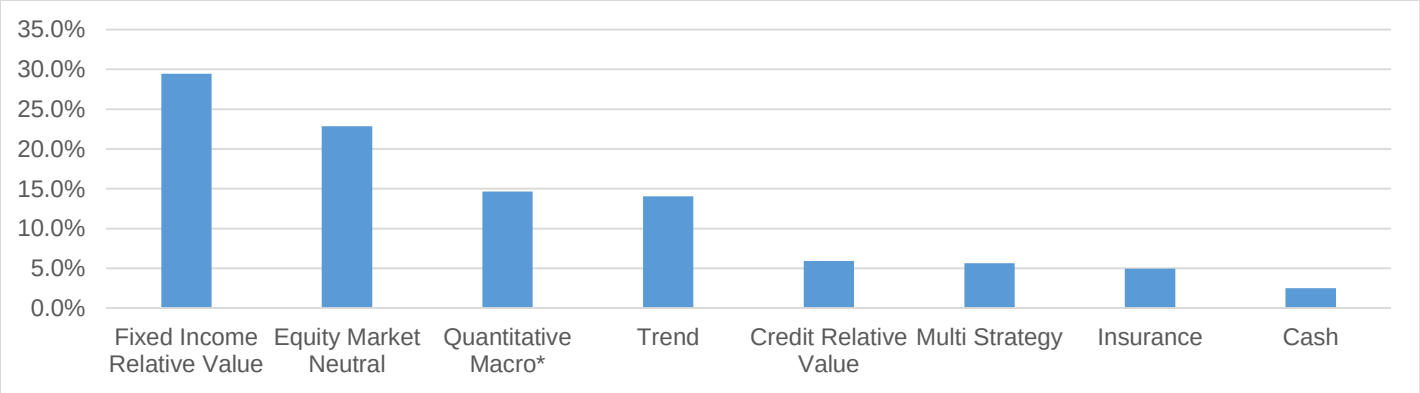
The entirety of the Fund's diversifying strategies exposure is through the LPPI Diversifying Strategies Fund (DSF), which was implemented in the fourth quarter of 2019. The DSF seeks to generate a diversifying source of return to complement clients' equity and fixed income allocations, whilst maintaining low correlation to public equity (especially in times of market stress). The DSF follows a diverse, multi-strategy approach employing a range of relative value, risk premia and directional investment approaches in traditional markets, alongside alternative markets like insurance.

From its inception to 31 March 2020, the Fund's diversifying strategies returned -5.9%. Although posting a negative return it nonetheless provided diversification against broader market turbulence as equity and credit markets underwent severe stress in the first quarter of 2020.

The portfolio has tilted to areas where greater opportunities have materialised, such as fixed income relative value and insurance-based strategies. Two external managers were appointed over this period to oversee the credit relative value and re-insurance strategies while exposure to discretionary macro (funds which aim to form a view of the state of the world, analyse the implications of this for asset prices and construct a portfolio to take advantage of this analysis) was reduced through a manager redemption in the fourth quarter of 2019.

Moving forwards, LPPI are reviewing long volatility programmes, with the idea of providing structural protection against an uncertain macroeconomic backdrop over the next twelve months.

**LPPI DSF portfolio – strategy type breakdown as at 31 March 2020**




* Quantitative Macro strategies use rules-based trading models (utilising statistical techniques and quantitative research) to invest across a range of asset classes

## Responsible investment

LCPF is committed to the long-term responsible investment (RI) of retirement savings on behalf of Fund members.

Responsible investment practices support the delivery of the sustainable returns needed to pay pensions through a focus on identifying and understanding investment risks and improving risk-adjusted returns over the long term.

The Fund's assets are managed under pooled investment arrangements. As part of pooling, day to day decision-making around the appointment of asset managers, the selection of investment products, and the exercise of ownership responsibilities has been delegated to LPPI. 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 the investment strategy and for implementing RI policy commitments.

### Ensuring Transparency

The Fund aims to be as transparent as possible about the approach to responsible investment 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. The approach to Responsible Investment including the commitment to ESG integration is set out in the Fund's Investment Strategy Statement (ISS) which is included as Appendix 7 to this annual report.

A detailed review of the approach to RI was undertaken during 2018 and an updated RI policy for the Fund was adopted in November 2018. 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 9 to this annual report.

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

**Applying high standards**

Two main external benchmarks are used to hold the Fund and LPPI to account.

The Fund is a signatory to the UK Stewardship Code (2012) and ranked Tier 1 (highest) by the Financial Reporting Council (FRC) for the arrangements in place to ensure the effective stewardship of the investment portfolio. The Statement of Compliance describes in detail how the Fund complies with the best practice principles encompassed by the Code.

At the end of 2019, the FRC published a revised UK Stewardship Code (2020) which implements requirements under the Shareholder Rights Directive II and sets a much higher threshold for stewardship activity. In line with the FRC's timeline for new arrangements under the revised Code, the Fund will consider the best approach to demonstrating alignment with the new standard, but it is anticipated that this will predominantly come through LPPI's reporting on stewardship activities on behalf of the partnership.

The Fund's approach and requirements are aligned with the commitments investors make as signatories to the Principles for Responsible Investment (PRI). LCPF delisted as a PRI signatory in July 2018 to enable LPPI to begin reporting on arrangements and activities on behalf of the whole partnership. LPP has reported twice since becoming a PRI signatory (most recently in March 2020) and Transparency Reports are accessible from the PRI website describing arrangements in place and giving detailed examples of good practice.

**Responsible investment priorities**

Two issues have been identified as primary concerns for the Fund as a responsible asset owner:

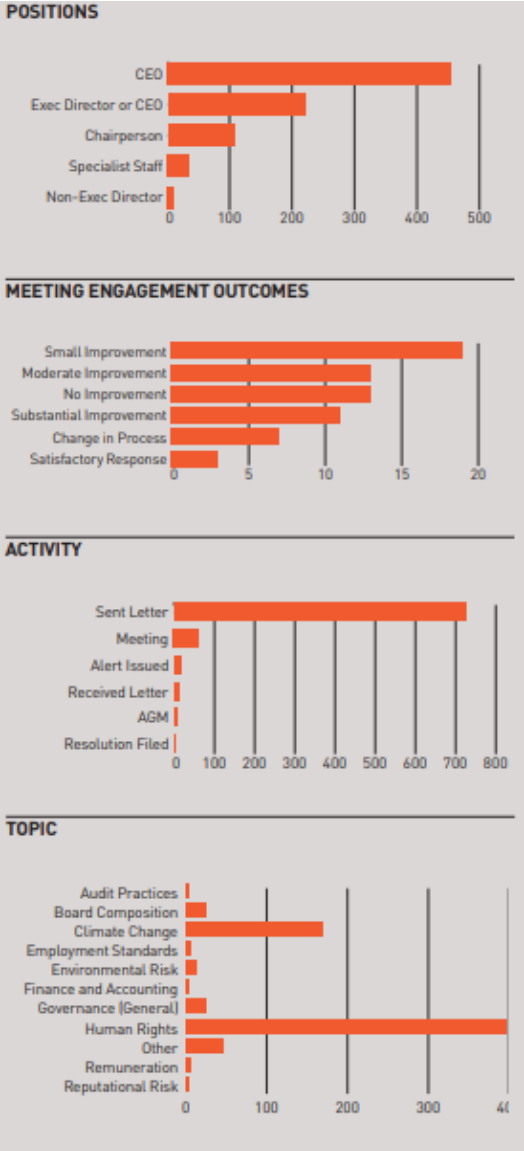
- Corporate governance
- Climate change

Company fundamentals, including the quality of leadership and broader corporate governance, determine how well positioned investee companies are to accommodate and thrive in response to multiple stimuli (economic, social, political and environmental). LPPI is asked to seek out, invest in, and focus stewardship efforts on promoting well managed and sustainable companies. This involves monitoring and engaging companies to address issues such as excessive corporate pay differentials and to encourage positive behaviours such as fair and just employment practices and transparent disclosure on corporate activities.

The Fund prioritises working in partnership with like-minded investors, and favours collaborative partnerships that collectively gain the attention of companies. As a member of the Local Authority Pension Fund Forum (LAPFF) the Fund is placed alongside 79 other UK local government pension funds. The forum represents and promotes the investment interests held in common and helps maximise joint influence as shareholders. LAPFF activities are supported by attending the AGM and Annual Conference as well as participating in the Forum's programme of quarterly business meetings. The Chair of the Pension Fund Committee and Head of Fund are members of the LAPFF Executive Committee currently. This reflects a commitment to active partnership with other LGPS pension funds to set high standards, advocate for progressive policy and hold investee companies to account.

In the last 12 months as a member of LAPFF, the Fund was represented in the range of activities undertaken by LAPFF summarised in the tables and graphs below (which are taken from the Forum's Annual Report 2019).

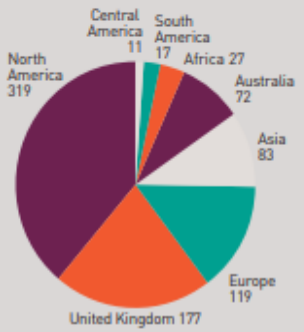
**Local Authority Pension Fund Forum – Annual engagement statistics 2019:**




**COMPANIES MOST ENGAGED**

| Company | Number of Engagements | Number of Members Holding |
|---|---|---|
| Exxon Mobil Corporation | 8 | 27 |
| Southern Company | 7 | 22 |
| Arcelormittal Sa | 7 | 21 |
| General Electric Company | 7 | 24 |
| Royal Dutch Shell Plc | 6 | 53 |
| General Motors Company | 6 | 17 |
| Rio Tinto Group (Gbp) | 5 | 44 |
| Chevron Corporation | 5 | 26 |
| Amazon.Com Inc. | 5 | 37 |
| Glencore Plc | 5 | 28 |

**ENGAGEMENT BY REGION**




*For more information on LAPFF and its activities please visit* [http://www.lapfforum.org/](http://www.lapfforum.org/)

Climate change is recognised as a significant investment issue. The Fund is a long-term investor and it is envisaged that climate change will impact all companies, markets, sectors and geographies over time, but in ways and to timescales that are not straightforward to predict. It is important to address climate change as a systemic, multi-dimensional investment risk that is simultaneously environmental, social and governance risk.

In setting priorities, the initial focus of the Fund has been on extractive fossil fuel companies and the risk posed by assets becoming stranded as the global transition to lower carbon energy progresses. The RI policy explains the conditions placed on investments in the fossil fuel sector, which require companies to demonstrate adequate planning for the transition to a low carbon economy and visible steps to adapt their operations and business models.

The portfolio has a relatively low level of exposure to traditional energy. Within listed equities just 0.4% is held in the energy sector (compared to 3.7% benchmark) and the companies held are well rated by the Transition Pathway Initiative which assesses companies against a series of benchmarks based on the information they disclose publicly.

Low exposure to energy in listed equities also translates into a lower carbon intensity (relative to the benchmark) which reflects that the energy sector is disproportionately carbon intensive. Additional analysis suggests the listed equity portfolio has emissions below the pathway for 1.5°c degrees of warming, but the Fund recognises that methodologies for evaluating alignment are at a very early stage of development. Working with LPPI, tools and metrics that help understand and address the investment risks posed by climate change will continue to be sought.

Projecting forward, the likelihood of stronger fiscal and regulatory interventions to achieve well below 2°c of global warming (in line with the Paris Agreement) is increasing. It will be necessary to consider how measures introduced to deliver the UK Government's commitment to carbon neutrality by 2050 will pose risks or potentially offer UK investment opportunities. The Fund is already investing in a low carbon future; 4.5% of the portfolio is in assets identified as "green" because they are directly involved with renewable energy generation or otherwise supporting decarbonisation as part of the global transition. The infrastructure portfolio includes investments in wind and solar energy in the UK, Europe and beyond, and investments in the generation of energy from waste are also held.

**Examples of activity**

**Investments**

At the end of 2019, alongside the other UK pension funds which invest through infrastructure collaboration GLIL, the Fund secured a minority stake in Cubico, a renewable energy portfolio that comprises over 250 MW of wind and solar projects at 18 sites across the UK.

As part of consortium Rock Rail (also through GLIL) the Fund is helping to finance the introduction of state-of-the-art passenger trains which will transform passenger journeys and support a more sustainable railway. Some of the first trains in the UK to be financed with long-term investment from pension funds and insurance companies have gone into operation during 2019 with the launch of two new fleets of rolling stock that are now operating on the Greater Anglia and South Western railway networks.

