



Strategic Policy Statement

2017 – 20

Introduction from the Chairman Sir Merrick Cockell

After serving on the LPFA Board for over six years, I am proud to have been appointed by the new Mayor of London to continue leading the organisation as it takes on further challenges. We are continuing to work closely with the Greater London Authority on a number of key issues and I am particularly pleased to have been asked by the Mayor to play a lead role in helping to facilitate greater investment in London's Infrastructure.

LPFA actively integrates Environmental, Social and Corporate Governance factors into our investment analysis and decision making as we believe taking account of the associated risks are key to taking the best long term investment decisions and helping to ensure the long term sustainability of the Fund. The Mayor's manifesto commitment on Fossil Fuels is one where we will engage further with the Deputy Mayor for Environment and Energy. We aim to build on our existing approach and demonstrate increasing commitment and engagement that recognises the environmental and financial risks of investing with companies who are not fully engaged or committed to these challenges.

The past year has most noticeably seen the fruition of the hard work put in to create the Local Pensions Partnership (LPP) and to have it up and running on schedule at the beginning of April. As a consequence LPFA's role in the day to day administration of the fund has changed significantly and we will now have an increased focus on the detailed reporting and monitoring arrangements put in place to ensure the efficiencies, savings, improved investment returns and deficit reductions we are aiming for will be delivered. We do however retain our statutory responsibilities and will continue to see that these are met when dealing with the key issues affecting the fund.

There have been further discussions with Government on the arrangements we have put in place and our approach has been highlighted to other pools as one that will help deliver the changes and efficiencies they are hoping to achieve. Positive discussions are continuing with Government and other funds around the future pooling proposals for the LGPS and we are looking forward to further success in the year ahead. We are also continuing to engage with Government on other ways in which the management of public sector pension funds as a whole can be improved.

We have excellent relations with the co-founders of LPP, Lancashire County Council. As owners we developing structures to facilitate both scrutiny and smooth decision-taking. Further challenges lie ahead as new partners and investors are brought in to the partnership, with Berkshire in the process of finalising their participation, together with our bidding to manage funds and run administration on behalf of other LGPS Funds and pools.

The infrastructure fund we launched with the Greater Manchester Pension Fund has continued to attract interest from other LGPS Funds and the monies we now have under management have increased significantly over the last 12 months as new partners have joined the arrangement. We are looking to build on this success over the coming year as we increase our level of active investments in specific projects.

The environment we operate in is continuing to change and we need to be prepared to meet these future challenges both in relation to our statutory responsibilities and through our commitment to actively managing and monitoring the LPP as a responsible and engaged shareholder.

The continued success of the LPP will serve as an example to other Funds of what can be achieved if we work together and collaborate for the benefit of our members and employers and the wider sector.

Introduction from the Managing Director Mike Allen

It has certainly been a challenging but rewarding 12 months and I was personally delighted to be asked by the Board to take on the role of Managing Director for LPFA as the day to day running of all aspects of the fund moved across to the newly created Local Pensions Partnership (LPP). Over the last few months there has been increasing co-operation between LPFA and Lancashire which helped ensure a successful launch and the next twelve months will see further changes to the way in which we operate.

We chose Lancashire as our partner given our similar outlook in our approaches to pension fund administration and investment management and the hard work put in to achieve this is starting to pay off. All LPFA staff have now transferred into LPP and our third party clients have agreed for either shared service or sub-contracting arrangements to be put in place so that they can continue to benefit from the high levels of service provided. In total LPP will administer the Scheme on behalf of nearly 500,000 scheme members and there will be opportunities for improved efficiencies, savings and levels of service provided as the optimum way of delivering these services is realised through a comprehensive transition and transformation plan.

The LPP is fully FCA registered and has also received ACS approval enabling them to launch a £5bn Global Equity Fund in November following changes to the LGPS investment regulations, made up of the pooled holdings of LPFA and Lancashire County Pension Fund. Future pooled funds are also planned for with special purpose vehicles being set up for the more illiquid investments. The new portfolio will provide a significant reduction in overall costs for each of the founding investors whilst also looking to maintain and improve expected investment outcomes.

An increased focus on ESG issues utilizing the specialist resources available within LPP will help LPFA fully understand the risks associated with issues such as climate change and to ensure we are in a position to take meaningful action where significant risk is identified, whether that be increased engagement and collaboration with other pension funds or through seeking alternative investment opportunities and divestment where there is a strong case for doing so. LPFA are committed to publishing a clear policy statement in this regard highlighting key dates for ensuring appropriate action is taken at the earliest opportunity.

