

**LONDON PENSIONS FUND AUTHORITY**  
**STATEMENT OF PENSION FUND ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2021**

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### Information

**Directors**

John Preston (Chairman)  
Terence Jagger  
Dermot McMullan (Retired 31 March 2021)  
Tamlyn Nall  
Dr Barbara Weber  
Tony Newman (Resigned 31 October 2020)  
Ruth Dombey  
Christina Thompson

**Chief Executive Officer**

Robert Branagh

**S151 Officer**

Abigail Leech (resigned 31 July 2021)  
Michelle King (appointed 31 July 2021)

**Business Address**

2nd Floor  
169 Union Street  
London  
SE1 0LL

**Auditor**

Grant Thornton UK LLP  
Chartered Accountants & Statutory Auditor  
30 Finsbury Square  
London  
EC2A 1AG

**Bankers**

Lloyds Bank  
4th Floor  
25 Gresham Street  
London  
EC2V 7HN

**Lawyers**

Eversheds Sutherland  
Eversheds House  
70 Great Bridgewater Street  
Manchester  
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# London Pensions Fund Authority Statement of Pension Fund Accounts

For the year to 31 March 2021

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# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 1 Narrative Report

#### Format of the Statement of Accounts

The primary function of the London Pensions Fund Authority (LPFA) is as an Administering Authority within the Local Government Pension Scheme.

The LPFA's Pension Fund Statement of Accounts for the financial year 2020/21 consists of:

- the **Fund Account** which shows the Fund's income and expenditure for the year;
- the **Net Assets Statement** which shows the net assets of the Fund at 31 March 2021.
- the **Notes** and accounting policies to support the Pension Fund accounts

#### The Pension Fund Annual Report

The LPFA is required to prepare an Annual Report of its activities for distribution to its members. This report does not form part of the annual accounts and completed after the accounts have been finalised. The Pension Fund Statement of Accounts is included within the Annual Report, together with other information in line with best practice guidance.

#### Review of the Statements

The 2020/21 budget is part of the Medium Term Financial Plan (MTFP). It received initial approval from the Board in December 2019 and was submitted to the Mayor of London for comment. The final budget was approved by the Board in March 2020.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 1 Narrative Report (continued)

#### Review of Financial Performance

#### Pension Fund budget

| Pension Fund                                   | Actual<br>2020/21<br>£000 | Budget<br>2020/21<br>£000 | Variance<br>2020/21<br>£000 |
|--|---------------------------|---------------------------|-----------------------------|
| <b>Dealings with members and employers</b>     |                           |                           |                             |
| Contributions                                  | 166,474                   | 150,300                   | 16,174                      |
| Transfers in                                   | 21,296                    | 11,800                    | 9,496                       |
| Benefits Payable                               | (271,871)                 | (285,100)                 | 13,229                      |
| Transfers out                                  | (14,817)                  | (11,800)                  | (3,017)                     |
| <b>Net dealings with members and employers</b> | <b>(98,918)</b>           | <b>(134,800)</b>          | <b>35,882</b>               |
| <b>Management Expenses</b>                     |                           |                           |                             |
| Investment management                          | (93,687)                  | (46,900)                  | (46,787)                    |
| Administration                                 | (2,082)                   | (2,082)                   | -                           |
| Oversight & Governance                         | (3,349)                   | (3,394)                   | 45                          |
| Investment Services Fee LPPI                   | (700)                     | (2,300)                   | 1,600                       |
| <b>Total Management Expenses</b>               | <b>(99,818)</b>           | <b>(54,676)</b>           | <b>(45,142)</b>             |
| <b>Returns on Investments</b>                  |                           |                           |                             |
| Net investment Income                          | 145,903                   | 145,700                   | 203                         |
| Taxes on Income                                | 178                       | -                         | 178                         |
| Change in Market Value                         | 1,081,379                 | 377,700                   | 703,679                     |
| <b>Total return on investments</b>             | <b>1,227,459</b>          | <b>523,400</b>            | <b>704,059</b>              |
| <b>Net inflow/(outflow) to the Fund</b>        | <b>1,028,724</b>          | <b>333,924</b>            | <b>694,800</b>              |

#### Overview of the year

The net inflow to the fund for the year was £1,028.7m compared to a budgeted inflow of £333.9m. The favourable variance of £694.8m was due to the change in market value of investments being an increase of £1,081.4m, £703.7m above the budgeted increase of £377.7m.

#### Dealings with members and employers:

The net loss from dealings with members and employers was a favourable variance of 26.6% mainly due to a 10.8% favourable variance in contributions income and an underspend of 4.64% in benefits payable. In addition, transfers in were 25.6% above budget. The contribution income increased due to an increase in the average employer contribution rate from 15.8% to 16.9%. Three of the top four contributors increased their contribution rate by an average of 2.7%. Cessation valuation income also increased from £1.0m to £6.0m. Therefore contribution income increased despite the fact that the number of active members declined by 2%.

Pension benefits were virtually the same as last year and lump sum payments reduced by £4m. Pension membership reduced by 0.4% during the year.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 1 Narrative Report (continued)

#### Review of Financial Performance

##### **Management Expenses:**

Management expenses were 82.6%, £45.1m, above budget predominantly due to the fact that Investment fees were 100%, £46.8m above the budget. This was mainly due to a significant increase in performance investment fees, which had increased by 67.4% compared to last year, to £38m due to a significant increase in performance compared to the budget, being a favourable variance of £621m, 165%.

The investment advisory fees have also increased by 14.1%. These have increased as they are based on the value of assets under management which increased by 16%. The increase in fees was lower due to the economies achieved by the pooling of the real estate assets.

LPPI investment fees billed directly to the fund for assets that have not been pooled are £1.6m below budget. This is due to the fact that value of this category of asset fell significantly due to the pooling of real estate assets during 2019/20.

##### **Returns on Investments:**

Investment income was £145m, virtually in line with the budget. This was predominantly income from LPPI private equity, LPPI Infrastructure and LPPI global equity. Income from LPPI private equity and Infrastructure fell during the year. This would have been caused by the delay caused by COVID on the completion of projects and hence the generation of distributable returns.

The change in market value of £1,081.4m was mainly comprised of the gains in the global equity pool of £592.3m, gains in the private equity pool of £121.3m and the gains in the non pooled equity of £104.4m

##### **Investment assets**

The value of investment assets increased by £966.2m from £5.733bn to £6.781bn (2019/20 fall of £87m). This was due to the fact that the change in market value was an increase of £1,081.4m compared to a budget of £377.7m. This is compared to a decline of £183m in 2019/20 mainly as a result of the COVID pandemic.

The cash held by fund managers increased from £0.5m to £35.1m. The 35.1m was held by RCM at the year end for currency transactions.

##### **Movement in non investment assets**

Cash balances held directly by LPFA was virtually unchanged reducing from £100.3m to £100.2m.

Current assets have reduced by £18.6m mainly due to that fact that we had accrued bulk transfer income of £37m in 2019/20 that was received during the year but there are no bulk transfers for the current year. This reduction was partially offset by an increase in accrued investment income and £4.7m due for cessation valuations.

Current liabilities have increased by £1.0m due an increase in death grants payable.

# **London Pensions Fund Authority Statement of Pension Fund Accounts**

## **For the year to 31 March 2021**

### **1 Narrative Report (continued)**

#### **Review of Financial Performance**

##### **Retirement Benefits**

The Fund financial statements disclose the liability to pay retirement benefits under IAS 26. The Fund's pension liabilities relate to the obligation to pay retirement benefits to its pensioners, active and deferred members. IAS19 liabilities are disclosed in both the Operational and Residual Liabilities statements.

##### **Date the Statement of Accounts were authorised for issue**

The Statement of Accounts were authorised for issue by the Audit and Risk Committee on 24 September 2021. Post balance sheet events have been considered up to the date the accounts were signed off by the auditor.

##### **Further Information**

Further information about these accounts is available from London Pensions Fund Authority, 2nd Floor, 169 Union Street, London SE1 0LL. In addition further information on the LPFA performance in service and corporate areas can be seen alongside a summarised version of the accounts in the LPFA Annual Report, which can be requested at the address above.

# London Pensions Fund Authority Statement of Pension Fund Accounts

For the year to 31 March 2021

## 2 Statement of Responsibilities for the Statement of Accounts

### LPFA's responsibilities

LPFA is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs (the "Section 151 officer").
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts

### The Section 151 Officer's responsibilities

At LPFA the Section 151 Officer is responsible for:

- The preparation of the LPFA's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom
- Keeping proper financial records and accounts and maintaining an effective system of financial control

In preparing this Statement of Accounts, the Section 151 Officer has:

- Selected suitable accounting policies and applied them consistently
- Made judgments that were reasonable and prudent
- Taken reasonable steps for the prevention and/or detection of fraud and/or other irregularities
- Complied with the code

### Certificate of approval

I certify that the Statement of Accounts presents a true and fair view of the financial position of the LPFA at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.



.....  
**Michelle King, Section 151 Officer**

**Dated: 30 September 2021**



.....  
**Robert Branagh, Chief Executive Officer**

**Dated: 30 September 2021**



# **Independent auditor's report to the members of the London Pensions Fund Authority**

## **Report on the Audit of the Pension Fund Financial Statements**

### **Opinion**

We have audited the financial statements of the London Pensions Fund Authority Pension Fund (the 'Pension Fund') administered by the London Pensions Fund Authority (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We are responsible for concluding on the appropriateness of the Section 151 Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Section 151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Section 151 Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements' section of this report.