There are also examples of investments which are bringing new infrastructure, jobs and economic benefits to the North West.

| | |
|---|---|
| **St Leonards House, Lancaster**<br>**Redevelopment of disused listed building, former furniture factory of renowned manufacturer Waring & Gillow, remodelled as 180-bed student accommodation, situated in Lancaster city centre. The property is situated close to many amenities, and the mainline train station is only 8 minutes' walk, which is convenient for students and their visitors travelling to Lancaster by train.** |  |

| | |
|---|---|
| **Multiply Logistics North, Bolton**<br><br>**Redevelopment of a former open cast coal mine between Preston and Manchester into one of the premier logistics hubs in the North West, totalling 800 acres. The site is home to Aldi's North West Regional Distribution Centre amongst other occupiers. This development consists of 10 distribution units ranging in size from 20,000 to 150,000 square feet, 9 of which are complete and let, delivering modern facilities to local businesses and creating multiple employment opportunities.** |  |

**Stewardship**

The Fund is committed to engaging with pension funds and other stakeholders to share best practice and recognise the risks and opportunities investments face from climate change. In November 2019 the Head of Fund joined an investor roundtable to discuss how approaches to the challenge posed by climate change are evolving. https://www.room151.co.uk/interviews/sponsored-investment-roundtable-climate-and-the-lgps/

The right of shareholders to vote at annual general meetings offers a direct route for communicating views and urging companies to make changes or improvements. LPFA's investment in listed equities is through the LPPI Global Equities Fund (GEF). LPPI votes on shares in the GEF directly and publishes quarterly reports on meetings voted, the individual resolutions tabled and whether voting supported or opposed proposals. Voting reports are publicly available from the LPP website where they can be referred to for granular insights.

**https://www.localpensionspartnership.org.uk/Who-we-are/Our-Investment-Stewardship/Shareholder-voting**

In the 12-months from April 2019 to March 2020 LPPI:

- voted at 502 company meetings on 6,981 separate resolutions
- voted against 19% of management proposals on remuneration and supported 57% of shareholder resolutions relating to remuneration
- supported 85% of shareholder resolutions related to improving corporate action on human rights issues
- supported 83% of shareholder resolutions relating to diversity
- voted against management in 25 instances where board nominations failed to address an inadequacy in board diversity
- supported 77% of shareholder resolutions related to climate change.

# G Asset pools

The table below shows the costs to LCPF of setting up both the pooling company, Local Pension Partnership Ltd, as well as the individual pooling vehicles which continued in 2019 with the creation of the LPPI Real Estate Fund. LCPF transferred in both direct and indirect assets over the latter stages of 2019 and early 2020.

**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 |
|---|---|---|---|---|---|---|
| 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** | **0.3** | **–** | **–** |

**Pool set up and investment transition costs by type of expense**

| | Current Year | | | |
|---|---|---|---|---|
| | Direct £'m | Indirect £'m | Total £'m | Cumulative £'m |
| Set up costs | | | | |
| Legal | – | 0.3 | 0.3 | 0.8 |
| Professional fees | – | 0.1 | 0.1 | 0.6 |
| Other support costs | – | 0.4 | 0.4 | 0.5 |
| **Total set up costs** | **–** | **0.8** | **0.8** | **1.9** |

| | | | | |
|---|---|---|---|---|
| **Transition costs** | – | – | – | **2.3** |

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 based on revised CIPFA guidance in 2016, whereas previously fees may have been lower as they may have been netted off against the change in market value. This is consistent with current recommended practice.

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

Fee savings for the year ended 31 March 2020 are £8.1m resulting in net savings for the year of £7.3m.

**Total expected costs and savings**

| | 2014-15 £'m | 2015-16 £'m | 2016-17 £'m | 2017-18 £'m | 2018-19 £'m | 2019-20 £'m |
|---|---|---|---|---|---|---|
| Set up costs | 0 | 0.2 | 0.2 | 0.7 | 0 | 0.8 |
| Transition costs | 0 | 0 | 2.0 | 0.3 | 0 | 0 |
| Fee savings | 0 | 0 | (0.6) | 0.4 | (9.1) | (8.1) |
| **Net savings realised** | **0** | **0.2** | **1.6** | **1.4** | **(9.1)** | **(7.3)** |

**Ongoing investment management costs**

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

The following table summarises investment management costs for 2019/20. It has been compiled from cost transparency templates completed by each of the Fund's investment managers. The 'Direct' costs column reconciles to the costs disclosed in Note 10 within the accounts of the Fund (section H of this annual report), while 'Indirect' costs are those costs that do not meet the criteria for inclusion in the accounts but do represent underlying costs to the Fund's investments. The investment expenses are split between those held within pooled vehicles and those 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 | 30.8 | – | 30.8 | 9.7 | – | 9.7 | 40.5 |
| Performance | 19.3 | – | 19.3 | (1.8) | – | (1.8) | 17.5 |
| Transaction costs | 2.3 | 6.9 | 9.1 | 0.0 | – | – | 9.2 |
| Custody | – | 0.0 | 0.0 | 0.1 | – | 0.1 | 0.1 |
| Administration | – | 7.3 | 7.3 | – | 2.4 | 2.4 | 9.8 |
| Governance, Regulation and Compliance | – | 3.1 | 3.1 | – | 0.8 | 0.8 | 3.9 |
| Property expenses | – | 0.1 | 0.1 | – | 1.8 | 1.8 | 1.9 |
| Other | – | 0.6 | 0.6 | – | 0.5 | 0.5 | 1.0 |
| **Total** | **52.3** | **18.1** | **70.3** | **8.1** | **5.5** | **13.6** | **83.9** |

Despite the Fund's assets increasing in value for much of the period in question, overall management fees for pooled and non-pooled investments were marginally lower relative to the prior year. This can be attributable to one of the benefits of asset pooling. Moreover, direct costs across both LPPI pooled and non-pooled assets, which includes performance fees and transaction costs among other expenses, are lower compared to the previous year. There were no changes made to the strategic asset allocation over the year, nor were there material over/underweight positions which would translate to a change in management fees paid.

Following clearer guidance from CIPFA, greater transparency on investment management costs has been achieved as reflected in the provision of indirect investment costs outlined in the above table. With the inclusion of these indirect costs, overall costs of £83.9m for the Fund appear higher than what was reported in previous years.

With the establishment of the LPPI Real Estate Fund and the transfer of directly held assets into the newly created fund, the percentage of total assets pooled with LPPI rose from 78% to 87% in March 2020. Additional pooling has led to a shift in where investment management costs are borne. The transition of a higher proportion of total fund assets to pools is expected to result in reduced investment management costs. The full impact of transferring the real estate assets will be reflected in the results for the year ending 31 March 2021.

**Understanding the relationship between costs, risks and return associated with the pension fund portfolio**

A significant part of LCPF's portfolio is invested in alternative / private market asset classes such as real estate, infrastructure and private equity. These asset classes are unable to be managed passively due to their lack of liquidity and active management (undertaking operational improvements, for example) is a key driver of returns. In exchange for a greater involvement within the investment selection and management process, costs can exceed those typically seen within public market investments

Whether an asset falls within the public or private market classification, active management typically requires additional research, diligence, and systems amongst other considerations to facilitate stronger returns. This additional investment in resource should translate through to better long-term risk-adjusted returns. Strong asset performance over the last few years, generated through actively managed assets, has been identified as the principal driver for the improvement in LCPF's funding position at the latest triennial valuation review.

LPPI's Investment Committee oversees all investment managers and weighs up the benefits of deploying capital across different asset classes to optimally balance capital growth and capital preservation whilst seeking to provide the best value for LCPF's members.

# 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 Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the Chief Executive and Director of Resources, who is also the Section 151 Officer to the Pension 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 Pension 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 Pension 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 Pension 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 Pension 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 2020 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 Pension Fund.

**Angie Ridgwell**

**Section 151 Officer**

**Lancashire County Pension Fund**

## Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31 March 2020 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 178,150 members across 313 organisations with active members and a range of other organisations with only deferred or pensioner members.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Fund and this statement sets out that review.

### *The Pension Fund's Responsibilities*

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse, is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility the Pension Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS and has regard to relevant standards such as the Myners' principles. A copy of the Governance Policy Statement is available to view through the following link Governance-policy-statement

In addition the operation of the Fund is subject to Lancashire 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) which defines the seven core principles that should underpin the governance of each local authority namely:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Fund's capacity, including the capability of its leadership and the individuals within it;

- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The statement also sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance

### *The Purpose of the Governance Framework*

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both Fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2020.

## The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

### *The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers*.

The Fund has clear objectives as established by statute and it has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed. This is supported by the role of the Lancashire Local Pension Board.

### *Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements*

The Head of Fund reviews new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and proposes any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee are responsible for establishing the strategic objectives of the Fund through a rolling three-year Strategic Plan and for monitoring the progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and how such risks are to be mitigated, together with any legal or other considerations that might arise.

***Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.***

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the four dimensions of the running of a pension fund. Many of these functions are now performed under contract by the Local Pension Partnership (LPP). These functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on performance in relation to the Investment Strategy are taken to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and are subject to review by the Investment Panel.

The administration service is undertaken by LPP. As part of its responsibility for the governance of the Fund the Pension Fund Committee is responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the activities of LPPA.

***Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.***

Appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken. Matters reserved for the Pension Fund Committee and the Head of Fund are defined in the Governance Policy Statement and more widely in the county council's Constitution.

***Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.***

These matters are defined in law and the various codes of conduct and protocols contained within the county council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following county council elections.

***Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.***

The interaction between the Pension Fund Committee and the Investment Panel meets the needs of the Fund in terms of effective delivery of the Investment Strategy. This is reflected in specific reporting arrangements in relation to investment activity.

***Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.***

At the top level these requirements are set out in the Governance Policy Statement and within the county council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.
The management of risk is central to the Fund's activities and the Fund has continued to develop and update its risk register. The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with the fund;
- 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.

Towards the end of the financial year a global pandemic of the Coronavirus known as Covid-19 has taken place. As this represents a significant risk to the Fund a specific risk register has been developed, dedicated to Covid-19 which covers the main functions of the Fund namely:

- Administration;
- Funding;
- Investment;
- Governance;
- Member Communications.

Mitigating actions are carried out and reviewed quarterly to ensure that each risk is effectively managed or reduced. The risk register is regularly reported to the Pension Fund Committee and the Pension Board.

***Fulfilling the core functions of an Audit Committee***

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee.

***Ensuring compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful***

The various LGPS Regulations, covering both the structure and benefits payable by the Fund and the investment of funds, are key from an operational point of view.

Compliance with the Regulations is ensured by a dedicated technical team and the use of a pension's administration system specifically designed for the LGPS. The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided by either the Fund's or LPP's custodian. LPP Investments Limited is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management function.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider county council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

### *Assurance provided by internal audit*

Assurance over the council's governance and oversight of the Fund and the operational activity for which the council is responsible is provided by the county council's internal audit service. Assurance over the Fund's administration and investment activities is provided by LPP's own internal audit service and a programme of work has been completed in respect of the county council's responsibilities which covered:

- The council's oversight of Local Pensions Partnership Limited;
- Collection of employee and employer contributions;
- Accounting for the Pension Fund through the council's general ledger.

All audits gave substantial assurance that the relevant controls are adequately designed and effectively operated.

In addition the Head of Internal Audit seeks to obtain and understand the assurance provided by LPP's own internal auditors Deloitte. During 2019/20 Deloitte has completed and reported four audits under its three-year risk-based audit plan, two of which relate to LPP's own operation rather than its work in administering the Fund or investing on its behalf. Because the scope of audit work on LPP's activities and the information available about it are both restricted, the council can take only limited assurance over LPP's work. The relevant internal audit work undertaken related to covenant reporting and the 'senior manager and certification regime' (relating to compliance with FSA regulation, on both of which Deloitte provided assurance that the controls were effective with scope for improvement.

### *Whistle blowing and receiving and investigating complaints from the public*

The Fund participates in the National Fraud Initiative and actively investigates all data matches found as a result of this process. The results of this work are reported to the county council's Audit, Risk and Governance Committee.

The Fund is covered by the county council's whistle blowing policy, the effectiveness of which is reported to the Audit, Risk and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the county council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

***Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.***

County councillors undertake training needs analysis linked to the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic-based training relating to the decision at hand is provided.

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

***Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.***

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation;
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

***The incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.***

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a number of partnerships, which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. The main arrangement which involves the Pension Fund is LPP. 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 contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's statement 'The Role of the Chief Finance Officer in Local Government', and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. The responsibility for fulfilling the county council's functions as administering authority rests with the Head of Fund.

### *Review of Effectiveness*

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Head of Internal Audit's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2019/20 were:

- The triennial valuation of the Fund;
- To monitor the administration service as changes continue to be made within LPP;
- To review the cost of LPP and estimated savings made;
- To revise the Funding Strategy Statement as necessary.

### *Actions Planned for 2020/21*

The following specific actions are proposed for during 2020/21:

- Monitoring the impact of Covid-19 with the continued development and monitoring of a separate risk register;
- Review the governance arrangements of the Fund in light of the expected Good Governance Report from the Scheme Advisory Board;
- Review and propose any necessary changes to the Investment Strategy Statement following the triennial actuarial review;
- A high level review of LPP including the consideration of feedback from the balanced scorecard review;
- To assess the work undertaken on employer risk and implement any identified changes.

### *Conclusion*

Overall, the Pension Fund Committee has the appropriate systems and processes in place to ensure good governance is maintained over the Lancashire County Pension Fund.