The launch of our infrastructure fund in conjunction with Greater Manchester has also proved a great success with a number of significant investments made and other partners looking to join meaning ever greater funds will become available to help take advantage of future investment opportunities.

Further challenges lie ahead and we are continuing to engage with Government on further proposals to meet their agenda around pooling and closer collaboration across the LGPS and wider public sector.

There has though been a significant amount of interest in what has been achieved as other pools and LGPS funds start to look at how they are going to implement similar

arrangements, and LPFA with our partners and LPP will continue to co-operate with other funds along that journey.

I am looking forward to working closely with the Chairman and the rest of the LPFA Board to ensure we can build on the success of the last 12 months and continue to take the lead in the way in which funds can work together and deliver the savings, efficiencies and improved returns needed. We will have an important role to play in ensuring LPP remain accountable and provide the necessary assurance to us as engaged shareholders while we continue to benefit from the new arrangements.

Legislative background

The Strategic Policy Statement reflects our aims and objectives, and sets out our strategic priorities from 2017 to 2020.

The statement is prepared in accordance with section 402 of the Greater London Authority Act 1999. The Act requires the LPFA to prepare a statement containing a draft budget, including any levy requirement for each financial year, and a statement of strategic plans and objectives for the next three financial years.

Both statements must be submitted to the Mayor by 31st December preceding the start of each financial year.

Part 1 The Strategic Policy Statement, details our strategic aim for 2017-2020. Our programmes stem from the main strategy.

Since 1 April 2016, the majority of the LPFA's functions are now carried out by the Local Pensions Partnership (LPP) under a Service Level Agreement and this plan reflects those changes

Part 2 The budget details the financials for the year 2017-2018 and sets out the anticipated resources required to deliver the outcomes during 2018-2020 for LPFA and our share of the costs in respect of LPP.

LPFA's Mission Statement

To provide an excellent cost effective pensions service to meet the needs of our different customers.

LPFA's Vision

LPFA aims to deliver LGPS pension services to a higher quality and at a lower cost.

LPFA will continue to use its position as an active shareholder of the LPP to drive the effective implementation of the partnership and seek to assist where possible to facilitate

the growth in LGPS collaborations. There may be instances where the LPFA is the natural home for new employers and the LPFA Board will encourage the Government to view LPFA as a possibility. Any assets held within the LPFA fund will continue to be managed by the LPP.

Objectives

Our overall wider objectives remain broadly unchanged from previous years and are detailed in the chart below although future planning will recognise the changing role LPFA will play in ensuring delivery of these key targets through the LPP.



High Level Strategic Success Factors

LPFA's role during the period covered by this Statement will be as an active shareholder, overseeing the LPP and GMPF partnerships. There is also a desire for LPFA to work with LPP and encourage further partners to the collaboration which would deliver greater benefits than those already anticipated. Our collaborating with Lancashire County Pension Fund has achieved a pool of assets of over £10bn with these assets already being brought in to the pooled arrangements and already benefiting from the lower costs associated with such an approach. Next year will see an increasing level of assets brought across and managed by LPP either within the ACS or through Special Purpose Vehicles. The intention remains to attract further partners, funds or employers to achieve greater scale and to continue to identify opportunities for increased collaboration.