# **Independent auditor's report to the members of the London Pensions Fund Authority**

## **Report on the Audit of the Pension Fund Financial Statements**

### **Other information**

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### **Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 8, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer. The Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Section 151 Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Risk Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

# **Independent auditor's report to the members of the London Pensions Fund Authority**

## **Report on the Audit of the Pension Fund Financial Statements**

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit and Risk Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - the journals posted by relevant officers during the course of the year, taking into account a range of different criteria to focus our testing on the most risky journals.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Section 151 Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on those journals that have been deemed risky via our assessment based on a range of criteria;

# **Independent auditor's report to the members of the London Pensions Fund Authority**

## **Report on the Audit of the Pension Fund Financial Statements**

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 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.

**Ciaran McLaughlin**

Ciaran McLaughlin, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
London  
30 September 2021

# London Pensions Fund Authority Statement of Pension Accounts

## For the year to 31 March 2021

### 5 Fund Accounts

| 2019/20   | Notes   | 2020/21          |
|---|---|------------------|
| <b>£'000</b>  |   | <b>£'000</b>     |
| <b>Dealing with members, employers and others directly involved in the Fund</b> |   |                  |
| 156,966   | Contributions 7   | 166,474          |
| 66,018  | Transfer from other Pension Funds 8   | 21,296           |
| <b>222,984</b>  |   | <b>187,770</b>   |
| (274,215)   | Benefits 9  | (271,871)        |
| (17,440)  | Payments to and on account of leavers 10  | (14,817)         |
| <b>(291,655)</b>  |   | <b>(286,688)</b> |
| <b>(68,671)</b>   | <b>Net withdrawals from dealings with members</b>                                   | <b>(98,918)</b>  |
| (73,025)  | <b>Management Expenses</b> 11a  | (99,818)         |
| <b>(141,696)</b>  | <b>Net withdrawals including fund management expenses</b>                           | <b>(198,736)</b> |
| <b>Returns on investments</b>   |   |                  |
| 155,316   | Investment Income 12a   | 145,903          |
| (793)   | Taxes on Income   | 178              |
| (183,038)   | Profit and Loss on disposal and change in market value 14a                          | 1,081,379        |
| <b>(28,515)</b>   | <b>Net returns on investments</b>   | <b>1,227,459</b> |
| <b>(170,211)</b>  | <b>Net increase/(decrease) in net assets available for benefits during the year</b> | <b>1,028,724</b> |
| <b>6,053,254</b>  | <b>Opening net assets of the scheme</b>   | <b>5,883,043</b> |
| <b>5,883,043</b>  | <b>Closing net assets of the scheme</b>   | <b>6,911,767</b> |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 5a Net Assets Statement as at 31 March 2021

| 31 March 2020    | Notes  | 31 March 2021 |                  |
|------------------|--|---------------|------------------|
| £'000            |  | £'000         |                  |
| 5,781,870        | Investment Assets  | 14            | 6,787,334        |
|                  | Investment liabilities:  |               |                  |
| (49,305)         | Derivatives  | 15            | (6,267)          |
| <b>5,732,565</b> | <b>Total net investments</b>   |               | <b>6,781,067</b> |
| 100,303          | Cash balances  | 19            | 100,219          |
| 56,423           | Current assets   | 21            | 37,803           |
| (6,248)          | Current liabilities  | 22            | (7,322)          |
| <b>5,883,043</b> | <b>Net assets of the Fund available to fund benefits at the period end</b> |               | <b>6,911,767</b> |

**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 26.



.....  
**Michelle King, Section 151 Officer**

**Dated: 30 September 2021**



.....  
**Robert Branagh, Chief Executive Officer**

**Dated: 30 September 2021**

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account

#### 1. Description of fund

The LPFA is part of the Local Government Pension Scheme.

##### a) General

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

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- the Local Government Pension Scheme (Amendment) Regulations 2018.

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

It is a contributory defined benefit scheme administered to provide pensions and other benefits to members of the scheme who are working for not-for-profit, charity, private sector and local government employers.

The Pension Fund is subject to Triennial Valuations by an independent actuary. Employers' contributions are determined by the actuary to ensure that in the long term the Pension Fund's assets match its liabilities. The LPFA's Actuary is Barnett Waddingham, who have supplied an actuarial statement. This is shown in Section 7 and should be read in conjunction with these accounts.

The last full triennial valuation of the LPFA Fund was carried as at 31 March 2019 in accordance with the Funding Strategy Statement of the fund. The funding level was 109%. New contribution rates for employers following analysis of the 2019 valuation came into effect from 1 April 2020. The rates are determined for each employer by the actuary to be sufficient to fund the annual cost of benefits and to clear individual employer deficits that still exist.

##### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme

Details of the participating employer bodies and their individual contribution rates for the year ended 31 March 2021 are set out on pages 49-52.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account

#### 1. Description of fund

The fund membership was as follows:

| 2019/20 | Fund Membership   | 2020/21       |
|---------|---|---------------|
|         | Numbers   | Numbers       |
|         | 20,574 Active members                                   | 20,115        |
|         | 29,120 Deferred beneficiaries                           | 28,897        |
|         | 36,095 Pensioner / Dependents                           | 35,963        |
|         | 6,551 Undecided leavers and Frozen refunds              | 6,700         |
|         | <b>92,340 Total number of members in Pension Scheme</b> | <b>91,675</b> |

The number of participating employers as at 31 March 2021 was 130 (2020: 135).

#### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2021. Employer's contributions are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently employer contributions range from 0% to 34.6%

#### d) Benefits payable

Pension 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 in the net asset statement as current liabilities, providing the payment has been approved.

#### 2. Basis of preparation

The Statement of Accounts summarises the funds transactions for the 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the 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) 26 basis, is disclosed in note 26 to these accounts.

The funding level of the whole fund at the last triennial valuation as at 31 March 2019 was 109%, meaning that the assets value were 9% above the value of the pension obligations.

The board have therefore concluded that it is still appropriate to prepare the accounts on a going concern basis.



# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Accounts (continued)

#### 2a Accounting standards issued, but not yet adopted

There are no relevant standards that have been issued but not adopted during the year

### 3 Summary of significant accounting policies

#### Fund account - revenue recognition

##### Contributions

Normal contributions, both from the members and from the employers, 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 recommended by the Actuary, in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on an accruals basis in accordance with the due dates on which they are payable under the schedule of contributions set by the scheme actuary.

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.

##### Transfers to and from other schemes

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

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

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

##### Investment income

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

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

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

Dividends and interest on quoted investments are accounted for when received or quoted ex dividend.

Real estate income consists primarily of rental income.

The income element of private equity distributions is treated as investment income within the fund account.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Accounts (continued)

#### Fund account - expense items

##### Taxation

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

##### Benefits

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

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

##### Management expenses

Although not a requirement of the code, pension fund administrative expenses are broken down to enhance transparency in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Expenses (2016)", into the following categories:

- Administration expenses
- Oversight and governance expenses
- Investment management fees

Administration 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.
- Associated project expenses.

Oversight and governance expenses consist of the following:

- Investment advisory services (strategic allocation, manager monitoring etc.).
- Independent advisors to the pension fund.
- Operation and support of the Board (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body.
- Governance.
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc.).

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Accounts (continued)

Investment management fees consist of the following:

- Investment management expenses incurred in relation to the management of pension fund assets and financial instruments;
- In accordance with the CIPFA guide Local Government Pension Management Expenses 2016, this includes expenses directly invoiced by investment managers and any fees payable to fund managers which are deducted from fund assets; and
- Transaction costs for all categories of investment are included within investment management expenses.

Local Pensions Partnership Investments Limited is responsible for managing all investment managers. Fees of the investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under management and there is also a fee payable based on a percentage of out-performance against an agreed benchmark, for some managers.

#### Financial assets

Financial assets are included in the net asset statement on a fair value basis as at the reporting date in accordance with IFRS 9. The asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value are recognised by the Fund in the Fund account as part of the change in market value.

The fair value is established in accordance with IFRS 13 for each category of investment by obtaining sufficient data as follows:

- Market-quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market.
- Fixed interest securities are recorded at net market value based on their current yields.
- Unquoted securities are valued by the fund managers at the year-end in accordance with generally accepted guidelines. Unquoted private equities are valued by the investment managers in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). This includes the use of discounted cash flow models which are independently audited.
- Pooled investment vehicles are valued at the closing price under single pricing system, or bid price under dual pricing system, as advised by the respective fund manager.
- The private equity investment in LPP, a related party, is valued at cost, being an approximation of fair value.
- Investment assets are allocated and disclosed within the fair value hierarchy, being within levels 1, 2 or 3.

#### Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash without significant risk of change in value.

#### Foreign currencies

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

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

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

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Accounts (continued)

#### Real estate fund property valuation

The properties within the LPPI real estate fund are included at the open market value as at the year-end. The properties were valued at open market value at 31 March 2021 by an independent valuer, South London Wall Project Limited trading as Avison Young.

The Properties have been valued individually based on Fair Value, in accordance with the RICS Valuation – Global Standards 2017. VPGA 1 - Valuations for inclusion in financial statements which adopts the definition of Fair Value adopted by the International Accounting Standards Board (IASB) in IFRS 13.

This is an internationally recognised basis and is defined as: “The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.”

Avison Young regards Fair Value as Identical to Market Value, defined within the Global Valuation. Standards as: -

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

#### Derivatives

Derivative contracts are measured at Fair Value.

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

Futures contracts’ value is determined using exchange prices at the reporting date.

Exchange traded options’ value is determined using the exchange price for closing out the option at the reporting date. Over the counter (OTC) contract options’ value is determined by the investment manager using the Black Scholes pricing model.

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

Each forward exchange contract consists of an asset and liability. The asset side of each contract is disclosed in investment assets and the liability side is shown under investment liabilities.

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

#### Additional voluntary contributions (AVCs)

AVCs are not included in the accounts in accordance with 4(2)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 20). Contributions to AVCs are paid to the AVC providers by employers or contributors and are specifically for the provision of additional benefits for individual contributors.

