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Wash

Appendix A

Proposition

Say 'pension' and most minds will leap to the end product: the pounds and pence that come each week or month in retirement. But the power of a pension, the promise we offer our members, can't be expressed in numbers.

In some ways, it's about feeling rewarded for your efforts as an employee – getting something back after years of putting something in. In other ways, it's about working together – with the stability that comes from the gathered weight of thousands of members across Lancashire.

Above all, it's about peace of mind. Being part of the Lancashire County Pension Fund is a chance to lay the foundations for later life, building financial security for tomorrow.
It's something we can put our trust in, because it's ours – built, funded and managed right here.

Finances building

The logo mark represents the growth of savings building over time. We have used a vibrant colour palette that have a fresh modern feel that can be mixed with photography that has a relaxed feel.

Lancashire County
Pension
Fund

Lancashire County
Pension
Fund

Lancashire County
Pension
Fund

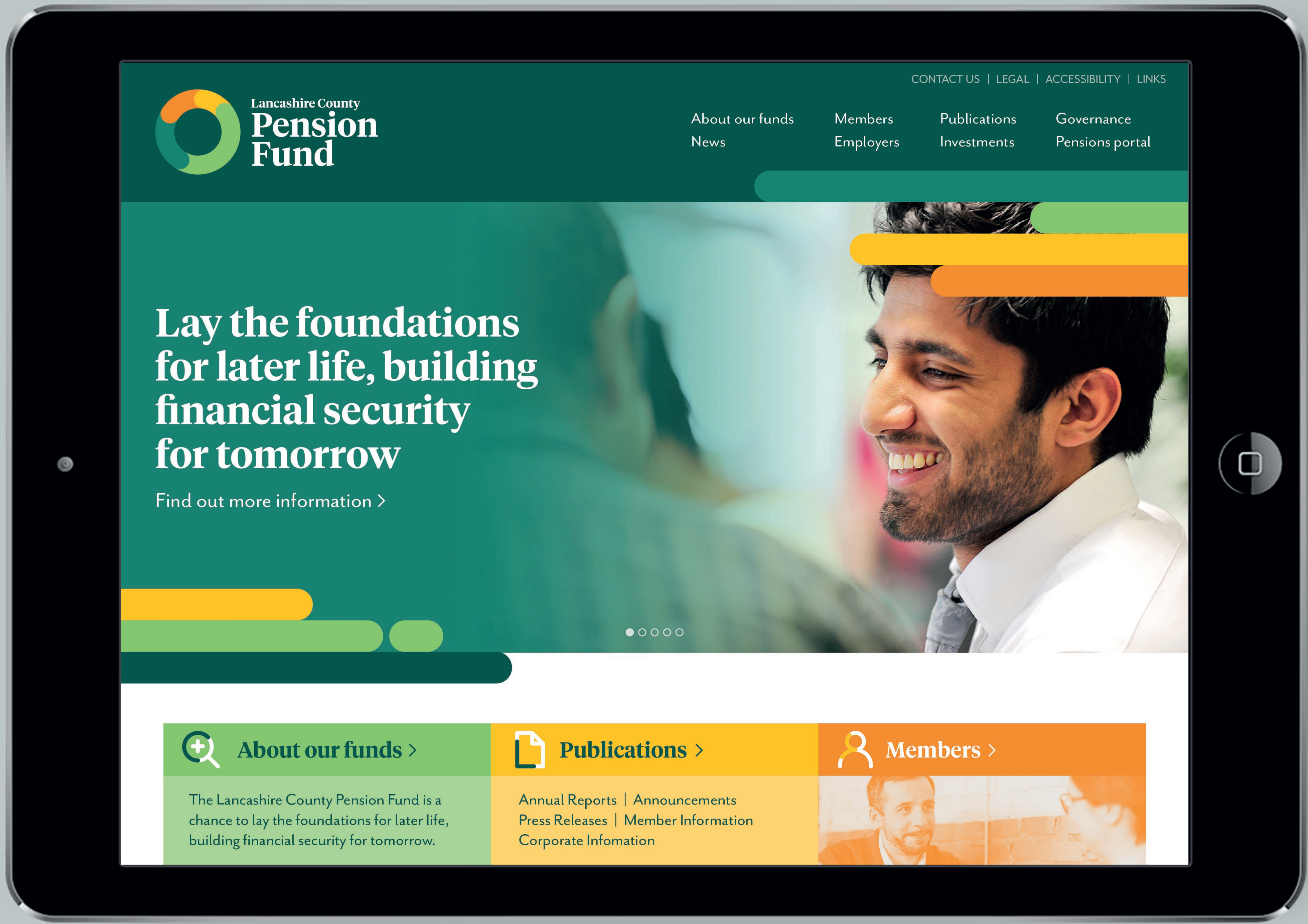
Lancashire County
Pension
Fund

Tiempos Semi-Bold Typeface

Mr Eaves San OT Book as supporting font

Relaxed people photography with a warm, comforting feeling can be used with the visual identity to add personality to the brand.