Signed

| | |
|---|---|
| …… | …….. |
| County Councillor Eddie Pope<br>Chair of the Pension Fund Committee | Abigail Leech<br>Head of Fund<br>Lancashire County Pension Fund |

Date: ……

Grant Thornton

# 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 – TO BE UPDATED FOR 2019/20 FOLLOWING LCC AUDIT, RISK AND GOVERNANCE MEETING

## *Opinion*

The pension fund financial statements of Lancashire County Pension Fund (the 'pension fund') administered by Lancashire County Council (the "Authority") for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2020 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 2019/20 and applicable law.

## *Pension Fund Annual Report – Pension fund financial statements*

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

## *The audited financial statements and our Report thereon*

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

## *Section 151 Officer responsibilities for the pension fund financial statements in the Pension Fund Annual Report*

Under the Local Government Pension Scheme Regulations 2013 the Section 151 Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

## *Auditor's responsibility*

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

## *Use of our report*

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

*[ ]*

## Lancashire County Pension Fund

## Fund account for year ended 31 March 2020

| 2018/19 | | Note | 2019/20 |
|---|---|---|---|
| £m | **Dealing with members, employers and others directly involved in the Fund** | | £m |
| 170.9 | Contributions | 6 | 177.0 |
| 11.0 | Transfers in from other pension funds | 7 | 17.0 |
| **181.9** | **Additions from dealings with members** | | **194.0** |
| (275.3) | Benefits | 8 | (287.1) |
| (16.4) | Payments to and on account of leavers | 9 | (21.8) |
| **(291.7)** | **Withdrawals from dealing with members** | | **(308.9)** |
| **(109.8)** | **Net (withdrawals)/additions from dealings with members** | | **(114.9)** |
| (76.3) | Management expenses | 10 | (65.0) |
| **(186.1)** | **Net (withdrawals)/additions including fund management expenses** | | **(179.9)** |
| | **Returns on investments** | | |
| 193.5 | Investment income | 11 | 206.1 |
| 781.5 | Profit and losses on disposal of investments and changes in the value of investments | 13 | 1.4 |
| **975.0** | **Net return on investments** | | **207.5** |
| **788.9** | **Net increase in the net assets available for benefits during the year** | | **27.6** |
| **7,621.2** | **Opening net assets of the scheme** | | **8,410.1** |
| **8,410.1** | **Closing net assets of the scheme** | | **8,437.7** |

## Net assets statement as at 31 March 2020

| 31 March 2019 £m | | Note | 31 March 2020 £m |
|---|---|---|---|
| 8,327.3 | Investment assets | 13 | 8,320.6 |
| 67.1 | Cash deposits | 13 | 108.8 |
| **8,394.4** | **Total net investments** | | **8,429.4** |
| 22.0 | Current assets | 19 | 15.0 |
| (6.3) | Current liabilities | 20 | (6.7) |
| **8,410.1** | **Net assets of the fund available to fund benefits at the end of the reporting period** | | **8,437.7** |

**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 2020 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.

Contribution income of £177.0m together with transfers in of £17.0m part funded the payment of £308.9m in respect of benefits and transfers out. The resulting net cash outflow from transactions with members for the year ended 31 March 2020, together with management expenses, is funded from investment income.

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 2019/20 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 (Amendment) Regulations 2018
- 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 Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund.

The Pension Fund Committee 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 Committee 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 Lancashire Fund Information.

The investments of the Fund are managed by the Local Pensions Partnership (LPP), a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA). LPP also manages the administration functions on behalf of the two partner authorities.

The Lancashire Local Pension Board 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 Board comprises an independent chair together with representatives acting on behalf of employers and members. All members of the Board must be able to demonstrate the knowledge and skills set out in the terms of reference of the Board which are available to view on the Fund website at Lancashire Fund Information.

## 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 2020 is detailed in the following table:

| 31 March 2019 | Lancashire County Pension Fund | 31 March 2020 |
|---|---|---|
| 300 | Number of employers with active members[1] | 313 |
| 133 | Number of ceased employers (no active members but some outstanding liabilities) | 140 |
| | **Number of active scheme members[2]** | |
| 25,721 | County Council | 25,614 |
| 27,422 | Other employers | 28,340 |
| **53,143** | **Total** | **53,954** |
| | **Number of pensioners** | |
| 24,692 | County Council | 25,497 |
| 24,651 | Other employers | 25,674 |
| **49,343** | **Total** | **51,171** |
| | **Number of deferred pensioners[2]** | |
| 37,691 | County Council | 36,753 |
| 36,299 | Other employers | 36,272 |
| **73,990** | **Total** | **73,025** |
| **176,476** | **Total membership[3]** | **178,150** |

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

[2] March 2019 membership numbers have been adjusted to transfer 5,089 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 2,985 pending leavers has been made at 31 March 2020.

[3] March 2020 membership numbers vary from the Local Pensions Partnership Annual Administration Report for the year ended 31 March 2020 due to the dates at which the reports were produced.

## 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 2020. Employer contributions are set based on triennial actuarial funding valuations. The contributions in 2019/20 are based on the valuation at 31 March 2016. The latest valuation was at 31 March 2019 for the three years commencing 1 April 2020.

Employer contribution rates for 2019/20 range from 0.0 % to 28.0 % of pensionable pay 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 1/80$^{th}$ x final pensionable salary. | Each year worked is worth 1/60$^{th}$ x final pensionable salary. | Each year worked is worth 1/49$^{th}$ 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.<br><br>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.<br><br>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.<br><br>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 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2019/20* 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 2019/20,* 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 2020 but not yet adopted by the Code. There are no such accounting changes to be disclosed for 2019/20.

## 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.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme 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

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 Local Government Pension Scheme (Amendment) Regulations 2018.

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.

### Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Dividends received within the LPPI Global Equities pool are included within distributions from pooled funds and are reinvested within the LPPI Global Equities Fund.

### Property related income

Property-related income consists primarily of rental income. 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.

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

### Movement in the net market value of investments

Changes in the value of investments (including investment properties) are recognised as income 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)".*

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

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 pension fund committee (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body;
- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc.);
- Legal, actuarial and tax advisory services;
- Non-custodian accountancy and banking services; and
- Internal and external audit.

All 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. 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.

Fees of the external investment managers, including the Local Pensions Partnership, and custodian 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 market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2019/20, £8.3m of fees is based on such estimates (2018/19: £19.3m).

## 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).

### 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 2020 by independent property valuers Avison Young in accordance with the Royal Institute of Chartered Surveyors' Valuation Global Standards 2017 (the Red Book). As a result of the COVID19 pandemic and the impact of the virus on the market, the valuation at 31 March 2020 is reported on the basis of 'material valuation uncertainty'. Note 5 provides additional information.

### 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 non-derivative 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, Utmost Life and Pensions and Equitable Life. 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 2012.

## 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, in particular given the absence of any consensus view on the future path of the Covid-19 pandemic and its impact on the economy.

The items in the net assets statement at 31 March 2020 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 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.<br><br>Due to the uncertainty in the financial markets caused by the current COVID-19 pandemic, there is a risk that the valuation of these investments may have an increased level of uncertainty this year and that the estimated valuations may be misstated. There is a wide range of outcomes resulting in a particularly high degree of uncertainty about the ultimate trajectory of the pandemic and the actions and time needed to return to a more 'steady state' in the market. | The market value of private equity and infrastructure investments in the financial statements totals £1,958.6m (2018/19: £1,796.5m).<br><br>There is a risk that these investments might be under or overstated in the accounts.<br><br>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.<br><br>There is more uncertainty than usual in respect of the closing valuation of long term credit due to the market impact of COVID-19. | The market value of long-term credit investments in the financial statements totals £1,098.3m (2018/19: £1,134.1m excluding investment in loans secured on real assets).<br><br>There is a risk that these investments might be under or overstated in the accounts.<br><br>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.<br>The current COVID-19 pandemic is impacting financial markets in all sectors ad at the valuation date it is not considered that valuers can rely upon previous comparable market evidence to fully informal opinions of value. As a result, there is a risk that the value of indirect property investments may be under or over stated. Valuers are faced with an unprecedented set | Indirect property investments in the financial statements total £799.6m (2018/19: £124.0m). During the year property investments previously held directly by the Fund were transitioned into the Local Pensions Partnership Real Estate Fund. The market value of these properties on the date of transition was £641.3m and is now included within total indirect property investment value. |

| | | |
|---|---|---|
| | of circumstances this year, on which to base a judgment. Valuations have therefore been reported on the basis of 'material valuation uncertainty' as set out in VGPA 10 of the RICS Global Valuation Standards. Less certainty, and a higher degree of caution, should be attached to the valuation of indirect core property holdings that would normally be the case. | There is a risk that these investments may be under or overstated in the accounts.<br><br>Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks. |
| Non-core property investments | The non-core property investment comprises a 100% share in the real estate investment trust (REIT), HH No.1 Ltd. This investment is classified as real estate but the Fund holds an interest in the trust rather than the underlying investments which are shared ownership housing assets. The fair value is derived from the value of the REIT and is dependent upon future looking assumptions.<br><br>HH No.1 Ltd was formed during the year following a restructure of Heylo Housing Group, in which the Fund previously held both equity and loan investments. These former investments were held on the Fund's net asset statement within long term credit funds.<br><br>As for other non-quoted investments, there is an increased risk of misstatement in the valuation at 31 March 2020 due to the uncertainty in the market as a result of the ongoing pandemic. | The Fund has an investment in shared ownership housing, classified as non-core property, and valued at £330.5m. This is a new asset during the year and comprises 100% holding of the real estate investment trust, HH No.1 Ltd.<br><br>There is a risk that this asset may be over / understated in the accounts. |
| 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. | 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 £500m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £130m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £300m. |

| | | |
|---|---|---|
| | Areas of uncertainty highlighted by the actuary include Guaranteed Minimum Pension (GMP) equalisation, post-retirement increases on GMP from April 2021, the impact of COVID19 and the court of appeal ruling on the Sergeant and McCloud cases. Further information can be found in note 24 to these accounts. | |
| 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 Valuation – Professional Standards – 2017.Avison Young have advised that as a firm, due to the COVID-19 pandemic, they can attach less weight to previous market evidence for comparison purposes and that they are faced with unprecedented circumstances on which to base a judgement. As for indirect property holdings, the valuation of direct property is reported on the basis of 'material valuation uncertainty'. This does not mean that the valuation cannot be relied upon but that less certainty can be attached to the valuation than would otherwise be the case. | Investment properties held directly by the Fund are valued at £110.2m (2018/19: £761.9m). The significant reduction in investment value is due to the transition of the majority of the Fund's national investment portfolio into the LPPI Real Estate Fund during the year and now classified as indirect core property investments – see above. The market value of £110.2m at 31 March 2020 comprises property situated within the county boundary of Lancashire (£63.8m)) and properties located in Wales (£38.1m)) and Scotland (£8.3m). |

## Note 6 - Contributions receivable

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | **By category** | £m |
| 58.7 | Members | 61.4 |
| | Employers: | |
| 96.8 | Normal contributions | 101.5 |
| 11.4 | Deficit recovery contributions | 11.2 |
| 4.0 | Augmentation contributions [1] | 2.9 |
| 112.2 | Total employers contributions | 115.6 |
| **170.9** | **Total contributions receivable** | **177.0** |
| | **By type of employer** | |
| 57.8 | County Council [1] | 58.3 |
| 93.1 | Scheduled bodies [1] | 98.2 |
| 20.0 | Admitted bodies | 20.5 |
| **170.9** | | **177.0** |

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

Within the employee contributions figure for 2019/20, £0.3m is voluntary and additional regular contributions (2018/19: £0.3m).

## Note 7 - Transfers in from other pension funds

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| 11.0 | Individual transfers in from other schemes | 17.0 |
| **11.0** | | **17.0** |

## Note 8 - Benefits payable

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | **By category** | £m |
| 226.5 | Pensions | 239.3 |
| 43.0 | Commutation and lump sum retirement benefits | 42.0 |
| 5.8 | Lump sum death benefits | 5.8 |
| **275.3** | **Total benefits payable** | **287.1** |
| | **By type of employer** | |
| 116.4 | County Council | 121.1 |
| 137.5 | Scheduled bodies | 144.0 |
| 21.4 | Admitted bodies | 22.0 |
| **275.3** | | **287.1** |

## Note 9 - Payments to and on account of leavers

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| 0.6 | Refunds to members leaving service | 1.3 |
| 15.8 | Individual transfers | 20.5 |
| **16.4** | | **21.8** |

## Note 10 - Management expenses

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| 3.7 | Fund administrative costs | 3.4 |
| 71.7 | Investment management expenses | 60.4 |
| 0.9 | Oversight and governance costs [1] | 1.2 |
| **76.3** | | **65.0** |

[1] Oversight and governance costs above include external audit fees which amounted to £31,310 (2018/19: £27,810). Additional fees of £9,000 were paid to the external auditor for IAS19 assurance work on behalf of Fund employers within the PSAA regime and £1,500 for assessment of the impact of the McCloud ruling.