#### Financial liabilities

Financial liabilities are included in the Fund account at fair value if they exist 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 by the Fund.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Accounts (continued)

#### Actuarial present value of promised retirement benefits

The scheme undergoes triennial actuarial valuations in accordance with Local Government Pension Scheme Regulation 62. The last valuation was conducted as at 31 March 2019 (Actuarial Statement page 47)

The actuarial present value of promised retirement benefits is calculated in accordance with IAS 26, every year using the results of the last Triennial Actuarial Valuation, estimated income and expenditure for the year, fund returns for the year and details of any new retirements for the year that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

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 26).

### 4 Critical accounting estimates and judgement

#### Actuarial present value of promised retirement benefits

The calculation of the present value of promised actuarial benefits by the actuary involves judgements in relation to various factors that play a part in the calculation such as scheme member mortality rates, expected returns on the scheme assets, inflation and expected pay increases.

#### Unquoted private equity, infrastructure investments and credit funds

The valuation of private equity, infrastructure and credit investments is highly subjective. They are inherently based on forward-looking estimates and judgement involving factors which include the valuations of companies deemed comparable to the asset being valued, the future cash flow expectations and discount factors used. Unquoted private equities, infrastructure and credit investments are valued by the investment managers at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). The value of unquoted private equities, infrastructure and credit at 31 March 2021 was £1,798m (31 March 2020: £1,448m). There is a risk that these investments may be under or overstated in the accounts.

#### Real estate fund

The real estate property values within the real estate fund are generally a matter of a valuer's opinion rather than fact and may go down as well as up. There is also a risk that the price at which a property is valued may not be realisable in the event of a sale. This could be due to a mis-estimation of the asset's value or due to a lack of liquidity in the relevant market. Real estate assets were valued at £598m at 31 March 2021 (31 March 2020: 587m)

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Accounts (continued)

#### 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 IAS26. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuarial Statement on page 47 of this report. 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 reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

| Item   | Uncertainties   | Effect if actual results differ from assumptions  |
|--|---|---|
| Actuarial present value of promised benefits | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rate, and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. | <p>For Instance:</p> <p>a) a 0.1% increase in the discount rate would reduce the present value of the total obligation by £189m. The rates have gone down over the past 3 years, currently being 2.00%, 2.35% for 2020 and 2.40% for 2019.</p> <p>b) a 0.1% increase in long term salary increase would increase the present value of the obligations by £13m</p> <p>c) a 0.1% change in the long term pension increase would increase the present value of the obligation by £178m.</p> <p>More details on the assumptions are shown in note 26.</p> |
| Private equity, Infrastructure and credit    | Private equity, Infrastructure and Credit investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.  | <p>Private equity and Infrastructure investments are valued at £1,798m. The value at 31 March has recovered the loss due to the impact of COVID-19 on the markets last year.</p> <p>There are inherent risks within the valuation technique which means the asset value could vary between plus and minus 5.1%.</p>   |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Accounts (continued)

#### **Property valuation within the LPPI Real Estate Fund**

Note 15 describes the basis of the valuation of the investment property within the LPPI real estate fund. The independent expert's valuation included a 'material uncertainty as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation of investment property than would normally be the case. The ACS Manager has considered the material valuation uncertainty included in the independent expert's report, and while less certainty and a higher degree of caution need to be attached to the valuation the valuation can still be relied upon.

#### **Estimation uncertainty - COVID -19**

There is still a level of uncertainty regarding the impact of the COVID-19 pandemic due to the new Delta variant that has caused the delay to the planned full removal of restrictions the uncertainty is significantly less than last year due to the development of vaccines during the year. This presented the valuers of Level 3 investments with a more secure basis to make judgments about the valuations, although the uncertainties remain. Further detail on the estimation uncertainties for Private Equities and Infrastructure are in the table above.

#### **6. Post balance sheet events**

There are two types of post balance sheet events. There are events after the Net Asset statement date that provide additional information relating to conditions that existed at the date of the Net Asset Statement (adjusting event) and there are events after the Net Asset Statement date relating to conditions that did not exist at the date of the Net Asset statement (non-adjusting event).

There were no adjusting or non adjusting post balance sheet events.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 7. Contributions

By Category

| 2019/20        | Fund Membership                     | 2020/21        |
|----------------|-------------------------------------|----------------|
| <b>£000</b>    |                                     | <b>£000</b>    |
| 79,650         | Employers - normal                  | 88,887         |
| 34,488         | Employers - additional              | 27,816         |
| 250            | Employers - one off deficit payment | 1,250          |
| 41,567         | Members - normal                    | 42,513         |
| 1,011          | Cessation valuations                | 6,008          |
| <b>156,966</b> |                                     | <b>166,474</b> |

By type of employer

| 2019/20        |                           | 2020/21        |
|----------------|---------------------------|----------------|
| <b>£000</b>    |                           | <b>£000</b>    |
| 63,476         | Scheduled bodies          | 65,774         |
| 92,497         | Admitted bodies           | 98,959         |
| 659            | Community admission body  | 633            |
| 334            | Transferee admission body | 1,108          |
| <b>156,966</b> |                           | <b>166,474</b> |

#### 8. Transfers in from other pension funds

| 2019/20       |                      | 2020/21       |
|---------------|----------------------|---------------|
| <b>£000</b>   |                      | <b>£000</b>   |
| 52,612        | Group transfers      | 4,161         |
| 13,406        | Individual transfers | 17,135        |
| <b>66,018</b> |                      | <b>21,296</b> |



# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 9. Benefits

By Category

| 2019/20   | 2020/21        |
|---|----------------|
| £000  | £000           |
| 238,252 Pensions                                    | 238,955        |
| 28,679 Commutation and lump sum retirement benefits | 24,969         |
| 4,083 Lump sum death benefits                       | 6,297          |
| 1,299 AVC payments                                  | 777            |
| 1,902 Tax on exceeding lifetime or annual allowance | 873            |
| <b>274,215</b>                                      | <b>271,871</b> |

By type of employer

| 2019/20                         | 2020/21        |
|---------------------------------|----------------|
| £000                            | £000           |
| 169,367 Scheduled bodies        | 168,473        |
| 102,997 Admitted bodies         | 101,169        |
| 372 Community admission body    | 506            |
| 1,434 Transferee admission body | 1,679          |
| 45 Resolution body              | 44             |
| <b>274,215</b>                  | <b>271,871</b> |

#### 10. Payments to and on account of leavers

| 2019/20                                     | 2020/21       |
|---|---------------|
| £000  | £000          |
| 1,036 Refunds to members leaving service    | 738           |
| 9 Payments for members joining state scheme | -             |
| 1,309 Group transfers                       | -             |
| 15,086 Individual transfers                 | 14,079        |
| <b>17,440</b>                               | <b>14,817</b> |

#### 11a. Management expenses

| 2019/20                      | 2020/21       |
|------------------------------|---------------|
| £000                         | £000          |
| 68,179 Investment management | 94,387        |
| 1,860 Administration         | 2,082         |
| 2,986 Oversight & Governance | 3,349         |
| <b>73,025</b>                | <b>99,818</b> |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 11b. Investment expenses

| 2019/20                         | 2020/21       |
|---------------------------------|---------------|
| £000                            | £000          |
| 42,493 Management fees          | 48,504        |
| 22,712 Performance related fees | 38,021        |
| 65 Custody fees                 | 55            |
| 2,899 Transaction fees          | 7,807         |
| 10 Miscellaneous costs          | -             |
| <b>68,179</b>                   | <b>94,387</b> |

The management expenses are grossed up to include fees netted against the investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016) This adjustment has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

#### 12a. Investment income

| 2019/20   | 2020/21        |
|---|----------------|
| £000  | £000           |
| 93,685 Pooled Investments- private equity and Infrastructure    | 70,429         |
| 47,904 Pooled Investments - Unit trusts and other managed funds | 50,337         |
| 8,230 Pooled real estate income                                 | 24,133         |
| 4,679 Interest on cash deposits                                 | (24)           |
| 818 Other   | 1,028          |
| <b>155,316</b>  | <b>145,903</b> |

#### 13. External audit fee

The audit fee for the Pension Fund is included within the oversight and governance charged by LPFA Operations. The amount payable to the external auditors for the audit of the fund for 2020/21 was £77k and £44K for other audit costs (2019/20: £54K and £19K other audit costs)

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 14. Investments

| Market Value at 31<br>March 2020 |   | Market Value at 31<br>March 2021 |
|----------------------------------|---|----------------------------------|
| £000                             |   | £000                             |
|                                  | Pooled Investments:                               |                                  |
| 297,011                          | - Fixed income                                    | 278,239                          |
| 2,338,396                        | - Equities  | 2,843,729                        |
| 443,719                          | - Credit  | 557,997                          |
| 551,276                          | - Private equity                                  | 648,916                          |
| 432,999                          | - Infrastructure                                  | 576,536                          |
| 586,543                          | - Real estate                                     | 597,989                          |
| 681,855                          | - Diversified strategy                            | 724,597                          |
| <b>5,331,799</b>                 |   | <b>6,228,003</b>                 |
|                                  | Non pooled investments:                           |                                  |
| 75,851                           | - Equities  | 55,563                           |
| 12,500                           | - Private equity                                  | 12,500                           |
| 7,405                            | - Infrastructure                                  | 2,532                            |
| 302,378                          | - LDI *   | 415,516                          |
| 45,539                           | - Diversified strategy                            | 11,972                           |
| 5,844                            | - Derivatives - Forward exchange contracts        | 25,995                           |
| 523                              | - Cash at investment managers                     | 35,094                           |
| -                                | - Amounts receivable for sales                    | 132                              |
| 31                               | - Investment income due                           | 27                               |
| <b>5,781,870</b>                 |   | <b>6,787,334</b>                 |
|                                  | (49,305) Derivatives - Forward exchange contracts | ( 6,267)                         |
| <b>5,732,565</b>                 | <b>Net investment assets</b>                      | <b>6,781,066</b>                 |