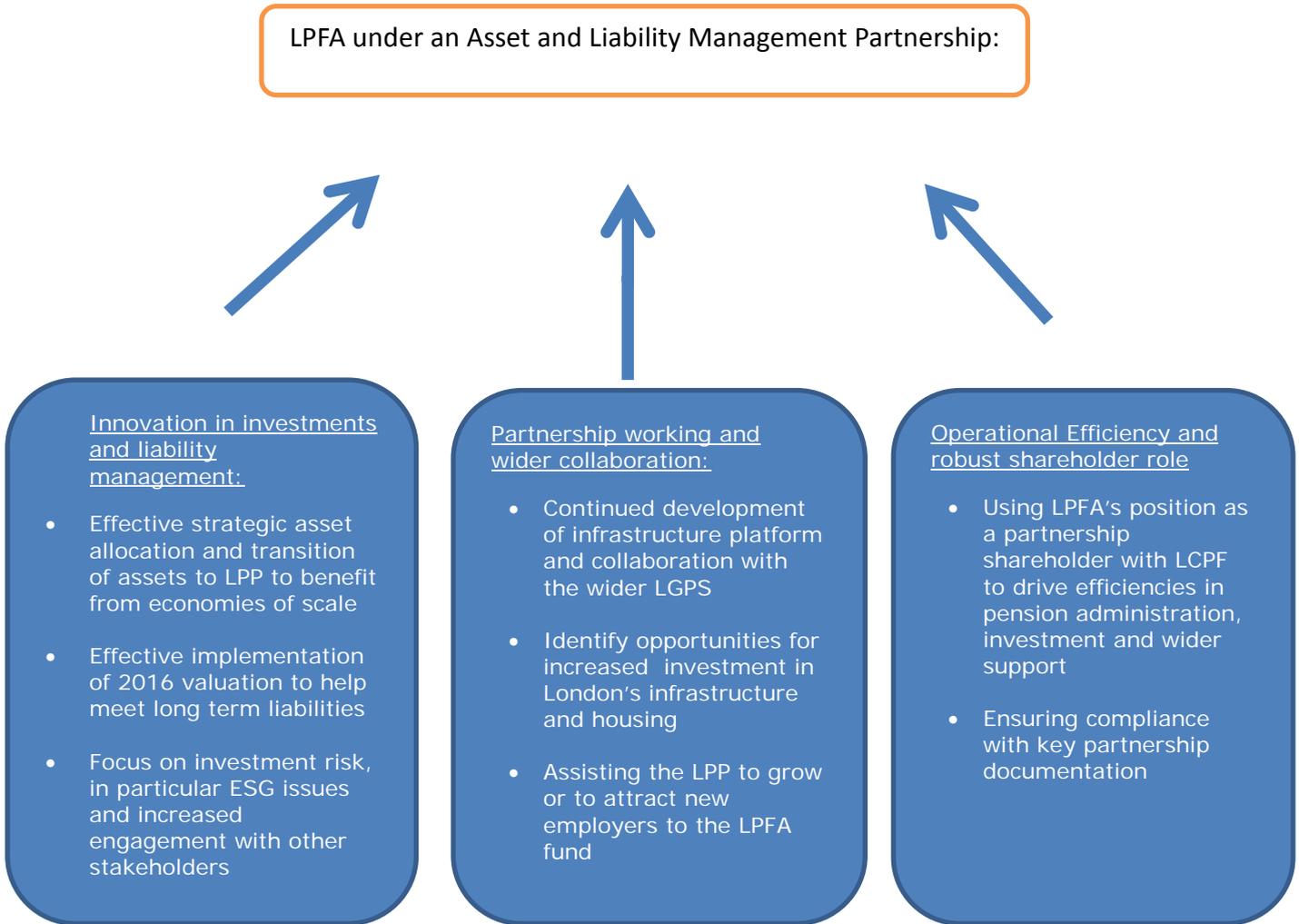
The strategic decision making remains with LPFA in a number of areas and we will ensure appropriate guidance and control is provided to LPP as to how these should be met and monitored. The implementation of new employer contribution rates following the 2016 valuation and the transition plan around the future delivery of administration and employer support services are two such areas. Setting the LPFA's future investment strategy and ensuring the long term aims of the fund are met will also be key and discussions on specific issues such as our future approach to ESG and Liability Driven Investments are already taking place. The issue of climate change and associated risks will be discussed at future Board meetings and a policy for future engagement and action, put in place.

The collaboration with GMPF on infrastructure investments has been a great success generating a number of investment opportunities and an area where we will be looking for increasing co-operation with other LGPS funds. The Chairman will also be taking a lead role to help facilitate greater investment in London's infrastructure in conjunction with the relevant Deputy Mayors which will help identify suitable opportunities for future pension fund investments in this area

The third party administration services LPFA provides have now all been transferred to LPP although some continue to be sub-contracted through LPFA in the short-term. LPFA remain committed to see the administration side of LPP flourish and grow, given the benefits and economies of scale that will be realised by us as shareholders through continued success.

LPFA will continue to ensure compliance with the monitoring and reporting arrangements which have been put in place and to look for increasing co-operation and engagement with our partners and other shareholders to enable a consistent and clear approach to be provided.