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## Investment management expenses

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| 1.0 | Transaction costs[1] | 2.3 |
| 48.3 | Fund value based management fees [2] | 40.5 |
| 22.4 | Performance related fees | 17.5 |
| - | Custody fees | 0.1 |
| **71.7** | | **60.4** |

[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

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| 2.1 | Fixed interest securities | 2.4 |
| 157.2 | Pooled investment vehicles | 179.5 |
| 1.7 | Pooled property investments | 8.6 |
| 32.0 | Net rents from properties | 15.5[1] |
| 0.5 | Interest on cash deposits | 0.1 |
| **193.5** | **Total investment income** | **206.1** |

[1]The reduction in rental income since last year is due to the transition of a significant number of directly held properties into the Local Pensions Partnership Real Estate Fund with effect from 1 October 2019, combined with an increase in property related expenditure. Income from the real estate fund is included within pooled investment income from the date of transition.

## Note 12 - Property income

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| 36.7 | Rental income | 22.1 |
| (4.7) | Direct operating expenses | (6.6) |
| **32.0** | **Net income** | **15.5** |

## Note 13 - Reconciliation of movements in investments

| | Market value as at 1 April 2019 | Purchases at cost | Sales proceeds | Change in value during the year [1] | Market value as at 31 March 2020 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Fixed interest securities | 110.7 | 585.5 | (546.3) | (7.4) | 142.5 |
| Index linked securities | 283.6 | - | - | (283.6) | - |
| Pooled investment vehicles | 7,043.2 | 483.1 | (522.4) | (90.4) | 6,913.5 |
| Pooled property investments | 124.0 | 49.1 | (14.1) | 971.1 | 1,130.1 |
| Private equity | - | 12.5 | - | - | 12.5 |
| Direct property | 761.9 | 11.0 | (23.6) | (639.1) | 110.2 |
| | **8,323.4** | **1,141.2** | **(1,106.4)** | **(49.4)** | **8,308.8** |
| Cash deposits | 67.1 | | | | 108.8 |
| Loan investments | - | | | | 3.0 |
| Investment income due | 3.9 | | | | 8.8 |
| **Net investment assets** | **8,394.4** | | | | **8,429.4** |

[1] £1.4 m on the face of the Fund account includes the change in market value of investments disclosed above (£49.4m), plus profits and losses on disposals and changes in the market value of investments held within the pools. The change in value of direct property above includes £641.3m market value of properties transitioned to the LPPI Real Estate Fund during the year which is included as an increase in market value within pooled property investments above. The change in value of index linked securities (£283.6m) reflects the restructuring of the investment in shared ownership housing which is now reflected within pooled property investments.

| | Market value as at 1 April 2018 | Purchases at cost | Sales proceeds | Change in market value [1] | Market value as at 31 March 2019 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Fixed interest securities | 116.8 | 321.3 | (329.1) | 1.7 | 110.7 |
| Index linked securities | 178.0 | 122.2 | (3.1) | (13.5) | 283.6 |
| Pooled investment vehicles | 6,321.5 | 507.0 | (496.3) | 711.0 | 7,043.2 |
| Pooled property investments | 113.3 | 8.3 | - | 2.4 | 124.0 |
| Direct property | 715.5 | 34.8 | - | 11.6 | 761.9 |
| | 7,445.1 | 993.6 | (828.5) | 713.2 | 8,323.4 |
| Cash deposits | 162.0 | | | | 67.1 |
| Investment accruals | 3.1 | | | | 3.9 |
| Net investment assets | 7,610.2 | | | | 8,394.4 |

[1] £781.5m on the face of the Fund account includes the change in market value of investments disclosed above (£713.2), plus profits and losses on disposals and changes in the market value of investments held within the pools.

## Investments analysed by fund manager

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| £m | % of net investment assets | | £m | % of net investment assets |
| **Private equity investments** | | | | |
| 635.0 | 7.6% | LPPI Private Equity Fund | 750.0 | 8.9% |
| **Private equity investments managed outside of LPPI Private Equity Fund** | | | | |
| 15.4 | 0.2% | Trilantic Capital Partners | 15.1 | 0.2% |
| - | - | Local Pensions Partnership Limited | 12.5 | 0.1% |
| **650.4** | **7.8%** | **Total private equity investments** | **777.6** | **9.2%** |
| **Long term credit investments** | | | | |
| 923.0 | 11.0% | LPPI Credit Investments | 947.4 | 11.3% |
| **Credit investments managed outside of LPPI Credit Investments Fund** | | | | |
| 111.5 | 1.3% | CRC | 61.2 | 0.7% |
| 52.1 | 0.6% | Neuberger Berman | 51.7 | 0.6% |
| 31.8 | 0.4% | Pimco Bravo | 26.7 | 0.3% |
| 10.1 | 0.1% | EQT | 7.6 | 0.1% |
| 5.6 | 0.1% | Hayfin | 3.7 | - |
| 352.0 | 4.2% | Heylo Housing Trust[1] | - | - |
| **1,486.1** | **17.7%** | **Total long term credit investments** | **1,098.3** | **13.0%** |
| **Fixed income investments** | | | | |
| 314.7 | 3.7% | LPPI Fixed Income Fund | 332.8 | 3.9% |
| **Liquid credit investments managed outside of LPPI Fixed Income Fund** | | | | |
| 181.6 | 2.1% | LPPI internal and LCC Treasury Management | 254.3 | 3.0% |
| **496.3** | **5.8%** | **Total fixed income investments** | **587.1** | **6.9%** |
| **Global equity investments** | | | | |

| | | | | |
|---|---|---|---|---|
| 3,729.6 | 44.4% | LPPI Global Equities Fund | 3,454.7 | 41.0% |
| **3,729.6** | **44.4%** | **Total global equity investments** | **3,454.7** | **41.0%** |
| **Infrastructure investments** | | | | |
| 930.3 | 11.1% | LPPI Global Infrastructure Fund | 958.1 | 11.4% |
| **Infrastructure investments managed outside of LPPI Global Infrastructure Fund** | | | | |
| 103.2 | 1.2% | Arclight Energy | 108.3 | 1.3% |
| 55.6 | 0.7% | Icon Infrastructure Partners | 65.7 | 0.8% |
| 31.5 | 0.4% | Highstar Capital | 27.7 | 0.3% |
| 25.5 | 0.3% | Capital Dynamics Red Rose | 21.2 | 0.3% |
| **215.8** | **2.6%** | | **222.9** | **2.7%** |
| **1,146.1** | **13.7%** | **Total infrastructure investments** | **1,181.0** | **14.1%** |
| **Diversifying strategy investments** | | | | |
| - | - | LPPI Diversifying Strategies Fund | 90.3 | 1.1% |
| - | - | **Total diversifying strategies investments** | **90.3** | **1.1%** |
| **Property investments** | | | | |
| **Directly held properties** | | | | |
| 761.9 | 9.1% | Knight Frank | 110.2 | 1.3% |
| **Pooled property funds** | | | | |
| **Core property** | | | | |
| - | - | LPPI Real Estate Fund | 799.7 | 9.5% |
| 47.9 | 0.6% | M&G Europe Fund | - | - |
| 40.3 | 0.5% | Gatefold Hayes | - | - |
| 28.3 | 0.3% | Kames Target | - | - |
| 7.4 | 0.1% | BaseCamp Real Estate Partners Ltd | - | - |
| **Non-core property** | | | | |
| - | - | HH No.1 Limited[1] | 330.5 | 3.9% |
| **885.9** | **10.6%** | **Total property investments** | **1,240.4** | **14.7%** |
| **8,394.4** | **100.0%** | **Net investment assets** | **8,429.4** | **100.0%** |

[1]HH No.1 Limited (£330.5m) was formed during the year following a restructure of Heylo Housing Group, in which the Fund previously held both equity and loan investments. These former investments were held on the Fund's net asset statement within long term credit funds (2018/19: £352.0m).

The following individual investments represent over 5% of the net assets of the fund.

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| £m | % of total fund | | £m | % of total fund |
| 3,729.6 | 44.4% | LPPI Global Equities Fund | 3,454.7 | 41.0% |
| 930.3 | 11.1% | LPPI Global Infrastructure Fund | 958.1 | 11.4% |
| 923.0 | 11.0% | LPPI Credit Investments | 947.4 | 11.3% |
| - | - | LPPI Real Estate Fund | 799.7 | 9.5% |
| 635.0 | 7.6% | LPPI Private Equity Fund | 750.0 | 8.9% |

## Fixed interest securities

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 63.8 | UK corporate bonds quoted | 64.2 |
| 12.0 | Overseas public sector | - |
| 34.9 | Overseas corporate bonds quoted | 78.3 |
| **110.7** | | **142.5** |

## Index linked securities

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 283.6 | UK quoted[1] | - |
| **283.6** | | **-** |

[1]£283.6m at 31 March 2019 was part of the Fund's investment in Heylo Housing Limited. The company was restructured during the year and the Fund now holds an investment in HH No.1 Limited, a real estate investment trust classified as non-core property within the real estate portfolio of the Fund.

## Pooled investment vehicles

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | **UK funds:** | £m |
| 314.7 | Fixed income funds | 323.8 |
| 137.0 | Private equity | 150.4 |
| 955.8 | Infrastructure | 979.3 |
| 997.0 | Long term credit investments | 951.4 |
| 68.6 | Property funds | 1,130.1 |
| | Diversifying strategies | 90.3 |
| | **Overseas funds:** | |
| 195.3 | Fixed income funds | 139.6 |
| 513.4 | Private equity | 614.7 |
| 190.3 | Infrastructure | 201.7 |
| 10.1 | Long term credit investments | 7.6 |
| 3,729.6 | Equity funds[1] | 3,454.7 |
| 55.4 | Property funds | - |
| **7,167.2** | | **8,043.6** |

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

## Direct property investments

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 624.8 | UK – freehold | 96.0 |
| 137.1 | UK – long leasehold | 14.2 |
| **761.9** | | **110.2** |

During the year, directly held properties with a market value of £641.3m at the date of transition were transitioned into the LPPI Real Estate Fund. These assets are now reported within pooled properties as at 31 March 2020.

## 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 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| **715.5** | **Opening balance** | **761.9** |
| | **Additions:** | |
| 3.4 | • Purchases | 0.5 |
| 31.2 | • New construction | 3.8 |
| 0.9 | • Subsequent expenditure | 6.7 |
| - | Disposals | (23.6) |
| - | Transition to LPPI Real Estate Fund | (641.3) |
| 10.9 | Net increase in market value | 2.2 |
| **761.9** | **Closing Balance** | **110.2** |

## 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 is 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). The portfolio features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with property managers to fill these voids. As at 31 March 2020, the Fund has the following future minimum lease payments due from tenants.

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| 36.3 | Leases expiring within one year | 0.3 |
| 109.8 | Leases expiring between one and five years | 0.8 |
| 112.2 | Leases expiring later than five years | 3.2 |
| **258.3** | **Total future minimum lease payments receivable under existing non-cancellable leases** | **4.3** |

The above disclosures have been reduced by a credit loss allowance of 7.5 % (2018/19: 2.1%) 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. The credit loss allowance has increased since the previous year as a result of market conditions – for example, requests for rent cancellations or deferments.

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 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 43.5 | Sterling | 89.6 |
| 23.6 | Foreign currency | 19.2 |
| **67.1** | | **108.8** |

## Note 14 - Financial instruments classification

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading. Directly held property is excluded from this note.

### 31 March 2020

| | 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 | 142.5 | | |
| Loan investments | | 3.0 | |
| Pooled investment vehicles | 6,913.5 | | |
| Pooled property investments | 1,130.1 | | |
| Cash deposits | | 108.8 | |
| Investment accruals | 8.8 | | |
| Debtors | | 15.0 | |
| **Total financial assets** | **8,199.2** | **126.8** | |
| **Financial liabilities** | | | |
| Creditors | | | 6.7 |
| **Total financial liabilities** | | | **6.7** |

### 31 March 2019

| | 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 | 110.7 | | |
| Index linked securities | 283.6 | | |
| Pooled investment vehicles | 7,043.2 | | |
| Pooled property investments | 124.0 | | |
| Cash deposits | | 67.1 | |
| Investment accruals | 3.9 | | |
| Debtors | | 22.0 | |
| **Total financial assets** | **7,565.4** | **89.1** | |
| **Financial liabilities** | | | |
| Creditors | | | 6.3 |
| **Total financial liabilities** | | | **6.3** |

## Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £1.4.m (2018/19: £781.5m gain) after adjusting for directly owned property.

## 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. As a result of the extended reporting deadline granted by central government in response to the COVID19 pandemic, the Fund's custodian, Northern Trust, held the investment accounts open for a longer period than normal. This enabled the reporting of a number of sub-manager 31 March 2020 valuations, eliminating the need for the roll-forward approach for those Funds, which make up 23 % of the total reported market value of level 3 investments.

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and Valuation Standards. These valuations are performed monthly.