\* The LDI is a Liability Driven Investment ('LDI') that looks to hedge the real interest rate (the difference between nominal interest rates and inflation) exposure as determined by the valuation basis methodology used at LPFA triennial valuation. At high level, the programme gives a funding protection against lower nominal interest rate movements, and higher movements in inflation. The programme will usually generate positive returns when long term interest rates fall and when inflation expectations rise. This is a hedge against any variation in performance in the triennial valuation basis actuarial calculations and is offset against the movements in the assets and liabilities. The programme is tailored specifically to LPFA's assets, liabilities and actuarial methodology, it is undertaken as a standalone programme for LPFA, and therefore cannot be reasonably pooled with other investments.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 14a. Reconciliation of movements in investments and derivatives

|   | Market Value at 31 March 2020 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in market value during in the year | Market Value at 31 March 2021 |
|---|-------------------------------|---|---|---|-------------------------------|
|   | £000                          | £000  | £000  | £000                                      | £000                          |
| Pooled investments:                       |                               |   |   |   |                               |
| - Fixed interest securities               | 297,011                       | 274,070   | ( 313,507)                                    | 20,665                                    | 278,239                       |
| - Equities                                | 2,338,396                     | 13,008  | ( 100,000)                                    | 592,325                                   | 2,843,729                     |
| - Credit                                  | 443,719                       | 56,071  | -   | 58,206                                    | 557,997                       |
| - Private Equity                          | 551,276                       | 11,011  | ( 34,709)                                     | 121,338                                   | 648,916                       |
| - Infrastructure                          | 432,999                       | 147,041   | ( 8,124)                                      | 4,620                                     | 576,536                       |
| - Real Estate                             | 586,543                       | 39,231  | ( 5,594)                                      | ( 22,190)                                 | 597,989                       |
| - Diversified funds                       | 681,855                       | (21,928)  | -   | 64,670                                    | 724,597                       |
|   | <b>5,331,799</b>              | <b>518,504</b>                                    | <b>( 461,934)</b>                             | <b>839,635</b>                            | <b>6,228,003</b>              |
| Non pooled investments:                   |                               |   |   |   |                               |
| - Equities                                | 75,851                        | (649)   | (124,000)                                     | 104,362                                   | 55,563                        |
| - Private equity                          | 12,500                        | -   | -   | -   | 12,500                        |
| - Infrastructure                          | 7,405                         | 397   | (1,084)                                       | ( 4,186)                                  | 2,532                         |
| - LDI                                     | 302,378                       | 123,329   | (42,931)                                      | 32,740                                    | 415,516                       |
| - Diversified strategy                    | 45,539                        | 21,203  | (54,569)                                      | ( 200)                                    | 11,972                        |
|   | <b>5,775,472</b>              | <b>662,783</b>                                    | <b>(684,519)</b>                              | <b>972,350</b>                            | <b>6,726,086</b>              |
| Derivative contracts:                     |                               |   |   |   |                               |
| - Forward exchange contracts              | (43,461)                      | -   | -   | 109,028                                   | 19,728                        |
|   | <b>5,732,011</b>              |   |   | <b>1,081,379</b>                          | <b>6,745,814</b>              |
| Cash at investment managers               | 523                           | -   | -   | -   | 35,094                        |
| Amount receivable for sale of investments | -                             | -   | -   | -   | 132                           |
| Investment income due                     | 31                            | -   | -   | -   | 27                            |
| <b>Net Investment Assets</b>              | <b>5,732,565</b>              |   |   | <b>1,081,379</b>                          | <b>6,781,067</b>              |

# London Pensions Fund Authority Statement of Pension Fund Accounts For the year to 31 March 2021

## 6 Notes to the Fund Account (continued)

### 14a. Reconciliation of movements in investments and derivatives (continued)

#### Net Investment Assets (Prior year comparative)

|                                | 31 March<br>2019 | Re-class        | Purchases<br>during the<br>year and<br>derivative<br>payments | Sales during<br>the year and<br>derivative<br>receipts | Change in<br>market value<br>during in the<br>year | Market value<br>at 31 March<br>2020 |
|--------------------------------|------------------|-----------------|---|--|--|-------------------------------------|
|                                | £000             | £000            | £000  | £000   | £000   | £000                                |
| <u>Pooled investments:</u>     |                  |                 |   |  |  |                                     |
| - Fixed income                 | 271,774          | -               | 44,279  | -  | (19,042)   | 297,011                             |
| - Equities                     | 2,482,565        | -               | 51,383  | (90,553)   | (104,999)  | 2,338,396                           |
| - Credit                       | 449,316          | -               | (3,408)   | (3,380)  | 1,191  | 443,719                             |
| - Private equity               | 586,895          | -               | 47,414  | (94,566)   | 11,533   | 551,276                             |
| - Infrastructure               | 367,435          | (30,541)        | 127,406   | (30,521)   | (780)  | 432,999                             |
| - Real estate                  | -                | -               | 586,010   | -  | 533  | 586,543                             |
| - Diversified strategy         | 704,606          | -               | (12,371)  | -  | (10,380)   | 681,855                             |
|                                | <b>4,862,591</b> | <b>(30,541)</b> | <b>840,713</b>  | <b>(219,020)</b>                                       | <b>(121,944)</b>                                   | <b>5,331,799</b>                    |
| <u>Non pooled investments:</u> |                  |                 |   |  |  |                                     |
| - Equities                     | -                | -               | 122,928   | (26,000)   | (21,077)   | 75,851                              |
| - Credit                       | -                | -               | 3,349   | (3,459)  | 110  | -                                   |
| - Private equity               | -                | -               | 12,500  | -  | -  | 12,500                              |
| - Infrastructure               | -                | -               | 11,518  | (234)  | (3,879)  | 7,405                               |
| - Real Estate                  | 288,757          | 30,541          | 18,769  | (346,438)  | 8,371  | -                                   |
| - Direct Property              | 268,780          | -               | 15,810  | (292,202)  | 7,612  | -                                   |
| - LDI                          | 343,680          | -               | 28,139  | (84,796)   | 15,355   | 302,378                             |
| - Commodity funds              | -                | -               | -   | -  | -  | -                                   |
| - Diversified strategy         | -                | -               | 138,496   | (99,903)   | 6,946  | 45,539                              |
|                                | <b>5,797,698</b> | <b>-</b>        | <b>1,196,474</b>  | <b>(1,105,942)</b>                                     | <b>(108,505)</b>                                   | <b>5,775,472</b>                    |
| <u>Derivative contracts:</u>   |                  |                 |   |  |  |                                     |
| - Forward exchange contracts   | 1,103            | -               | (40)  | -  | (75,894)   | (43,461)                            |
|                                | <b>5,798,801</b> |                 |   |  | <b>(184,399)</b>                                   | <b>5,732,011</b>                    |
| Cash at investment managers    | 21,257           | -               | -   | -  | 1,362  | 523                                 |
| Investment income due          | 34               | -               | -   | -  | -  | 31                                  |
| <b>Net investment assets</b>   | <b>5,820,092</b> |                 |   |  | <b>(183,037)</b>                                   | <b>5,732,565</b>                    |

During the year an Infrastructure investments was reclassified to real estate once the construction of the asset was completed.

In addition, some assets were transferred from pooled to non pooled and some assets held were designated as part of non-pooled diversified strategy. This has had the impact of increasing both purchases and sales to reflect these transfers.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 14b. Analysis of investments

| 31 March 2020  | 31 March 2021    |
|--|------------------|
| £000   | £000             |
| <b>Equities</b>  |                  |
| <b><u>Overseas</u></b>                                   |                  |
| <b>75,851</b> Quoted                                     | <b>55,563</b>    |
| <b>Pooled Funds - additional analysis</b>                |                  |
| <b><u>UK</u></b>   |                  |
| 297,011 -Fixed interest securities - quoted              | 278,239          |
| 443,719 -Credit - unquoted                               | 557,997          |
| 551,276 -Private Equity - unquoted                       | 648,916          |
| 432,999 -Infrastructure - unquoted                       | 576,536          |
| 681,855 -Diversified Strategy -unquoted                  | 724,597          |
| 586,543 -Real estate-unquoted                            | 597,989          |
| <b><u>Overseas</u></b>                                   |                  |
| 2,338,396 Global equities - quoted                       | 2,843,729        |
| <b>5,331,799</b>   | <b>6,228,003</b> |
| <b>Private equity</b>                                    |                  |
| <b><u>UK</u></b>   |                  |
| <b>12,500</b> -Unquoted                                  | <b>12,500</b>    |
| <b>Infrastructure</b>                                    |                  |
| <b><u>UK</u></b>   |                  |
| 7,267 Unquoted   | 2,532            |
| <b><u>Overseas</u></b>                                   |                  |
| 138 Quoted   | -                |
| <b>7,405</b>   | <b>2,532</b>     |
| <b>Diversified strategy</b>                              |                  |
| <b><u>Overseas</u></b>                                   |                  |
| <b>45,539</b> Unquoted                                   | <b>11,972</b>    |
| <b>Managed funds - unquoted</b>                          |                  |
| <b><u>Overseas</u></b>                                   |                  |
| <b>302,378</b> LDI - Unquoted                            | <b>415,516</b>   |
| <b>5,844</b> Derivatives - forward exchange contracts    | <b>25,995</b>    |
| <b>523</b> Cash at investment managers                   | <b>35,094</b>    |
| - Receivable for Investments Sold                        | <b>132</b>       |
| <b>31</b> Investment income due                          | <b>27</b>        |
| <b>5,781,870</b>   | <b>6,787,334</b> |
| <b>(49,305)</b> Derivatives - forward exchange contracts | <b>(6,267)</b>   |
| <b>5,732,565</b>   | <b>6,781,067</b> |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 14c. Investments analysed by fund manager