Stationery examples



Website homepage example

An example of icons built up using the colourful lines

Annual report cover and spread examples

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Investment Policy and Performance

MACRO OUTLOOK – THE LAST 12 MONTHS

2017 was a year of stronger, broad-based economic expansion, which saw world gross domestic product (GDP) increase at the fastest pace since 2011 and roughly 70% of global economies seeing stronger growth compared to 2016. Despite this "synchronised growth" the acceleration in world GDP stemmed predominantly from firmer growth in several developed economies. The cyclical improvements in Argentina, Brazil, Nigeria and the Russian Federation, as these economies emerged from recession, explains roughly a third of global economic growth between 2016 and 2017.

After a couple of years of monetary policy divergence, with the Federal Reserve Bank (FED) continuing to tighten alongside advanced economies' ongoing accommodative policies, the first steps towards convergence were taken as the Bank of England (BOE) increased interest rates for the first time in almost a decade and the European Central Bank (ECB) scaled back its asset purchase programme.

This year saw a rise in geopolitical risks around the world, from continuing conflicts in Syria and Yemen to rising tensions between the United States (U.S.) and Iran, Russian sanctions, as well as North Korea (amid the latter's nuclear development programme). Furthermore, an ongoing spat between Qatar and other regional countries including Saudi Arabia increased risks in the Middle East, while trade tensions between U.S. and China raised concerns over the possibility of reciprocal tariffs and other protectionist policies. Despite this backdrop, risk assets performed exceptionally well with global equity indices reaching new highs at the end of 2017.

In the U.S., the economy also expanded at a faster pace in 2017 (full-year growth was at 2.3%), operating close to full employment. The labour market remained strong, with an average 180k new jobs a month, pushing the unemployment rate down to 4.1% from 4.7%. Despite the tightness in the labour market, wage growth only accelerated modestly which together with the FED's gradual interest rate hikes kept inflation in check. The trade weighted dollar was approximately 6% weaker at the end of 2017 compared to 2016 but has since stabilised in the first quarter of 2018 supported by rising rates, stronger growth and an increased supply of government bonds.

Additional fiscal spending and the recently enacted tax cuts should further support growth in 2018.

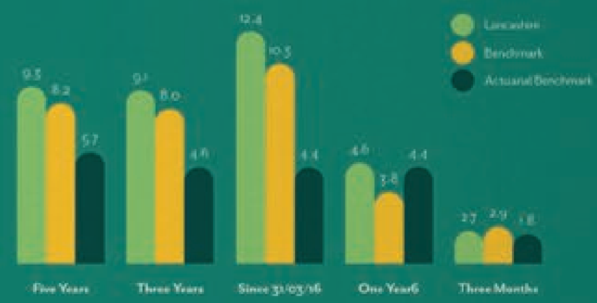
In the U.K., the economy continued to slow down (full-year growth was at 1.8%) amid lingering Brexit negotiations, which have weighed on investment and economic activities. Following the 2016 EU referendum, sterling depreciated sharply leading to inflationary pressures and decreased consumer spending. Consumption fared relatively well in the first half of 2017, buoyed by a further reduction in savings and an increase in shortterm credit, but was markedly lower in the second half as inflation continued to exceed wage gains. The BOE raised interest rates by 25 basis points in November 2017 for the first time since July 2007, reiterating that only limited and gradual interest rate hikes will follow. Despite this move, monetary conditions have remained broadly accommodative, as the BOE continues with its Quantitative Easing programme and its proceeds reinvestment. Sterling rebounded slightly on a trade weighted basis throughout the year, reflecting gains mainly against the Dollar, Swiss Franc and Chinese Renminbi, while it was approximately 4% weaker against the Euro, its main trading partner.

Over the year, the Fund's performance was mainly driven by the private equity and real estate assets classes, which strongly outperformed their respective benchmarks. Longer-term (over a 3-year or 5-year horizon) the Fund returns had been strong, comfortably outperforming both its actuarial benchmark and its policy portfolio. The triennial discount rate assumption (the actuarial benchmark) with effect from the 2016 actuarial valuation is an inflation-linked measure, CPI + 2.2% p.a. At the 31 March 2016 valuation this discount rate was 4.4% p.a. and this is reflected as a fixed actuarial benchmark from that date in the table below. Policy portfolio returns reflect the Fund's long-term strategic asset allocation returns (strategic weights multiplied by a benchmark asset class index).

Period Returns (%)	Years 1	3	5
Investment return	4.6	9.1	9.3
Actuarial benchmark	4.4	4.6	5.7
Policy portfolio	3.8	8.0	8.2

1 YEAR PERFORMANCE (%) BY ASSET CLASS

FUND RETURN (%) AS AT 31 MARCH 2018



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4. Critical Judgements in Applying Accounting Policies

4.1 Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward looking estimates and it is necessary to apply judgement to the valuation. Unquoted private equities and infrastructure investments are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines 2012.

4.2 Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

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 amounts reported for assets and liabilities at the net assets statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

Lorem ipsum dolor sit amet, consectetur adipiscing elit estibulum rhoncus sagittis exam tincidunt quam.

The items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming year are shown 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.	The market value of private equity and infrastructure investments in the financial statements totals £1,538.9 m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements (excluding the investment in Heylo Housing Trust listed separately below) totals £1,364.0m. There is a risk that these investments might be under or overstated in the accounts.
Loans secured on real assets	The Heylo Housing Trust loans are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority loans to Heylo Housing Trust totals £198.3m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £113.3m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) 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 £450m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £100m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £200m.

Banner examples using key messages

Example signage