## 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 2020

| | 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 | 3,786.5 | 941.6 | 3,471.1 | 8,199.2 |
| Loans and receivables | 43.7 | 76.3 | - | 120.0 |
| Non-financial assets at fair value through profit and loss (property holdings) | - | 110.2 | - | 110.2 |
| **Net investment assets** | **3,830.7** | **1,128.1** | **3,471.1** | **8,429.4** |

### 31 March 2019

| | 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 | 4,155.9 | - | 3,409.5 | 7,565.4 |
| Loans 7and receivables | 67.1 | - | - | 67.1 |
| Non-financial assets at fair value through profit and loss (property holdings) | - | 761.9 | - | 761.9 |
| **Net investment assets** | **4,223.0** | **761.9** | **3,409.5** | **8,394.4** |

## 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 | Level 3 | 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. |
| 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 2012 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 2020.

| Description of asset | Assessed valuation range[1] | Value at 31 March 2020 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | (+/-) | £m | £m | £m |
| Private equity funds | 11.7% | 777.6 | 868.9 | 686.4 |
| Infrastructure funds | 5.1% | 1,180.2 | 1,240.2 | 1,120.1 |
| Long term credit | 5.1% | 952.9 | 1,001.4 | 904.3 |
| Fixed income funds | 5.1% | 139.6 | 146.7 | 132.5 |
| Non-core property funds | 3.8% | 330.5 | 343.1 | 317.9 |
| Diversifying strategies | 5.1% | 90.3 | 94.9 | 85.7 |
| **Level 3 investments** | | **3,471.1** | | |

[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[1] | Property funds[1,2] | Diversifying strategies | Total level 3 investments |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Market value 1 April 2019 | 198.2 | 650.3 | 1,146.1 | 1,290.9 | 124.0 | - | 3,409.5 |
| Purchases during the year and derivative payments | - | 128.7 | 108.6 | - | 163.2 | 96.0 | 496.5 |
| Sales during the year and derivative receipts | (72.0) | (147.5) | (21.2) | (4.0) | (49.9) | - | (294.6) |
| Transition of assets from credit to non-core property | - | - | - | (330.5) | 330.5 | - | - |
| Transition to fair value level 2[2] | - | - | - | - | (234.2) | - | (234.2) |
| Unrealised gains / (losses) | (6.3) | 80.0 | (57.5) | (40.5) | (3.1) | (5.7) | (33.1) |
| Realised gains | 19.7 | 66.1 | 4.2 | 37.0 | - | - | 127.0 |
| **Market value 31 March 2020** | **139.6** | **777.6** | **1,180.2** | **952.9** | **330.5** | **90.3** | **3,471.1** |

[1]The Fund's investment in Heylo Housing Limited was restructured during the year. The previously held equity and debt investments were realised and converted at nil gain or loss to an equity holding in HH No. 1 Limited, a real estate investment trust. The Fund has reclassified this investment from long term credit investments to pooled (non-core) property funds.

[2] Pooled property investments brought forward at 1 April 2020 were transitioned into the LPPI Real Estate ACS during the year. The LPPI Real Estate ACS is categorised as level 2 within the fair value hierarchy.

## 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 Pension Fund Committee. 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 advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2019/20 reporting period.

| Asset type | Potential market movements (+/-) |
|---|---:|
| Total bonds (including index linked) | 6.3% |
| Total equities | 11.7% |
| Alternatives | 5.1% |
| Total property | 3.8% |

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 2020** | **Potential market movements (+/-)** | **Potential value on increase** | **Potential value on decrease** |
|---|---|---|---|---|
| | **£m** | **%** | **£m** | **£m** |
| Investment portfolio assets: | | | | |
| Total equities | 4,232.3 | 11.7% | 4,728.8 | 3,735.8 |
| Alternatives | 2,702.3 | 5.1% | 2,839.9 | 2,564.7 |
| Total property | 1,240.4 | 3.8% | 1,287.6 | 1,193.2 |
| Total bonds (including index linked) | 145.6 | 6.3% | 154.8 | 136.4 |
| **Total assets available to pay benefits** | **8,308.8** | | **9,011.1** | **7,630.1** |

| **Asset type** | **31 March 2019** | **Potential market movements (+/-)** | **Potential value on increase** | **Potential value on decrease** |
|---|---|---|---|---|
| | **£m** | **%** | **£m** | **£m** |
| Investment portfolio assets: | | | | |
| Total equities | 4,380.0 | 9.8% | 4,807.4 | 3,952.5 |
| Alternatives | 2,946.8 | 7.7% | 3,173.7 | 2,720.0 |
| Total property | 886.0 | 4.0% | 921.5 | 850.6 |
| Total bonds (including index linked) | 110.6 | 6.7% | 118.0 | 103.2 |
| **Total assets available to pay benefits** | **8,323.4** | | **9,020.6** | **7,626.3** |

## 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 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| 31 March 2019 | Asset type | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 67.1 | Cash and cash equivalents | 108.8 |
| **67.1** | **Total** | **108.8** |

## 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 2020** | **1% increase** | **1% decrease** |
| **Asset type** | **£m** | **£m** | **£m** |
| Cash and cash equivalents | 108.8 | 1.1 | (1.1) |
| **Total change in assets available** | | **1.1** | **(1.1)** |

| | | Impact of | |
|---|---|---|---|
| | **31 March 2019** | **1% increase** | **1% decrease** |
| **Asset type** | **£m** | **£m** | **£m** |
| Cash and cash equivalents | 67.1 | 0.7 | (0.7) |
| **Total change in assets available** | | **0.7** | **(0.7)** |

## 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 £.

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 2020 and as at the previous year end.

| 31 March 2019 | Currency exposure – asset type | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 4,243.0 | Overseas equities | 4,068.5 |
| 395.7 | Overseas alternatives | 348.9 |
| 55.4 | Overseas property | - |
| 46.9 | Overseas bonds (including index linked) | 78.3 |
| **4,741.0** | **Total overseas assets** | **4,495.7** |

## Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 8.1%. An 8.1 % 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 (2018/19: 8.0%).

An 8.1% 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 2020 | Potential market movement +/- 8.1% | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Overseas equities | 4,068.5 | 330.1 | 4,398.6 | 3,738.4 |
| Overseas alternatives | 348.9 | 28.3 | 377.2 | 320.6 |
| Overseas bonds (including index linked) | 78.3 | 6.4 | 84.7 | 71.9 |
| **Total assets available to pay benefits** | **4,495.7** | **364.8** | **4,860.5** | **4,130.9** |

| Currency exposure - asset type | Asset value at 31 March 2019 | Potential market movement +/- 8.0% | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Overseas equities | 4,243.0 | 341.1 | 4,584.1 | 3,901.9 |
| Overseas alternatives | 395.7 | 31.8 | 427.5 | 363.9 |
| Overseas property | 55.4 | 4.5 | 59.9 | 50.9 |
| Overseas bonds (including index linked) | 46.9 | 3.8 | 50.7 | 43.1 |
| **Total assets available to pay benefits** | **4,741.0** | **381.2** | **5,122.2** | **4,359.8** |

## 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 arrangements at 31 March 2020 was £108.8m (31 March 2019: £67.1m) and was held with the following institutions:

| 31 March 2019 | Summary | Rating | 31 March 2020 |
|---|---|---|---|
| £m | | | £m |
| | **Bank deposit accounts** | | |
| 58.3 | Northern Trust | Aa2 | 33.1 |
| 7.6 | Svenska Handelsbanken | Aa2 | 75.7 |
| | **Cash float with property manager** | | |
| 1.2 | Barclays Bank Plc | A1 | - |
| **67.1** | **Total** | | **108.8** |

### 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 £6.7m at 31 March 2020, 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 Equitable Life, 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 2019 to 31 March 2020 for Prudential and 1 September 2018 to 31 August 2019 for Equitable Life/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.*

| | Equitable Life / Utmost Life and Pensions[1] | Prudential | Total |
|---|---|---|---|
| | £m | £m | £m |
| Value at start of the year | 0.6 | 29.0 | 29.6 |
| Income (incl. contributions, bonuses, interest and transfers in) | - | 6.5 | 6.5 |
| Expenditure (incl. benefits, transfers out and change in market value) | - | (4.2) | (4.2) |
| **Value at the end of the year** | **0.6** | **31.3** | **31.9** |

[1]AVC investments held by Equitable Life were transferred to Utmost Life and Pensions during the year.

## Note 19 - Current assets

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 8.0 | Contributions due – employers | 9.0 |
| 4.9 | Contributions due – members | 5.2 |
| 9.1 | Sundry debtors | 0.8 |
| **22.0** | | **15.0** |

## Note 20 – Current liabilities

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 0.8 | Unpaid benefits | 0.8 |
| 5.5 | Accrued expenses | 5.9 |
| **6.3** | | **6.7** |

## Note 21 - Contractual commitments

As at 31 March 2020 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 £409.3m (2019: £566.2m). 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 £93.7m (2019: £190.9m). 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 (2019: £21.9m).

During the year, the Fund's total outstanding commitment to the indirect real estate fund has been called and the commitment therefore reduced to nil (2019: £22.0m). The associated investment has been transferred to the LPPI Real Estate pool.

## 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 £0.6m (2018/19: £0.5m) 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 £33.2m to the Fund in 2019/20. Total employer contributions from the Council in 2018/19 amounted to £32.6m. All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (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, employer risk services and liability modelling. Payments made for the year to 31 March 2020 amount to £5.4m (2018/19: £5.5m).

During the year to 31 March 2020, the Local Pensions Partnership repaid £17.5m loan finance to Lancashire County Council.

The Fund has a private equity investment of £12.5m in the Local Pensions Partnership as at 31 March 2020.

### 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 2020 payroll, are included within current assets in note 19.

## Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2019/20 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2020.

Each member of the Pension Fund Committee and Pension Board 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:

### 2019/20

| | Employment period | Salary[1] | Employer Pension contributions[1] | Total including pension contributions[1] |
|---|---|---|---|---|
| | | £ | £ | £ |
| Head of Fund | 01/04/19 – 31/03/20 | 57,801 | 8,728 | 66,529 |
| Director of Finance | 01/04/19 – 31/03/20 | 2,148 | 305 | 2,453 |
| Chief Executive and Director of Resources | 01/04/19 – 31/03/20 | 4,326 | - | 4,326 |

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

### 2018/19

| | Employment period | Salary[1] | Employer Pension contributions[1] | Total including pension contributions[1] |
|---|---|---|---|---|
| | | £ | £ | £ |
| Head of Fund | 01/04/18 – 31/03/19 | 56,667 | 8,557 | 65,224 |
| Director of Financial Resources/Finance | 01/04/18 – 31/03/19 | 1,938 | 293 | 2,231 |
| Chief Executive and Director of Resources | 01/04/18 – 31/03/19 | 4,029 | - | 4,029 |

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

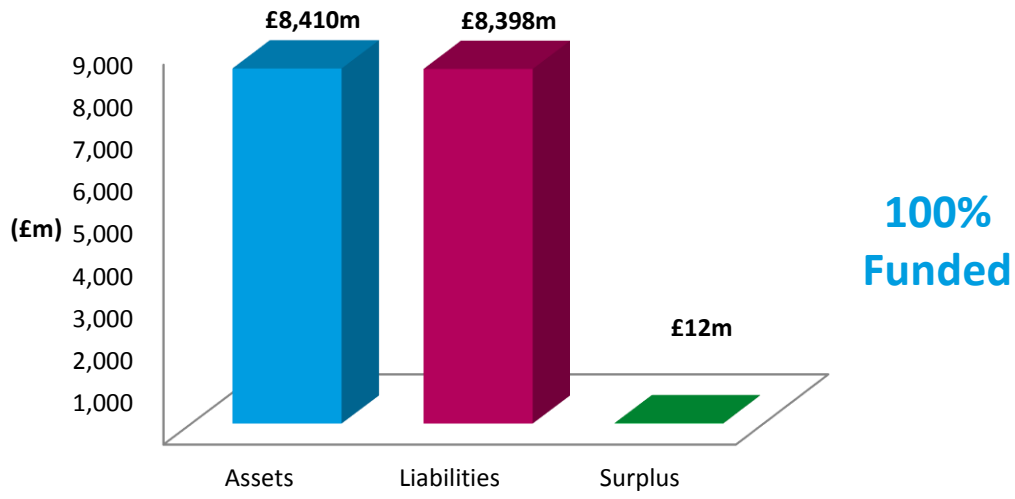
## Note 24 - Funding arrangements

### Accounts for the year ended 31 March 2020 - 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.




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 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 this actuarial valuation the average recovery period adopted is 16 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is 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 Funding Strategy Statement (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 announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. Once the final remedy is known, the position and any potential impact will be reviewed by the Fund in light of the current funding strategy (which includes an implicit allowance for the estimated costs).

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 is 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.