| Market Value at 31 March 2020                     | % of Market value 31 March 2020 |  | Market Value at 31 March 2021 | % of Market value 31 March 2021 |
|---|---------------------------------|--|-------------------------------|---------------------------------|
| £000  | %                               |  | £000                          | %                               |
| <b>Investment managed within LPPI asset pools</b> |                                 |  |                               |                                 |
| 2,338,396   | 40.49%                          | LPPI Global Equities                   | 2,843,729                     | 42.28%                          |
| 681,855   | 11.81%                          | LPPI Diversified Strategy              | 724,597                       | 10.77%                          |
| 586,543   | 10.16%                          | LPPI Real Estate                       | 579,663                       | 8.62%                           |
| -   | 0.00%                           | LPPI London Fund                       | 18,326                        | 0.27%                           |
| 551,276   | 9.55%                           | LPPI Private Equity                    | 648,916                       | 9.65%                           |
| 443,719   | 7.68%                           | LPPI Credit                            | 557,997                       | 8.30%                           |
| 432,999   | 7.50%                           | LPPI Infrastructure                    | 576,536                       | 8.57%                           |
| 297,011   | 5.14%                           | LPPI Fixed Income                      | 278,239                       | 4.14%                           |
| <b>5,331,799</b>                                  | <b>92.32%</b>                   |  | <b>6,228,003</b>              | <b>92.59%</b>                   |
| <b>Investments managed outside asset pools</b>    |                                 |  |                               |                                 |
| 377,756   | 6.54%                           | Insight Investment Management (Global) | 470,626                       | 7.00%                           |
| -   | 0.00%                           | Door                                   | -                             | 0.00%                           |
| 45,539  | 0.79%                           | Aeolus Property                        | 11,973                        | 0.18%                           |
| 12,500  | 0.22%                           | LPP group                              | 12,500                        | 0.19%                           |
| 5,776   | 0.10%                           | Infrared Capital Partners              | 445                           | 0.01%                           |
| 1,162   | 0.02%                           | Foresight Group                        | 513                           | 0.01%                           |
| 329   | 0.01%                           | Impax Asset Management                 | 1,574                         | 0.02%                           |
| 472   | 0.01%                           | Blackrock Management                   | 453                           | 0.01%                           |
| 139   | 0.00%                           | Standard Chartered                     | -                             | 0.00%                           |
| <b>443,673</b>                                    | <b>7.68%</b>                    |  | <b>498,083</b>                | <b>7.41%</b>                    |
| <b>5,775,472</b>                                  | <b>100%</b>                     |  | <b>6,726,086</b>              | <b>100%</b>                     |
| ( 43,461)   |                                 | Forward Contracts                      | 19,728                        |                                 |
| 523   |                                 | Cash with investment managers          | 35,094                        |                                 |
| -   |                                 | Amounts receivable for sales           | 131                           |                                 |
| 31  |                                 | Investment income due                  | 27                            |                                 |
| <b>5,732,565</b>                                  |                                 |  | <b>6,781,067</b>              |                                 |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

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

| Security   | Market value at<br>31 March 2020 | % of Total Fund | Market Value at<br>31 March 2021 | % of Total<br>Fund |
|--|----------------------------------|-----------------|----------------------------------|--------------------|
|  | £000                             |                 | £000                             |                    |
| LPP I Global Equity Fund   | 2,338,396                        | 39.75%          | 2,843,729                        | 41.14%             |
| LPPI Diversified Strategy  | 681,855                          | 11.59%          | 724,597                          | 10.48%             |
| LPPI Real Estate   | 586,543                          | 9.97%           | 579,663                          | 8.39%              |
| LPPI PE Investments (No.1) LP  | 551,276                          | 9.37%           | 648,916                          | 9.39%              |
| LPPI Credit  | 443,719                          | 7.54%           | 557,997                          | 8.07%              |
| LPPI INFRA   | 432,999                          | 7.36%           | 576,536                          | 8.34%              |
| Insight Liability Driven Investment<br>(LDI) solutions plus LDI active `1'FD | 377,756                          | 6.42%           | 470,626                          | 6.81%              |
| LPPI Fixed Income  | 297,011                          | 5.05%           | 278,239                          | 4.03%              |
| <b>Total</b>   | <b>5,709,556</b>                 | <b>97.05%</b>   | <b>6,680,302</b>                 | <b>96.65%</b>      |



# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 15. Analysis of derivatives

##### Objectives and policies for holding derivatives

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

##### Futures

There were no directly held outstanding exchange traded futures contracts at 31 March 2021 (31 March 2020: £nil).

##### Open Forward Foreign Currency contracts

The net position on open forward currency contracts at 31 March 2021 amounts to a loss of £19.728m (2019: loss of £43.461m). This amount is reflected within the cash balance held by managers.

##### Analysis of open Forward Foreign Currency contracts

To maintain appropriate diversification a significant proportion of the funds investments is in overseas assets. To reduce the volatility associated with fluctuating currency rates, the fund hedges a proportion overseas investments currency exposure.

| Settlement     | Currency Code Purchased | Currency Purchased Amount | Currency Code Sold | Currency Sold Amount | Asset Value | Liability Value |
|----------------|-------------------------|---------------------------|--------------------|----------------------|-------------|-----------------|
|                |                         | £'000                     |                    | £'000                | £000        | £'£000          |
| <b>1 month</b> | EUR                     | 1.8                       | GBP                | 1                    | -           | -               |
|                | GBP                     | 1,149.2                   | DKK                | 10,037               | -           | (1)             |
|                | GBP                     | 17,617.7                  | EUR                | 19,393               | 1,090       | -               |
|                | GBP                     | 20,135.3                  | USD                | 26,148               | 1,185       | -               |
|                | GBP                     | 143,738.3                 | USD                | 186,661              | 8,460       | -               |
|                | EUR                     | 1,445.0                   | GBP                | 1,306                | -           | (74)            |
|                | USD                     | 2,757.0                   | GBP                | 2,117                | -           | (119)           |
|                | USD                     | 20,859.0                  | GBP                | 15,626               | -           | (509)           |
|                | GBP                     | 2,424.6                   | EUR                | 2,679                | 141         | -               |
|                | GBP                     | 10,606.7                  | USD                | 14,201               | 315         | -               |
|                | GBP                     | 198.2                     | EUR                | 219                  | 12          | -               |
|                | GBP                     | 4,840.3                   | USD                | 6,574                | 76          | -               |
|                | GBP                     | 20,510.0                  | CHF                | 24,924               | 1,303       | -               |
|                | GBP                     | 11,318.6                  | JPY                | 1,613,000            | 736         | -               |
|                | JPY                     | 30,300.0                  | GBP                | 211                  | -           | (12)            |
|                | CHF                     | 870.0                     | GBP                | 711                  | -           | (40)            |
|                | EUR                     | 4,040.0                   | GBP                | 3,568                | -           | (125)           |
|                | USD                     | 5,558.0                   | GBP                | 4,061                | -           | (33)            |
|                | JPY                     | 51,600.0                  | GBP                | 348                  | -           | (10)            |
|                | GBP                     | 593.7                     | EUR                | 685                  | 10          | -               |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 15. Analysis of derivatives

| Settlement           | Currency Code Purchased | Currency Purchased Amount | Currency Code Sold | Currency Sold Amount | Asset Value | Liability Value |
|----------------------|-------------------------|---------------------------|--------------------|----------------------|-------------|-----------------|
|                      |                         | £'000                     |                    | £'000                | £000        | £'£000          |
|                      | CHF                     | 961                       | GBP                | 754                  | -           | (14)            |
|                      | GBP                     | 3,657                     | USD                | 5,088                | -           | (31)            |
|                      | GBP                     | 128                       | NZD                | 253                  | -           | (1)             |
|                      | GBP                     | 828                       | SGD                | 1,542                | -           | (4)             |
|                      | GBP                     | 4,197                     | AUD                | 7,592                | 6           | -               |
|                      | GBP                     | 1,183                     | NOK                | 14,044               | -           | (9)             |
|                      | GBP                     | 26,350                    | CAD                | 45,921               | -           | (130)           |
|                      | GBP                     | 18,950                    | SEK                | 227,463              | 32          | -               |
|                      | GBP                     | 38,064                    | HKD                | 409,284              | -           | (92)            |
| <b>1 to 6 months</b> | GBP                     | 19,570                    | USD                | 26,148               | 621         | -               |
|                      | GBP                     | 137,637                   | USD                | 183,904              | 4,367       | -               |
|                      | USD                     | 20,859                    | GBP                | 15,624               | -           | (508)           |
|                      | GBP                     | 16,060                    | EUR                | 17,948               | 755         | -               |
|                      | GBP                     | 2,425                     | EUR                | 2,679                | 141         | -               |
|                      | GBP                     | 10,606                    | USD                | 14,201               | 315         | -               |
|                      | GBP                     | 198                       | EUR                | 219                  | 12          | -               |
|                      | GBP                     | 4,845                     | USD                | 6,574                | 81          | -               |
|                      | EUR                     | 4,040                     | GBP                | 3,571                | -           | (126)           |
|                      | USD                     | 5,558                     | GBP                | 4,062                | -           | (34)            |
|                      | GBP                     | 18,818                    | CHF                | 24,054               | 268         | -               |
|                      | GBP                     | 10,576                    | JPY                | 1,582,700            | 191         | -               |
|                      | JPY                     | 51,600                    | GBP                | 348                  | -           | (10)            |
|                      | GBP                     | 594                       | EUR                | 685                  | 10          | -               |
|                      | CHF                     | 961                       | GBP                | 755                  | -           | (14)            |
|                      | GBP                     | 3,653                     | USD                | 5,088                | -           | (34)            |
|                      | GBP                     | 3,913                     | USD                | 5,289                | 81          | -               |
|                      | GBP                     | 18,787                    | EUR                | 20,627               | 1,187       | -               |
|                      | GBP                     | 146,574                   | USD                | 198,105              | 3,029       | -               |
|                      | GBP                     | 198                       | EUR                | 219                  | 12          | -               |
|                      | GBP                     | 4,844                     | USD                | 6,574                | 80          | -               |
|                      | EUR                     | 4,040                     | GBP                | 3,572                | -           | (125)           |
|                      | USD                     | 5,558                     | GBP                | 4,061                | -           | (34)            |
|                      | GBP                     | 594                       | EUR                | 685                  | 10          | -               |
|                      | GBP                     | 3,653                     | USD                | 5,088                | -           | (34)            |
|                      | GBP                     | 17,805                    | CHF                | 23,093               | -           | (18)            |
|                      | GBP                     | 10,105                    | JPY                | 1,531,100            | 57          | -               |
|                      | GBP                     | 3,846                     | USD                | 5,289                | 14          | -               |
|                      | GBP                     | 18,473                    | EUR                | 20,846               | 677         | -               |
|                      | GBP                     | 148,835                   | USD                | 204,679              | 538         | -               |
|                      | EUR                     | 4,040                     | GBP                | 3,574                | -           | (125)           |
|                      | USD                     | 5,558                     | GBP                | 4,061                | -           | (34)            |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 15. Analysis of derivatives