These high level success factors are summarised in the following chart:



LPFA have retained a small Executive resource to act in a client role and to ensure the functions carried out by LPP meet the robust Service Level Agreements put in place and that sufficient support, guidance and advice is provided to enable its statutory functions to be met. The next year will see the relationship with LPP continue to develop and it will be important to ensure the mechanisms and resources put in place to ensure success remain relevant and sufficient to meet these aims.

Strategic Measurements:

If LPFA is to achieve this challenging strategy then it is important that equally challenging targets and measurements to assess achievements are set. The following measurements link to the three main pillars of LPFA's strategy:

Innovation in investments

- Implementing LPFA's investment strategy and philosophy to achieve the asset allocation in line with the Investment Strategy Statement by 2017. Achieving investment returns in line with the 2016 valuation 14 year recovery plan
- Implementing sophisticated risk monitoring via LPP with a focus on key issues in particular ESG factors and our overall RI approach
- Delivering the increased security and contributions identified in the 2016 valuation.
- Increased engagement and co-operation with other London based funds such as London CIV and TFL

Partnership working:

- Identifying and implementing partnering opportunities to enable growth in assets under management of the LPP
- Co-investment initiatives – achieving FCA authorisation on the GMPF infrastructure platform and attract new partners to achieve an increasing level of assets under management in the infrastructure platform over the next 3 years.
- Identify suitable opportunities for increased investment in London's infrastructure and housing across the LGPS
- Promoting LPFA's approach within the sector seeking greater engagement and collaboration and maintaining LPFA's status.
- Enabling LPP to continue to develop value added business offerings to existing and new clients

Operational Efficiency:

- Full transition of third party pension administration contracts to the LPP by 2019 as contracts currently sub-contracted are due for renewal or where alternative arrangements are agreed with LPP
- Reviewing and implementing next steps for LPP operational efficiency by 2019 in line with the shareholder agreement. A formal Transition Plan to be agreed and implemented with clear milestones and timetable in place to ensure continued high levels of service delivery and support
- Working with GLA to identify specific functions and responsibilities where closer co-operation can result in improved efficiencies
- Continue to implement data cleanse initiatives via LPP and ensuring compliance with The Pension Regulator Code of Practice 14 requirements.
- Raising standards in line with FCA, The Pension Regulator and UK Corporate Governance Code standards.

Key Performance Indicators:

LPFA's range of Key Performance Indicators is based on locally and nationally set performance measures which mirror the strategic direction of the organisation.

Our aim is to measure, as far as practicable, the outcomes of our strategic deliverables, and of our administration, both in terms of what we have achieved and how effectively we deliver these outcomes.

The results of the following indicators for 2015-16 can be found in more detail in our Pension Fund Annual Report 2015-165 which is available on the website www.lpfa.org.uk

Corporate Indicators (reported annually year on year)

LPFA publishes a quarterly financial monitoring report and an internal equity performance report on our website www.lpfa.org.uk

Costs:

- Absolute
- Per member
- As per cent of AUM
- Gross/net

Cessation value - total at risk debt vs amount recovered

Asset and Liabilities Management
(reported monthly and annually year on year)

Surplus/(Deficit) :

- Absolute
- Per cent of total liabilities

Change in liabilities

Source of changes

- Member changes
- Payments
- Interest rates
- Inflation
- Longevity

Change in Assets

Source of changes:

- Member changes
- Contributions
- Income
- Capital Values

Risk

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

- Interest Rates (IR) Sensitivities to changes in the Interest rates expressed as the change in the present value of the liabilities for each 1 basis point (0.01%) change in interest rates.
- CPI Consumer Price Index. Sensitivities to changes in UK Inflation expressed as the change in the present value of the liabilities for each 1 basis point (0.01%) change in the inflation rate.
- Equity market (Sensitivities to changes in the equity market)
- Implementation and monitoring of LPFA policy statement on ESG issues

LPFA Pension Administration Performance Indicators

LPFA Queries Completed on Time

- Top 10 case types completed on time once LPFA is in receipt of all the information – target 95%
- Employer Services end of year queries

Top Ten Case Types:

Top 10 case types - time to complete in the eye of the customer

Top 10 cases outstanding after six months

Electronic Interactions:

Number of employers signed up to online pensions administration strategy

Number of members under administration

Number of year end error rates

Per cent of available information submitted online

Increase in member self-service signing with active members

Percentage of active members where LPFA holds an email address and dependants details

Complaints:

Complaints received

Complaints upheld

Number of complaints taken further - IDRP and Ombudsman

Per cent complaints as a percentage of workload