***Impact of Covid 19***

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. 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 revisited but the position should 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 2020 (the 31 March 2019 assumptions are included for comparison):

| | 31 March 2019 | 31 March 2020 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.4% per annum | 2.4% per annum |
| Rate of CPI Inflation / CARE benefit revaluation | 2.2% per annum | 2.1% per annum |
| Rate of pay increases | 3.7% per annum* | 3.6% per annum |
| Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation | 2.3% per annum | 2.2% per annum |

* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £10,987 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£265 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£145 million (this includes any increase in liabilities arising as a result of early retirements and GMP indexation – see comments elsewhere in this statement). There was also a decrease in liabilities of £345 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £11,052 million.

### GMP Indexation

At present, the public service schemes are 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 may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £40 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

*John Livesey*

*Fellow of the Institute and*

*Faculty of Actuaries*

*Mark Wilson*

*Fellow of the Institute and*

*Faculty of Actuaries*

*Mercer Limited*

**June 2020**

## Note 25 – Events after the reporting period

**Non-adjusting event – COVID19 pandemic**

The outbreak of COVID-19, declared by the World Health Organisation as a 'global pandemic' on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity is being impacted in all sectors by the efforts being made to reduce the spread of the virus. There have been a number of material factors which make it difficult to quantify the potential outcome for financial markets. Although there has been significant variation to individual fund values (both increases and decreases), as at end of June 2020, investments are valued overall at a higher value than in these financial statement at 31 March 2020.

# I Lancashire Local Pension Board – Annual Report 2019/20

The Lancashire County Pension Fund's Local Pension Board (the Board) has now been up and running for nearly five years. As a reminder to readers, our legal duty is to assist the Pension Fund Committee. Because Board members explicitly represent either employers or members, we also have a representative role in the governance structure of the Fund.

After five years, the Board has established an effective way of adding value. We create an annual Work Plan to ensure that we are working in tandem with the Committee and are doing so methodically. 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 Committee. If we believe something requires particular attention, we may make a formal recommendation to them which requires a response. However, we are always aware that our role is to assist the Committee and a good relationship between the two bodies is absolutely essential. I meet with the County Councillor Pope (Chair of the Pension Fund Committee) regularly and attended as many Committee meetings during the year as I was able to. Board members were pleased to welcome County Councillor Pope to our meeting in January 2020 in return and I can confidently assert that the two bodies work closely together.

I will start by reminding readers of the mechanics of the Board and then cover the training we undertake to fulfil the knowledge requirements. I will aim to give a flavour of what we actually did during the year and finally comment on where we expect to focus our efforts in the next year.

**Membership of the Pension Board**

The Board has nine members: four Employer representatives, four Scheme Member representatives and I act as the Independent Chair. Members serve an eight year term, except for the Chair who serves four. Apart from the Chair, none are remunerated other than for expenses incurred in attending meetings or training.

There have been some changes to the composition of the Board. At the beginning of the year Bob Harvey indicated his intention not to continue as a Scheme Member representative and on behalf of the Board I would like publicly to thank him for his contribution to the work of the Board over the past four years. Following a public procurement process, I am delighted to welcome Deborah Parker on to the Board as the new Scheme Member representative. During the year County Councillor Christian Wakeford, one of the two Lancashire County Council employer representatives, was successful in being elected as a Member of Parliament and chose to resign. I would also like to thank him for his services over the last two years and am pleased to welcome County Councillor Peter Britcliffe as his replacement.

The Board is scheduled to meet four times a year at County Hall for about two hours. In order to cover our wide remit we allocate areas of responsibility to each Board member, who are expected to lead the discussion of those topics. The Board also established a small Advisory Group which met with the Director of Administration from the Local Pensions Partnership to offer advice and feedback on pension service administration issues.

In July 2019 the Board meeting was not quorate as a member was unable to attend at the last minute due to unforeseen circumstances. The Board members present continued to discuss items on the agenda with a Note of the meeting being presented to the subsequent Board meeting where recommendations were approved. The April 2020 meeting was cancelled in consequence of the Government's response to COVID-19. Some papers will be circulated among members for information and a process has been put in place where formal approval is needed.

The Board 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 £11,500.

**Attendance of Board members at meetings.**

Details of individual members' attendance at Board meetings (between 1st May 2019 and 30th April 2020), together with in year changes to the membership of the Board, are set out below.

| **Name** | **Representing** | **9th July 2019** | **15th October 2019** | **14th January 2020** | **21st April. 2020** |
|---|---|---|---|---|---|
| W Bourne | Independent Chair | ✓ | ✓ | ✓ | Cancelled |
| County Councillor C Wakeford | Employer rep - LCC | Absent | N/A | N/A | Cancelled |
| County Councillor P Britcliffe | Employer rep - LCC | N/A | ✓ | Apologies | Cancelled |
| T Pounder | Employer rep - LCC | Apologies | ✓ | ✓ | Cancelled |
| S Thompson | Employer – Unitary, City, Borough, Police & Fire | Apologies | ✓ | ✓ | Cancelled |
| C Gibson | Employer rep - Others | ✓ | ✓ | ✓ | Cancelled |
| K Haigh | Scheme Member rep | ✓ | ✓ | ✓ | Cancelled |
| Y Moult | Scheme Member rep | ✓ | ✓ | ✓ | Cancelled |
| D Parker | Scheme Member rep | ✓ | ✓ | ✓ | Cancelled |
| K Wallbank | Scheme Member rep | ✓ | ✓ | Apologies | Cancelled |

**Changes to the membership of the Board**
Ms D Parker was appointed in July 2019 to fill the vacancy following the resignation of Mr R Harvey in March 2019.
In July 2019 County Councillor P Britcliffe replaced County Councillor C Wakeford as an employer representative (LCC) on the Board.

**Training**

The Board is under a legal obligation to ensure its members maintain their levels of knowledge and understanding through regular training. We conduct a gap analysis of training needs once a year as part of our own annual review, which becomes an agenda item at our next meeting. Board members have opportunities to attend training events during the year and continue to complete the online training modules from The Pension Regulator's Public Service toolkit.

Members are actively encouraged to join internal training sessions held jointly with the members of the Pension Fund Committee. During the year, internal training workshops were held on a number of topics including the following:

May 2019 – Employer risk
September 2019 - Risk Framework
November 2019 - Climate Change and Stewardship
January 2020 - The Pension Regulator

Members are also notified of and encouraged to attend external training conferences to extend their knowledge and meet LPB members from other Funds.

The table below shows the number of internal/external training events individual Board members attended during the period 1st May 2019 to 30th April 2020, together with online modules from The Pension Regulators Public Service Toolkit completed during the year.

| **Name** | **Internal events** | **External Events** | **Online Modules** |
|---|---|---|---|
| W Bourne | 1 | 5 | 0 |
| County Councillor P Britcliffe | 1 | 0 | 0 |
| T Pounder | 2 | 3 | 0 |
| S Thompson | 2 | 0 | 7 |
| C Gibson* | 2 | 1 | 0 |
| K Haigh | 7 | 1 | 2 |
| Y Moult | 6 | 3 | 0 |
| K Wallbank | 5 | 0 | 0 |
| D Parker* | 4 | 0 | 7 |

*These Board members were due to attend separate external pension related Conferences in March 2020 though both events were cancelled in response to the Covid-19 pandemic. Where possible expenditure is being recouped and the situation monitored in case events are rescheduled for later in the year.

Further information about the Board, including minutes and public papers, can be viewed on the Your Pension Service website.

**Activities**

In the previous year I noted that we spent a lot of our time on administration service levels, and this continued to be a focus for the LPB particularly in the first half of the year. I believe that the service provided to members has now recovered to somewhere near previous levels, although I recognise there is still further work to do.

The core of our work is oversight. At every meeting, we look at any breaches of the regulations and consider the Key Performance Indicators (KPIs) agreed with LPP as indicators or performance levels. I said last year that we were looking for a full review of these to ensure they properly reflect the experience of Fund members. This is still work in progress, but I can assure members that it is a priority for the LPB. They should help us understand how effectively the Fund is delivering its services to members and thereby assist the PFC in the crucial role of monitoring LPP's performance properly.

In our scrutinising role, during the year among other things we reviewed the Funding Strategy Statement which follows the March 2019 actuarial valuation, compliance with The Pensions Regulator's Code on Public Pensions (COP14), data quality improvements and the Fund's governance structure, both internally and in respect of LPP. We provided input on the responses to a number of issues facing the Fund as a result of government issues or legal judgements. In all cases in fulfilling our role our objective has been to protect the interests of employers and members and to ensure the Fund remains viable and solvent.

We also reviewed and commented on a number of documents including the Communications and Engagement and Responsible Investment policies. The wide range of expertise among Board members as well as their experience as users, either employers or members of the Fund, means the Board is well placed to provide useful and relevant feedback to the Committee in all these areas.

One of our formal objectives is to assist the Pension Fund Committee in ensuring the Fund is managed efficiently and effectively. As part of this we offer input and spend much time on the risk register and also made suggestions about the scope of internal and external audits. This is all part of keeping a careful eye on the operation of Fund's governance structure and processes.

I write this during the crisis precipitated by COVID-19 (coronavirus). At the moment in-person meetings have been cancelled by Lancashire County Council and there is no guarantee that the Board will be able to meet in the way we have until now. As a result we will explore ways for

Board members to continue to contribute to the work of the Pension Fund Committee and the Fund until such times as the current pandemic has passed.

We expect our focus in the next 12 months to be very much on our core functions. In particular The Pensions Regulator will be bringing in a new Code of Practice and there is a clear intention to improve the KPIs as mentioned above. Following the recent sharp falls in markets, communication and engagement with members and employers is going to be a high priority. We view it as particularly important in these difficult times to remind all parties how valuable the LGPS Scheme is to those enrolled in it. Finally, we will continue our work of monitoring The Local Pensions Partnership, whose services on both the investment and administration sides are so vital to the Fund.

The Board's role does not cover investments but it would be remiss of me, in the light of the recent sharp fall in markets, not to make some comment. I said last year that your Fund was in a good position with funding levels at 31st March 2019 likely to be close to 100%. While the Fund (through the Local Pensions Partnership) had already taken substantial steps to mitigate market risk, the funding level at March 2020 will inevitably be lower as a result of the current COVID-19 pandemic. However, I would remind members that paying pensions is a long-term business, and markets do by their nature rise and sometimes fall sharply. While I do not wish to be complacent about the seriousness of recent events, the Fund remains in a robust position to endure current market uncertainties.

I would like once again to finish by thanking the officers at LCPF who support us in our duties. As part of our Annual Review I speak individually to each Board member, and I can again record full agreement that we are ably and effectively supported by the Lancashire County Pension Fund team. I am delighted to recognise that publicly in this report.

**William Bourne**
Independent Chair of the Lancashire Local Pension Board
April 2020

# J Actuarial Valuation

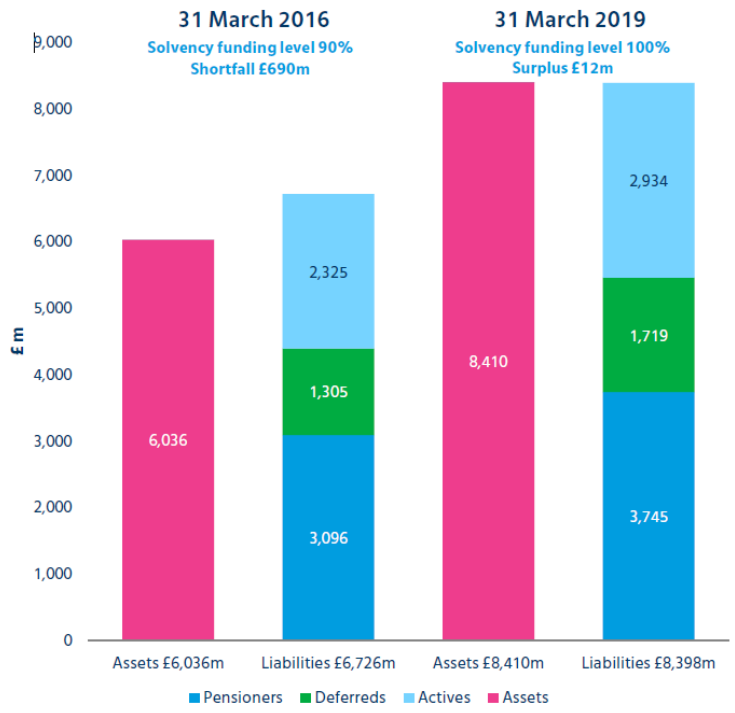
An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2019 which determines contribution rates effective from 1 April 2020 to 31 March 2023.

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, including allowance for projected final pay. This is to comply with the requirements of the LGPS regulations to secure the solvency of the Fund and is in accordance with the Funding Strategy Statement (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 16 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.


31 March 2016
Solvency funding level 90%
Shortfall £690m
31 March 2019
Solvency funding level 100%
Surplus £12m
£ m
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
6,036
2,325
1,305
3,096
8,410
2,934
1,719
3,745
Assets £6,036m
Liabilities £6,726m
Assets £8,410m
Liabilities £8,398m
Pensioners
Deferreds
Actives
Assets

The employer contributions for 2019/20 are based on the 2016 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 of this 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 1 of the Funding Strategy Statement. Your Pension Service - Lancashire Fund Information

The actuarial valuation report as at 31 March 2019 has been included as Appendix 8 to this annual report.