| Settlement | Currency Code Purchased | Currency Purchased Amount | Currency Code Sold | Currency Sold Amount | Asset Value   | Liability Value |
|------------|-------------------------|---------------------------|--------------------|----------------------|---------------|-----------------|
|            |                         | £000                      |                    | £000                 | £000          | £000            |
|            | GBP                     | 594                       | EUR                | 685                  | 10            | -               |
|            | GBP                     | 3,653                     | USD                | 5,088                | -             | (34)            |
|            | GBP                     | 3,738                     | USD                | 5,289                | -             | (94)            |
|            | GBP                     | 14,521                    | EUR                | 16,806               | 165           | -               |
|            | GBP                     | 140,694                   | USD                | 199,121              | -             | (3,564)         |
|            | GBP                     | 595                       | EUR                | 685                  | 10            | -               |
|            | GBP                     | 3,652                     | USD                | 5,088                | -             | (34)            |
|            | GBP                     | 3,826                     | USD                | 5,289                | -             | (6)             |
|            | GBP                     | 14,939                    | EUR                | 17,491               | -             | (11)            |
|            | GBP                     | 147,707                   | USD                | 204,209              | -             | (226)           |
|            |                         |                           |                    |                      | <b>25,995</b> | <b>(6,267)</b>  |
|            |                         |                           |                    |                      |               | <b>19,728</b>   |
|            |                         |                           |                    |                      | <b>5,844</b>  | <b>(49,305)</b> |
|            |                         |                           |                    |                      |               | <b>(43,461)</b> |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 16. Fair values - basis of valuation

The LPFA has financial liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next twelve months from the net asset statement date is assumed to equate to the fair value.

The fair values of loans and receivables at 31 March 2021 have been reviewed and were assessed as being the same as the carrying amounts in the net asset statement. Assets are carried at fair value. When an asset or liability is translated at balance sheet date the gain/ loss is taken as unrealised but when the asset or liability is settled (i.e. received/ paid) the gain/ loss becomes realised.

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

All other investments are held at fair value in accordance with the requirements of the code and IFRS 13. The valuation bases is set out in a table below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no changed in the valuation techniques used this year.

#### Valuation of financial instruments carried at fair value

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

##### Level 1

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

##### Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable data.

##### Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 16. Fair value - basis of valuation (continued)

| Basis of valuation  | Valuation hierarchy level | Basis of valuation   | Observable and unobservable inputs                | Key sensitivities affecting valuations provided   |
|---|---------------------------|--|---|---|
| Pooled global equities  | 1                         | Unadjusted quoted bid market prices.   | Not required.                                     | Not required.   |
| Fixed Income funds  | 1                         | Unadjusted market values based on current yields.  | Not required.                                     | Not required.   |
| Pooled real estate investments                                  | 2                         | The Real estate ASC is valued in accordance with RICS Red Book valuation methodology. The valuations are used to calculate the unit price. | NAV-based pricing set on a forward pricing basis. | Not required.   |
| Forward foreign exchange derivatives                            | 2                         | Market forward exchange rates at year-end.   | Exchange rate.                                    | Not required.   |
| Private equity, long term credit and infrastructure investments | 3                         | Annually at fair value in accordance with international Private Equity and Venture Capital Valuation Guidelines 2015 or equivalent.        | Discount rates, cash flow projections.            | Material events occurring between the date of the financial statements provided and the pension funds own reporting date, changes to expected cash flows; differences between audited and unaudited accounts. |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 16. Fair value - basis of valuation (continued)

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with 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 at 31 March 2021.

| Assets         | Assessed valuation range | Value at 31 March 2021 | Value Increase   | Value decrease   |
|----------------|--------------------------|------------------------|------------------|------------------|
|                | (+/-)                    | £000                   | £000             | £000             |
| Private equity | 5.1%                     | 648,916                | 682,011          | 615,822          |
| Infrastructure | 5.1%                     | 576,536                | 605,939          | 547,132          |
| Credit         | 5.1%                     | 557,997                | 586,455          | 529,539          |
|                |                          | <b>1,783,449</b>       | <b>1,874,405</b> | <b>1,692,493</b> |

| Assets         | Assessed valuation range | Value at 31 March 2020 | Value increase   | Value decrease   |
|----------------|--------------------------|------------------------|------------------|------------------|
|                | (+/-)                    | £000                   | £000             | £000             |
| Private equity | 5.1%                     | 563,776                | 592,480          | 535,072          |
| Infrastructure | 5.1%                     | 440,404                | 462,827          | 417,981          |
| Credit         | 5.1%                     | 443,719                | 466,323          | 421,139          |
|                |                          | <b>1,447,899</b>       | <b>1,521,630</b> | <b>1,374,192</b> |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 16a. Fair value hierarchy

| Market Value at 31 March 2021                              | Quoted market prices | Using observable inputs | With significant unobservable inputs | Total            |
|--|----------------------|-------------------------|--------------------------------------|------------------|
|  | Level 1              | Level 2                 | Level 3                              |                  |
|  | £000                 | £000                    | £000                                 | £000             |
| Financial assets at fair value through profit or loss      | 3,177,532            | 1,764,096               | 1,810,453                            | 6,752,081        |
| Financial liabilities at fair value through profit or loss | -                    | (6,267)                 | -                                    | (6,267)          |
| <b>Net financial assets</b>                                | <b>3,177,532</b>     | <b>1,757,829</b>        | <b>1,810,453</b>                     | <b>6,745,814</b> |

#### Reconciliation of level 3 assets

|                      | Market Value 1 April 2020 | Purchases during the year | Sales during the year | Change in market value during the year | Total            |
|----------------------|---------------------------|---------------------------|-----------------------|--|------------------|
|                      | £000                      | £000                      | £000                  | £000                                   | £000             |
| Private Equity       | 563,776                   | 11,011                    | (34,709)              | 121,338                                | 661,416          |
| Infrastructure       | 440,404                   | 147,438                   | (9,208)               | 434                                    | 579,067          |
| Credit               | 443,720                   | 56,071                    | -                     | 58,206                                 | 557,997          |
| Diversified Strategy | 45,539                    | 21,222                    | (54,569)              | (219)                                  | 11,972           |
| <b>Total</b>         | <b>1,493,438</b>          | <b>235,742</b>            | <b>(98,486)</b>       | <b>179,759</b>                         | <b>1,810,453</b> |

| Market Value at 31 March 2020                              | Quoted market prices | Using observable inputs | With significant unobservable inputs | Total            |
|--|----------------------|-------------------------|--------------------------------------|------------------|
|  | Level 1              | Level 2                 | Level 3                              |                  |
|  | £000                 | £000                    | £000                                 | £000             |
| Financial assets at fair value through profit or loss      | 2,711,257            | 1,576,621               | 1,493,438                            | 5,781,316        |
| Financial liabilities at fair value through profit or loss | -                    | (49,305)                | -                                    | (49,305)         |
| <b>Net assets</b>  | <b>2,711,257</b>     | <b>1,527,316</b>        | <b>1,493,438</b>                     | <b>5,732,011</b> |

In measuring the Level 3 investments it is possible that one or more of the inputs could be changed, by the valuing manager, to acceptable alternative assumptions. For example different earnings multiples could be used for a comparable company or industry sector. These assumptions may significantly change the valuation of the investment being valued. However, each investment is valued in isolation and changing assumptions for one investment may not be applicable to others. Therefore, carrying out a sensitivity analysis on the whole class may be inappropriate. LPFA has a large portfolio of Level 3 investments and changes to the value of any one investment is not likely to have a significant impact on the value of the whole class of investments or to the value of LPFA's total asset portfolio.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 17. Classification of financial instruments

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

| Market Value at<br>31 March 2020                                | Category  | Market Value at 31<br>March 2021 |
|---|---|----------------------------------|
| £000  |   | £000                             |
| <b>Financial assets - fair value through profit and loss</b>    |   |                                  |
| Pooled investments  |   |                                  |
| 2,338,396   | - Equities  | 2,843,729                        |
| 297,011   | - Fixed Interest  | 278,239                          |
| 443,719   | - Credit  | 557,997                          |
| 551,276   | - Private Equity  | 648,916                          |
| 432,999   | - Infrastructure  | 576,536                          |
| 586,543   | - Real Estate   | 597,989                          |
| 681,855   | - Diversified   | 724,597                          |
| <b>5,331,799</b>  |   | <b>6,228,003</b>                 |
| Non-pooled investments  |   |                                  |
| 75,851  | Equities  | 55,563                           |
| 12,500  | Private Equity  | 12,500                           |
| 7,405   | Infrastructure  | 2,532                            |
| 45,539  | Diversified   | 11,972                           |
| 302,378   | LDI   | 415,516                          |
| 5,844   | Forward exchange contracts  | 25,995                           |
| <b>5,781,316</b>  | <b>Total Financial assets at fair value through profit and loss</b> | <b>6,752,081</b>                 |
| <b>Assets at amortised Cost</b>                                 |   |                                  |
| 523   | Cash at investment managers   | 35,094                           |
|   | - Amounts receivable for sales                                      | 132                              |
| 31  | Investment income due   | 27                               |
| 100,303   | Cash balances   | 100,219                          |
| 56,423  | Current Assets – Note 20  | 37,803                           |
| <b>157,280</b>  | <b>Total - Financial assets at amortised cost</b>                   | <b>173,274</b>                   |
| <b>Finance liabilities - fair value through profit and loss</b> |   |                                  |
| (49,305)  | Forward exchange contracts  | (6,267)                          |
| <b>Finance liabilities - at amortised cost</b>                  |   |                                  |
| (6,248)   | Current liabilities – Note 21                                       | (7,322)                          |
| <b>(55,553)</b>   | <b>Total - Liabilities</b>  | <b>(13,589)</b>                  |
| <b>5,883,043</b>  | <b>Grand Total</b>  | <b>6,911,766</b>                 |



# London Pensions Fund Authority Statement of Pension Fund Account For the year to 31 March 2021

## 6 Notes to the Fund Account (continued)

### 18. Nature and extent of risks arising from financial instruments

LPFA's investment and hedging activity expose it to a variety of financial risks in respect of financial instruments and which are managed in line with LPFA's investment and funding strategy as set out in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

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

Overall, LPFA manages risk in the following ways:

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

The primary risk arising from investments and hedging in financial instruments are market risk, credit risk and liquidity risk.

#### Market risk

Market risk is the risk of loss from fluctuations in market prices which includes interest and foreign exchange rates, credit spreads, equity prices and volatility. The Fund is exposed to market risk from its investment and hedging activities, with the level of risk exposure depending on asset mix, market conditions, expectations of future price and yield movements. Most of the market risk arises from financial instruments held in investments in LPP pooled funds.

Market risk is managed in line with the risk management objectives within the Fund's ISS and FSS, which is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising return on risk. The Fund manages its market risk by establishing a well-diversified asset allocation across different asset classes, countries and currencies. The Fund also seeks to include assets which provide real term returns as well as cash flow generating assets that try to match the fund's liabilities.

#### Market risk – sensitivity analysis

Several approaches are used to measure and monitor the market risk of the Fund including sensitivity analysis, expected volatility, VaR and stress testing. The methodology used may be based on historical data or using simulation techniques, depending on the measure and the type of risk.

The expected volatility over a 1-year time horizon is used as one risk measure for the Fund and is measured as a one standard deviation movement in the returns for each of the major asset classes in which the Fund is invested. The expected volatility provides a measure of the potential largest change in the value of the Fund in around 2/3rds of the time. The total fund volatility considers the expected interactions between the different asset classes, based on underlying volatilities and correlations of the assets. LPPI uses economic scenario generation (ESG) to model future returns. Ortec Finance's ("Ortec") ALM software (GLASS) is used to generate 2,000 future economic scenarios and analyse future investment returns stochastically. Assumptions around future economic conditions and asset class risk and return are primarily Ortec's, however LPPI specifies the weights of Ortec's sub-asset class building blocks for each asset class to best reflect the asset classes which LPPI manages.

The approach makes assumptions on the potential distribution of prices and the potential movement and correlation in equity prices, interest and foreign exchange rates and credit spreads. The limitations of the approach are that the expected asset volatility and correlations may be different over the 1-year time horizon, the assumed distribution of prices may be different and it does not provide a measure of potential outcomes outside the one standard deviation movement.

# London Pensions Fund Authority Statement of Pension Fund Account For the year to 31 March 2021

## 6 Notes to the Fund Account (continued)

### 18. Nature and extent of risks arising from financial instruments (continued)

| 2020<br>1 year expected<br>volatility (%) | 2020<br>% of Fund | Asset Class             | 2021<br>1 year expected<br>volatility (%) | 2021<br>% of Fund |
|---|-------------------|-------------------------|---|-------------------|
| 24.1                                      | 44.3              | Global Equities         | 22.0                                      | 46.9              |
| 32.0                                      | 9.7               | Private Equity          | 31.3                                      | 8.6               |
| 19.6                                      | 9.9               | Real Estate             | 17.0                                      | 8.8               |
| 5.6                                       | 5.0               | Fixed Income            | 5.1                                       | 4.1               |
| 23.8                                      | 7.3               | Infrastructure          | 21.1                                      | 8.5               |
| 13.9                                      | 7.8               | Credit                  | 11.7                                      | 8.0               |
| 6.7                                       | 12.9              | Diversifying Strategies | 4.9                                       | 10.9              |
| 0.0                                       | 3.1               | Cash & LDI              | 0.0                                       | 4.2               |
| <b>16.3</b>                               | <b>100.0</b>      | <b>Total Fund</b>       | <b>14.9</b>                               | <b>100.0</b>      |

The value of the Fund as at 31 March 2021 was £6,912m (2020: £5,883m) and the expected volatility was 14.9% (2020: 16.3%). Given these figures, we would expect that in roughly 2/3rds of outcomes the value of the Fund would lie between £7,8941m (2020: £6,842m) and £5,882 (2020: £4,924m) in 12 months' time, expressed in today's equivalent present value.

#### Interest rate risk

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

The Fund is also exposed to interest rate risk within its pension liabilities, which is managed using bonds and swaps through a liability-driven investment (LDI) programme.

The sensitivity of financial instruments in the Fund to interest rate movements is captured in the sensitivity analysis within the market risk section.

#### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk through non-sterling investments, where the currency risk has not been hedged, while it holds sterling liabilities. The currency risk is mainly in the global equity, private equity, credit and infrastructure pooled portfolios.

The Board has established a currency hedge programme to dampen the effect of foreign currency fluctuations on the value of the non-sterling investment asset. The hedge currently covers 50% of the non-sterling exposure of the global equity portfolio, excluding emerging markets, and 100% of the total return portfolio. The currency hedge program is reviewed regularly as part of LPFA's investment strategy review.

#### Currency risk sensitivity analysis

The increase in currency exposure over the year reflects the inclusion of currency risk from investments in private equity, infrastructure and credit in the table below.

# London Pensions Fund Authority Statement of Pension Fund Account For the year to 31 March 2021

## 6 Notes to the Fund Account (continued)

### 18. Nature and extent of risks arising from financial instruments (continued)

The expected standard deviation of the Fund's significant currency exposure is based on 12 month market implied volatilities taken from Bloomberg as at 31 March 2021. The following tables summarise the Fund's approximate currency exposure and expected 12 month volatility by currency as at 31 March 2021 and as at the previous period end:

| Value at 31 March 2020 (£m) | Implied volatility % | Currency | Value at 31 March 2021 (£m) | Implied volatility % |
|-----------------------------|----------------------|----------|-----------------------------|----------------------|
| 1,593                       | 14.4                 | USD      | 1,934                       | 8.1                  |
| 33                          | 16.1                 | JPY      | 39                          | 8.9                  |
| 495                         | 12.6                 | EUR      | 605                         | 6.8                  |
| 95                          | 13.4                 | CHF      | 84                          | 7.5                  |

The sensitivity of the Fund to currency movements is captured in the sensitivity analysis within the market risk section.

#### Credit risk

Credit risk is the risk that the issuer or counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The main credit risk within the Fund arises mainly from investments in fixed income securities within the pooled funds, where the issuer may default or is unable to pay its obligation when due. The Fund seeks to minimise its credit risk by the selection of high quality counterparties, brokers and financial institutions.

Credit risk also arises with LPFA deposits held with banks and financial institution. During 2013/14 the LPFA joined a Group Investment Syndicate (GIS), operated by the Greater London Authority (GLA), under the supervision of the participants; the GLA, the London Fire and Emergency Planning Authority (LFEPA), the London Legacy Development Corporation (LLDC) and the Mayor's office for Policing and Crime (MOPAC). The GIS has an approved counterparty list using a creditworthiness methodology. The methodology uses an average of the ranked ratings from the ratings agencies; Fitch, Moody's and Standard & Poor.

The sensitivity of the Fund to credit spreads is captured in the sensitivity analysis within the market risk section.

The LPFA believes it has managed its exposure to credit risk, and has had no experience of default and uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2021 was £89.4m (2020:£76.9m).

#### Liquidity risk

Liquidity risk is the risk that LPFA has insufficient funds to meet its financial obligation when due. These obligations may arise from operating expenses, payment to members or to meet investment commitments.

LPFA manages its liquidity risk by forecasting future cash requirements and having immediate access to enough funds, either through cash holdings or holding highly liquid assets that can be readily liquidated if required. The LPFA has immediate access to its cash holdings with the GIS and Lloyds Bank Plc.

The LPFA defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2021, the value of illiquid assets (private equity, infrastructure, credit and real estate) was £2,384m, which represented 34.5% of the total LPFA assets (31 March 2020: £2,035m which represented 34.4% of the total LPFA assets).