# K Contacts

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## Pension Fund Accounts

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Head of Pension Fund

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# L Glossary

**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.

**Active management**
Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions.

**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 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 actually 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 1/49$^{th}$ 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.

**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.

**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.

**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.

**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.

**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.

**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.

**Myners review**
Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review published in March 2001, investigated the challenges facing institutional investment decision making.

**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.

**Quantitative easing**
The introduction of new money into the money supply by a central bank. The central bank increases the money supply and buys government bonds.

**Related party**
A person or organisation which has influence over another person or organisation.

**Responsible investment**
An approach to investment which recognises that the consideration of environmental, social and governance 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 2020

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| **Total Active Employers** | **101,548** | **61,529** | **11,228** |
| **County Council** | **33,257** | **25,106** | **-** |
| Lancashire County Council excluding Schools | 49 | 15,551 | - |
| Lancashire County Council Schools | 29,359 | 8,422 | - |
| Archbishop Temple High | 110 | 33 | - |
| Ashton Community Science College | 165 | 50 | - |
| Baines High School | 117 | 33 | - |
| Balshaws Church of England High School | 116 | 35 | - |
| Barrowford Primary School | 84 | 23 | - |
| Blessed Trinity Roman Catholic College | 199 | 60 | - |
| Brownedge St Marys | 125 | 37 | - |
| Cardinal Allen | 155 | 47 | - |
| Central Lancaster High School | 60 | 18 | - |
| Delph Side | 61 | 17 | - |
| Haslingden High School | 269 | 80 | - |
| Hillside Specialist School | 156 | 46 | - |
| Hollins Technology College | 185 | 56 | - |
| Hutton Church of England Grammar School | 119 | 34 | - |
| John Cross | 26 | 7 | - |
| Lea Endowed Church of England Primary | 35 | 10 | - |
| Leyland St James Church of England Primary | 49 | 14 | - |
| Moor Park High | 130 | 40 | - |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| Morecambe Bay Academy | 21 | 6 | - |
| Morecambe Road School | 173 | 50 | - |
| Mount Carmel | 167 | 51 | - |
| New Longton All Saints Church of England Primary School | 38 | 11 | - |
| Ormskirk School | 215 | 64 | - |
| Our Lady Queen of Peace | 128 | 38 | - |
| Peel Park | 165 | 46 | - |
| Rhyddings School Accrington | 123 | 38 | - |
| St Andrews Church of England Primary School | 88 | 25 | - |
| St Richards Roman Catholic Primary School | 43 | 12 | - |
| The Loyne Specialist School | 222 | 64 | - |
| Walton Le Dale | 123 | 37 | - |
| West End Primary School | 39 | 11 | - |
| Westgate Primary School | 143 | 40 | - |
| **Scheduled Bodies (183)** | **55,885** | **30,643** | **9,377** |
| Blackburn With Darwen Borough Council | 9,383 | 4,026 | - |
| Ashleigh Primary | 1 | 2 | - |
| Audley County Infant | 72 | 28 | - |
| Avondale County Primary | 76 | 30 | - |
| Blackburn Central High School | 89 | 36 | - |
| Blackburn the Redeemer Church of England Primary School | 75 | 28 | - |
| Brookhouse Primary School | 30 | 11 | - |
| Cedars Primary | 40 | 16 | - |
| Crosshill School | 25 | 10 | - |
| Holy Trinity Church of England Primary | 39 | 15 | - |
| Longshaw County Infant | 55 | 21 | - |
| Longshaw County Junior | 59 | 23 | - |
| Sacred Heart Primary | 28 | 11 | - |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| St Albans Roman Catholic Primary | 1 | 2 | - |
| St Barnabas & St Pauls Church of England Primary | 81 | 31 | - |
| St James Church of England Primary School | 48 | 19 | - |
| St Michael with St John Church of England Primary School | 39 | 16 | - |
| Turncroft Nursery School | 21 | 9 | - |
| Blackpool Borough Council excluding Schools | 15 | 3,910 | - |
| Blackpool Borough Council Schools | - | 430 | - |
| Burnley Borough Council | 957 | 390 | - |
| Chorley Borough Council | 1,223 | 566 | 966 |
| Fylde Borough Council | 2 | 382 | - |
| Hyndburn Borough Council | 1,922 | 427 | - |
| Lancaster City Council | - | 1,045 | - |
| Pendle Borough Council | 756 | 318 | - |
| Preston City Council | 2,192 | 949 | - |
| Ribble Valley Borough Council | 775 | 314 | 187 |
| Rossendale Borough Council | 2 | 255 | - |
| South Ribble Borough Council | 939 | 445 | 588 |
| West Lancashire Borough Council | 2,147 | 844 | - |
| Wyre Borough Council | - | 440 | - |
| Blackpool Transport Servs.Ltd | - | 31 | - |
| Edge Hill University | 3,703 | 1,711 | 839 |
| University Of Central Lancashire | 5,608 | 2,633 | 1,021 |
| Lancaster & Morecambe College | 457 | 184 | 130 |
| Blackpool & The Fylde College | 1,602 | 694 | 207 |
| Preston College | 570 | 268 | 280 |
| Runshaw College | 817 | 315 | 92 |
| Blackburn College | 945 | 421 | 89 |
| Burnley College | 625 | 294 | 134 |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| Nelson and Colne College | 921 | 400 | 344 |
| Myerscough College | 837 | 351 | 178 |
| Blackpool Sixth Form College | 222 | 112 | - |
| Cardinal Newman College | 328 | 147 | 53 |
| Blackburn St Mary's | 174 | 72 | 10 |
| QEGS Blackburn Academy (FS) | 159 | 62 | 72 |
| Lancashire Fire and Rescue Service | 795 | 354 | -336 |
| Penwortham Town Council | 13 | 8 | - |
| Blackpool Coastal Housing | 514 | 285 | - |
| Pilling Parish Council | 9 | 2 | 0 |
| Kirkland Parish Council | 1 | 0 | - |
| Catterall Parish Council | 7 | 2 | - |
| Garstang Town Council | 7 | 2 | - |
| United Learning (Accrington Academy) | 127 | 67 | - |
| ANWET (Darwen Aldridge Community) | 241 | 129 | - |
| Fulwood Academy | 76 | 40 | - |
| St Annes on Sea Town Council | 20 | 8 | 1 |
| Active Lancashire Limited | 80 | 53 | - |
| Lancaster Girls GS (Academy) | 97 | 42 | 45 |
| Lancaster RGS (Academy) | 194 | 69 | 71 |
| Clitheroe Royal GS (Academy) | 129 | 46 | 62 |
| Hodgson Academy | 149 | 58 | 47 |
| FCAT (Hambleton Primary Academy) | 23 | 11 | 7 |
| Ripley St Thomas C E (Academy) | 252 | 88 | 46 |
| St Michael's CE High (Academy) | 102 | 40 | 49 |
| ATCT (Bowland High Academy Trust) | 108 | 37 | 31 |
| St Wilfrid's C of E Academy | 122 | 52 | 99 |
| Lostock Hall Academy Trust | 79 | 27 | 32 |
| St Christopher's CE (Academy) | 186 | 78 | 95 |
| Bishop Rawstorne High Academy | 77 | 27 | 31 |
| Belthorn Primary Academy | 49 | 16 | 8 |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| Garstang Community Academy | 100 | 33 | 30 |
| Parbold Douglas CE Academy | 32 | 11 | 10 |
| FCAT (Westcliff Prim Academy) | 37 | 14 | 14 |
| All Saints CE Prim Sch (Academy) | 37 | 15 | 17 |
| Tarleton Academy | 120 | 51 | 32 |
| FCAT (Montgomery HS Academy) | 112 | 47 | 59 |
| Morecambe Town Council | 4 | 2 | - |
| Parklands High School Academy | 127 | 54 | 28 |
| Penwortham Priory Academy | 106 | 41 | 18 |
| Albany Academy | 106 | 40 | 26 |
| Norbreck Primary Academy | 75 | 30 | 20 |
| Waterloo Primary Academy | 136 | 57 | 33 |
| Hawes Side Academy | 93 | 35 | 20 |
| The Lancashire Colleges Ltd | 18 | 10 | - |
| Academy at Worden | 61 | 26 | 14 |
| Wensley Fold CE Primary Academy | 76 | 31 | 32 |
| Star Academies | 288 | 222 | - |
| Bacup Rawtenstall GS (Academy) | 117 | 49 | 24 |
| Roseacre Primary Academy | 49 | 18 | 17 |
| ATCT (Roseacre Primary Academy) | 21 | 8 | 8 |
| Star Academies (Islamic Boys High School) | 22 | 12 | 1 |
| Thames Primary Academy | 95 | 39 | 31 |
| Maharishi School (Free School) | 47 | 15 | - |
| Pendle Education Trust-Colne Primet | 79 | 27 | 15 |
| Pendle Education Trust - Walter St | 82 | 31 | 16 |
| Moorside Community Academy | 68 | 26 | 12 |
| Fylde Coast Academy Trust | 58 | 29 | 2 |
| Blackpool MAT (Devonshire Academy) | 99 | 35 | 40 |
| Blackpool MAT (Park Academy) | 147 | 66 | 59 |
| Blackpool MAT (Anchorsholme Academy) | 88 | 31 | 38 |
| FCAT (Unity Academy) | 173 | 74 | 64 |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| Langdale Free School | 10 | 4 | - |
| Star Academies (Olive Blackburn) | 23 | 18 | - |
| Star Academies (Olive London) | 33 | 26 | - |
| Education Partner Trust (The Heights) | 70 | 30 | 24 |
| Preesall Town Council | 9 | 2 | 0 |
| BFET (South Shore Academy) | 146 | 50 | 52 |
| Darwen Town Council | 1 | 0 | - |
| Habergham Eaves Parish Council | 0 | 0 | - |
| Old Laund Booth Parish Council | 0 | 0 | - |
| Police & Crime Commissioner | 103 | 60 | 4 |
| Blackpool MAT (Revoe) | 92 | 37 | 51 |
| Cidari Education (St Georges) | 81 | 33 | 42 |
| ATCT (Witton Park Academy Trust) | 116 | 45 | 60 |
| Cidari Education (Lukes & Philips) | 27 | 11 | 30 |
| Cidari Education Ltd (St James) | 41 | 17 | 19 |
| Cidari Education Ltd (St Barnabas) | 22 | 8 | 22 |
| Cidari Education Ltd (St Aidans) | 30 | 12 | 18 |
| Blessed Edward MAT (St Marys) | 145 | 58 | 50 |
| Blessed Edward MAT (St Cuthbert's) | 47 | 17 | 27 |
| FCAT (Aspire Academy) | 115 | 40 | 52 |
| Blessed Edward MAT (Christ) | 36 | 12 | 13 |
| ANWET (Darwen Vale Academy) | 96 | 38 | 70 |
| Star Academies Eden Girls School Waltham | 28 | 16 | 1 |
| Star Academies Eden Girls School Coventry | 31 | 23 | - |
| Star Academies Eden Boys School Bolton | 55 | 24 | 0 |
| Lancashire Chief Constable | 7,942 | 3,565 | 2,000 |
| BFET (Marton Primary Academy) | 74 | 22 | 25 |
| CSCST (Burnley High Free School) | 44 | 18 | 0 |
| Cliviger Parish Council | 0 | 0 | - |
| Star Academies Islamic Girls High School | 77 | 31 | 19 |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| Cidari Education Trust | 16 | 31 | - |
| Cidari Edu Ltd(Baines Endowed) | 73 | 33 | 29 |
| Cidari Ed Ltd(Marsden St John) | 33 | 11 | 7 |
| ANWET (Sudell PS Academy) | 36 | 11 | 20 |
| Blackpool Housing Company Ltd | 100 | 54 | - |
| Pendle Edu Trust (Castercliff) | 59 | 20 | 27 |
| Education Partner Trust (Coal Clough) | 117 | 41 | 22 |
| Star Academies (Eden BS Preston) | 16 | 9 | - |
| Star Academies (Eden GS Slough) | 50 | 25 | - |
| Star Academies (Eden BS Birmingham) | 37 | 24 | - |
| FCAT (Blackpool Gateway Academy) | 47 | 22 | 5 |
| Eden School | 22 | 12 | 2 |
| Whittle-le-Woods Parish Council | 1 | 1 | - |
| Education Partner Trust (Pleckgate High School) | 129 | 49 | 71 |
| Freckleton Parish Council | 1 | 0 | - |
| PET (West Craven) | 85 | 29 | 20 |
| Star Academies Highfield Humanities | 97 | 36 | 62 |
| Pendle Education Trust | 32 | 16 | 1 |
| Education Partnership Trust | 34 | 27 | - |
| Blessed Edward Trust | 12 | 7 | - |
| Star Academies Olive Bolton | 18 | 10 | - |
| Star Academies Olive Preston | 22 | 13 | - |
| Star Academies Olive Birmingham | 21 | 17 | - |
| Clayton-Le-Woods Parish Council | 4 | 2 | - |
| FCAT (Mereside) | 78 | 27 | 30 |
| Tor View SLC | 211 | 97 | 62 |
| FCAT (Westminster Primary Academy) | 57 | 22 | 42 |
| Mosaic Academy Trust | 89 | 35 | 32 |
| Cidari (Newchurch PSM) | 8 | 3 | 3 |
| Star Academies - Eden Girls Manchester | 38 | 17 | - |
| Cidari Education (St Silas) | 42 | 17 | 21 |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| Bay Learning Trust (Morecambe Bay Academy) | 177 | 71 | 58 |
| Star Academies (The Valley Leadership Academy) | 43 | 17 | 14 |
| Star Academies (Eden Boys LA Birmingham East) | 16 | 5 | - |
| Learning Together Trust (Adlington PS) | 21 | 8 | 6 |
| Blackpool Waste Services | 12 | 7 | - |
| Nelson Town Council | 4 | 2 | - |
| Bay Learning Trust (Central Lancaster High School) | 47 | 18 | 14 |
| Star Academies (Eden Girls LA Birmingham) | 16 | 6 | - |
| Star Academies (Eden Boys LA Bradford) | 9 | 3 | - |
| Education Partner Trust (The Heights Burnley) | 29 | 12 | - |
| Romero (St Mary's RC) | 12 | 5 | 4 |
| Champion Education Trust (Blackburn Central High School) | 67 | 28 | 38 |
| Champion Education Trust (Crosshill Specialist School) | 18 | 7 | 13 |
| Romero Catholic Academy Trust (St John the Baptist | 18 | 7 | 5 |
| Romero CAT (St Augustines) | 8 | 3 | 2 |
| Romero CAT (All Saints RC HS) | 13 | 5 | 4 |
| United Learning (The Hyndburn Academy) | 61 | 24 | 18 |
| Romero CAT (Blessed Trinity RC) | 18 | 5 | 5 |
| Star Academies - Eden Boys Manchester | 28 | 12 | - |
| **Admitted Bodies (146)** | **12,406** | **5,780** | **1,851** |
| UCST (AKS Arnold) | 29 | 11 | 28 |
| Galloways Society for Blind | 3 | 1 | 18 |
| Lancaster University | 4,500 | 2,071 | 543 |
| Lancashire County Branch Unison | 0 | 1 | - |
| NW Inshore Fisheries & Conservation | 101 | 40 | 28 |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| UCST (AKS Lytham) | 28 | 13 | - |
| University of Cumbria | 1,832 | 865 | 655 |
| Whitworth Town Council | 5 | 2 | 2 |
| Kirkham Grammar School | 97 | 29 | 32 |
| Caritas Care Limited | 257 | 107 | 70 |
| Community Council of Lancashire | 21 | 8 | 29 |
| Progress Housing Group | 187 | 109 | - |
| Preston Care and Repair | 3 | 2 | - |
| Pendle Leisure Trust Ltd | 259 | 123 | 22 |
| Together Housing Association Ltd | 1,601 | 724 | 94 |
| Leisure in Hyndburn | 123 | 56 | 51 |
| Adventure Hyndburn | 38 | 19 | 24 |
| Blackpool Zoo (Grant Leisure) | 31 | 16 | - |
| Rossendale Leisure Trust | 31 | 18 | - |
| Marketing Lancashire Ltd | 53 | 36 | - |
| Liberata UK Ltd (Pendle) | 131 | 66 | - |
| West Lancs Community Leisure | - | 44 | - |
| South Ribble Community Leisure | 116 | 50 | 86 |
| Community Gateway Association Ltd | 203 | 109 | - |
| Bulloughs (Our Lady) | 0 | 0 | - |
| Chorley Community Housing Ltd | 86 | 50 | - |
| NSL Ltd.(Lancaster) | - | 1 | - |
| Capita(Rossendale Borough Council Transfer) | 1 | 8 | - |
| Consultant Caterers Ltd | 4 | 5 | - |
| Bootstrap Enterprises Ltd | 0 | 3 | - |
| Alternative Futures Group Ltd | - | 6 | - |
| Creative Support Ltd | - | 13 | - |
| New Progress Housing | 257 | 110 | - |
| Progress Housing Association | 121 | 52 | - |
| Community and Business Partners | 39 | 22 | - |
| I Care (Home) | - | 3 | - |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| Fylde Coast YMCA (Fylde TUPE) | - | 1 | - |
| Cofely FM Ltd (Lend Lease) | 28 | 10 | - |
| Creative Support Ltd (Midway) | 15 | 6 | - |
| Mellor's (Bishop Rawstorne) | 6 | 2 | - |
| Mellor's (Hambleton Primary School) | 1 | 0 | - |
| Andron (formerly Solar) | - | 1 | - |
| Cofely FM Ltd (Pleckgate) | 2 | 2 | - |
| Liberata UK Ltd (Burnley) | 207 | 76 | - |
| Essential Fleet Services Ltd | - | 7 | - |
| Elite Cleaning and Environment | 4 | 1 | - |
| Eric Wright FM - Site Supervisors Highfield HC | 0 | 4 | - |
| Cofely FM Ltd (Witton Park) | 2 | 0 | - |
| Mellors (Little Hoole) | 2 | 1 | - |
| Mellors (Holy Cross) | 8 | 3 | - |
| Cofely FM Ltd (Blake/Cross) | - | 1 | - |
| Service Alliance Ltd (Altham) | 1 | 0 | - |
| Lancashire Care Foundation | 16 | 6 | - |
| Service Alliance (Ribblesdale) | 1 | 0 | - |
| Mellors (Brinscall) | 5 | 1 | - |
| Burnley Leisure | 216 | 114 | - |
| CG Cleaning (Kennington Road) | 2 | 1 | - |
| Compass Contract Services (UK) Ltd | 26 | 7 | - |
| Caterlink (Mount Pleasant School) | 1 | 0 | - |
| Churchill (Moorside) | 1 | 0 | - |
| Service Alliance (St Wilfrid) | 2 | 1 | - |
| Blackpool, Fylde and Wyre CU | 7 | 2 | - |
| QEGS Blackburn Ltd | 5 | 2 | - |
| Mellors (Queens Drive) | 1 | 0 | - |
| Service Alliance (Whalley Primary School) | 1 | 0 | - |
| RCCN (Whitefield) | 1 | 0 | - |
| Bulloughs (Carr Head Primary School) | 0 | 0 | - |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| FCC Environment | 22 | 7 | - |
| County Councils Network | 13 | 18 | 1 |
| Urbaser Ltd | 61 | 16 | 0 |
| Service Alliance (Clitheroe Pendle) | 1 | 0 | - |
| I Care | 18 | 7 | - |
| Independent Living Fund (Blackpool Borough Council) | 6 | 2 | - |
| Elite CES (Fulwood & Cadley) | 1 | 0 | - |
| Elite CES Ltd(Moor Nook School) | 4 | 1 | - |
| Elite CES Ltd (Carr Hill) | 4 | 1 | - |
| Service Alliance (St Mary Mag) | 1 | 0 | - |
| Churchill (Morecambe Bay) | 1 | 0 | - |
| Compass CS (Preston) | 16 | 5 | - |
| Local Pensions Partnership Limited | 468 | 247 | - |
| Premiserv (St Peters) | 1 | 0 | - |
| 5AM Contract Cleaning (Blackpool Coastal) | 2 | 1 | - |
| RCCN (Burscough) | 2 | 1 | - |
| Maxim (Acorns PS) | 1 | 0 | - |
| Elite CES (Hambleton) | 3 | 1 | - |
| Elite CES Ltd (St Annes) | 2 | 0 | - |
| Bulloughs (BFET Marton) | 2 | 0 | - |
| Mellors (Delph Side) | 2 | 1 | - |
| Mellors (Lostock Hall Academy) | 6 | 1 | - |
| Maxim (Lancaster Girls Grammar) | 2 | 0 | - |
| Maxim (Lancaster Royal Grammar) | 12 | 4 | - |
| Maxim (Newton Bluecoat) | 1 | 0 | - |
| Maxim (St John with St Michael) | 1 | 0 | - |
| CG Cleaning (St Teresas) | 0 | 0 | - |
| Service Alliance (St Marys RC Primary) | 0 | 0 | - |
| Capita (Property & Infrastructure) | 13 | 7 | - |
| Maxim (St Georges CE Primary School) | 1 | 0 | - |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| Compass CS Ltd (Highfield) | 10 | 2 | - |
| Greenwich Leisure Limited (Preston City) | 93 | 34 | - |
| Cockerham Parish Council | 0 | 0 | - |
| Nether Wyresdale Parish Council | 0 | 0 | - |
| Clarets in the Community Ltd | 3 | 1 | - |
| Compass Contract Services (Hodgson Academy) | 4 | 2 | - |
| Mellors (Parklands High School) | 9 | 2 | - |
| Maxim (Mayfield Primary School) | 1 | 0 | - |
| Orian (Larches House) | 1 | 0 | - |
| Noonan (Hyndburn CCTV) | 4 | 2 | - |
| Bay Learning Trust (Carnforth High School) | 95 | 38 | 29 |
| Mellors (St Michaels CE Academy Trust) | 11 | 4 | - |
| Star Academies (Bay Leadership Academies) | 115 | 46 | 41 |
| Compass CS (Mer/Mon/Uni) | 36 | 10 | - |
| Maxim (St Joseph's Primary School) | 0 | 0 | - |
| Pendle Education Trust (Casterton Primary Academy) | 50 | 19 | 15 |
| Mellors (Tarleton Community Primary School) | 4 | 2 | - |
| FCAT (Armfield Academy) | 51 | 20 | - |
| Andron (Longridge High School) | 3 | 1 | - |
| Maxim (Bolton le Sands Primary School) | 1 | 0 | - |
| Maxim (Kelbrook Primary School) | 3 | 1 | - |
| Endeavour LT (Burscough Priory Academy) | 49 | 19 | 19 |
| Maxim (St Augustines) | 2 | 1 | - |
| Laneshaw Bridge Primary School | 32 | 11 | 8 |
| Maxim (Helmshore Primary School) | 1 | 0 | - |
| Andron (Cidari - St Georges School) | 4 | 1 | - |
| Blacko Primary School | 16 | 6 | 3 |

| | Contribution Received | | |
|---|---|---|---|
| **Employer Name** | **Employer (£'000)** | **Employee ('£000)** | **Deficit Recovery ('£000)** |
| Colne Park High School | 123 | 50 | 34 |
| Lord Street Primary School | 64 | 25 | 19 |
| The Pennine Trust | 3 | 1 | 1 |
| Orian Solutions Ltd (Parklands High School) | 4 | 1 | - |
| Wolseley UK | 3 | 1 | - |
| Maxim (Kingsfold Primary School) | 1 | 0 | - |
| 5AM Contract Cleaning (Revoe) | 2 | 1 | - |
| Local Pensions Partnership Investments | 112 | 78 | - |
| CG Cleaning Ltd (Burnley St Peters) | 6 | 2 | - |
| CG Cleaning Ltd (Moorside Primary School Lancaster) | 2 | 1 | - |
| CG Cleaning Ltd (St Wulstans & St Edmunds) | 4 | 1 | - |
| Bulloughs (Balshaw High School) | 2 | 1 | - |
| Mellors (Cidari - Multi Academies) | 44 | 11 | - |
| Mellors (Cidari - St Silas) | 9 | 3 | - |
| Orian Solutions Ltd (Layton Primary School) | 1 | 0 | - |
| Maxim FM (St James Primary School Clitheroe) | 2 | 1 | - |
| Lancashire Care NHS Foundation Trust (EIS) | 28 | 10 | - |
| Aspens Services Ltd (AE - Sudell Primary School) | 2 | 1 | - |
| Aspens Services Ltd - (AE - DACA/DAES) | 11 | 4 | - |
| Aspens Services Ltd - (AE - Darwen Vale High School) | 3 | 1 | - |
| Bulloughs Cleaning Services Ltd- (AE - Sudell Primary) | 1 | 0 | - |

## Appendix 2 – Governance Policy Statement

Appendix 2 - Governance policy s

## Appendix 3 – Administration Annual Report

Appendix 3 - Lancashire Annual A

## Appendix 4 – Communication Policy Statement

Appendix 4 - Communications Po

## Appendix 5 – Pensions Administration Strategy Statement

Appendix 5 - Pensions admin stra

## Appendix 6 – Funding Strategy Statement

Appendix 6 - Funding Strategy St

## Appendix 7 – Investment Strategy Statement

Appendix 7 - Investment strategy

## Appendix 8 – Actuarial Valuation

Appendix 8 - LCPF Actuarial Valuation

## Appendix 9 – Responsible Investment Policy

Appendix 9 - Responsible Investm

***The full documents will be included in the final annual report rather than embedded**