All financial liabilities at 31 March 2021 are due within one year.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 19. Cash balances

| 31 March 2020                   | 31 March 2021  |
|---------------------------------|----------------|
| <b>£000</b>                     | <b>£000</b>    |
| 100,303 Short term deposits     | 100,219        |
| 523 Cash at investment managers | 35,094         |
| <b>100,826</b>                  | <b>135,313</b> |

#### 20. AVC investments

| 31 March 2020     | 31 March 2021 |
|-------------------|---------------|
| <b>£000</b>       | <b>£000</b>   |
| 12,209 Prudential | 12,209        |

AVC contributions of £0.8m (2020: £1.57m) were paid directly to Prudential in the year.

#### 21. Current assets

| 31 March 2020                        | 31 March 2021 |
|--------------------------------------|---------------|
| <b>£000</b>                          | <b>£000</b>   |
| 3,063 Contributions due - employees  | 1,723         |
| 5,798 Contributions due - employers  | 3,703         |
| 37,137 Transfer value receivable     | -             |
| 2,124 VAT                            | 1,998         |
| 8,301 Sundry debtors and prepayments | 30,379        |
| <b>56,423</b>                        | <b>37,803</b> |

#### 22. Current liabilities

| 31 March 2020          | 31 March 2021 |
|------------------------|---------------|
| <b>£000</b>            | <b>£000</b>   |
| 1,075 Sundry Creditors | 632           |
| 2,813 Other Taxes      | 2,966         |
| 2,360 Benefits payable | 3,724         |
| <b>6,248</b>           | <b>7,322</b>  |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 23. Related party transactions

This disclosure note has been produced using a specific declaration obtained in respect of related party transactions. The LPFA has prepared this note in accordance with its interpretation and understanding of IAS24 and its applicability to the public sector using current advice and guidance.

Some of the Board members have positions of authority within organisations that are participating employers of the scheme. The employer contributions paid into the scheme by these employers have been disclosed as related party transactions. The board members receive no financial benefit from these payments.

Ruth Dombey is one of the three Vice Chair of London Councils. London Councils paid employer contributions of £833k (£2020: £688k) and it is noted that she has no pecuniary interest in financial matters. Christina Thompson is the Director of Finance and Property at the London Borough of Lambeth. The London Borough of Lambeth paid employer contributions of £151k (2020: £42k). The London Councils are Admitted bodies in the Fund, whereas Lambeth is a Scheduled body in the Fund.

The Mayor of London is issued with a draft of the LPFA Medium Term Financial Plan by the 30 December and has the opportunity to provide feedback. As the Mayor of London is part of the Greater London Authority and it is a participating employer, the employer contributions are deemed to be related party transactions. The Greater London Authority paid employer contributions of £6,842k (2020: £6,413k) during the year.

The LPFA Operational Account and Residual Liabilities accounts are deemed to be related parties and transactions relating to such are reflected in their accounts. LPFA entered into a joint venture with Lancashire County Council and incorporated Local Pensions Partnership Ltd (LPP) and its subsidiaries (Local Pensions Partnership Investments Ltd (LPPI) and Local Pensions Partnership Administration Ltd (LPPA)) on 8 April 2016. LPP is a related party of LPFA. In addition, in 2020 the LPFA acquired a £12.5m direct investment in LPP, being GBP 12.5m non-voting £1 ordinary shares. This is included as private equity within investment assets. LPPI invoiced the scheme £700k (2020: £1.075m) for investment fees and the administration service costing £2,082m was provided by LPPA (£1,860m)

#### 24. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2021 totalled £422.9m (2020: £646.2m) based on:

| Currency     | Commitment  | Exchange Rate | £                  |
|--------------|-------------|---------------|--------------------|
| US\$         | 188,127,641 | 1.379         | 136,423,235        |
| CHF          | 7,029,000   | 1.299         | 5,411,085          |
| EUR          | 107,125,066 | 1.174         | 91,247,927         |
| GBP          | 224,795,716 | 1.000         | 224,795,716        |
| <b>Total</b> |             |               | <b>457,877,963</b> |

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

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

#### 25. Post Balance Sheet events

There were no material events after the balance sheet date.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 6 Notes to the Fund Account (continued)

#### 26. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities in accordance with IAS 26, every year using the results of the Triennial Actuarial Valuation as at 31 March 2019, estimated income and expenditure for the year, fund returns for the year and details of any new retirements for the year that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

The present value of the Funded Obligation at 31 March 2021 for the Fund was £10,143m (2020:£8,063m). The net liability for the Fund at 31 March 2021 was £3,360m (2020:£2,212m).

#### Key Assumptions Used

| Life expectancy from age 65 (years) | 31 March 2020 | 31 March 2021 |
|-------------------------------------|---------------|---------------|
| Retiring today :                    |               |               |
| Males                               | 21.30         | 21.70         |
| Females                             | 23.90         | 24.10         |
| Retiring in 20 years:               |               |               |
| Males                               | 22.70         | 23.00         |
| Females                             | 25.50         | 25.80         |

- Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

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

|                   | 31 March 2020 | 31 March 2021 |
|-------------------|---------------|---------------|
|                   | % p.a.        | % p.a.        |
| RPI increases     | 2.70          | 3.20          |
| CPI increases     | 1.90          | 2.80          |
| Salary increases  | 2.90          | 3.80          |
| Pension increases | 1.90          | 2.80          |
| Discount rate     | 2.35          | 2.00          |

These assumptions are set with reference to market conditions at 31 March 2021.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## 7 Actuary's Statement as at 31 March 2021

### Introduction

The last full triennial valuation of the London Pensions Fund Authority Pension Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2021.

### Asset Value and funding level

The results for the Fund at 31 March 2019 were as follows

- The Fund as a whole had a funding level of 109% on the "Fund-level" basis. This means the assets were 109% of the value that they would have needed to be to pay for the benefits accrued to that date based on the assumptions used. This corresponds to a surplus of £481m which is an improvement in the position from 2016.
- This basis uses a single discount rate assumption based on a weighted average of estimates of the Fund's future long-term asset returns, with an allowance for prudence.
- The contribution rate for each employer was set based on the employer's calculated cost of new benefits, known as the primary rate, plus any adjustment required (for example, to allow for deficit recovery), known as the secondary rate.
- The assumptions used for each employer in setting these contributions varied based on the period that they were expected to continue in the Fund and the assessed strength of their covenant.
- In particular, the discount rate varied by employer as higher allowances for prudence (leading to lower discount rates) were applied for less secure employers. As a result they are required to pay higher contributions than if they were valued on the "Fund-level" basis.
- The funding level taking into account the individual employer funding targets is 106%. The surplus on this basis is £326m.

### Updated position since the 2019 valuation

#### Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were slightly more than where they were projected to be based on the previous valuation.

# London Pensions Fund Authority Statement of Pension Fund Accounts

## Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

We have updated the derivation of the CPI inflation assumption to be 0.55% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, the impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

## Overall Position

On balance, we estimate that the funding position has weakened slightly on the "Fund-level" basis when compared on a consistent basis to 31 March 2019 (but allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate. Deficit contributions would also be slightly higher as a result of the worsening in the funding position.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

The Fund can continue to monitor the funding level using LGPS Monitor on a regular basis.

**Graeme Muir FFA**  
**Partner, Barnett Waddingham LLP**



# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 8 Employers participating in the Fund

| Employer body   | Contribution rate % |
|---|---------------------|
| Alleyns School  | 23.8                |
| Apleona HSG   | 25.4                |
| Archbishop Tenison's Church of England GMS  | 17.4                |
| Association of Colleges   | 15.6                |
| Babcock Critical Services Ltd   | 15.3                |
| Babcock Training Limited  | 11.8                |
| Bishop Thomas Grant School  | 15.8                |
| Bouygues E&S Ltd  | 16.5                |
| Briggs Marine Contractors Ltd   | 5.9                 |
| British Film Institute  | 15.4                |
| Broadacres Housing Association Limited  | 23.4                |
| Brunel University   | 17.0                |
| Learning on Screen - the British Universities and Colleges Film and Video Council | 20.9                |
| Capital City College Group  | 13.8                |
| Caterlink Ltd   | 32.7                |
| Education Development Trust   | -                   |
| Charlotte Sharman Foundation Primary School                                       | 15.2                |
| Chartered Institute of Environmental Health                                       | 17.5                |
| Churchill Contract Services Ltd   | 34.6                |
| City Literary Institute   | 12.9                |
| City - University of London   | 13.6                |
| Comm for Local Administration in England  | 15.7                |
| Compass Contract Services (UK) Ltd  | 26.9                |
| Computacenter   | 18.1                |
| Coram's Fields  | 25.3                |
| Corpus Christi School   | 15.1                |
| Dulwich College   | 19.2                |
| Dunraven School   | 13.2                |
| Van Gogh Primary School   | 15.6                |
| Hammersmith and West London College   | 15.0                |
| East London Waste Authority   | 12.9                |
| Food Standards Agency   | 19.4                |
| Food Standards Scotland   | 19.6                |
| Freedom Leisure   | 21.9                |
| Friars School   | 17.7                |
| Geffrye Museum Trust Ltd.   | 12.9                |
| Genesis Housing Group   | 20.8                |
| Nexus Community   | 23.8                |
| Goldsmith College   | 17.3                |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 8 Employers participating in the Fund

| Employer Body                              | Contribution rate % |
|--|---------------------|
| Greater London Authority                   | 12.00               |
| Guinness Partnership Limited               | 18.80               |
| Horniman Museum & Gardens                  | 15.70               |
| Ibstock Place School                       | 21.80               |
| Immanuel & St Andrew C of E Primary School | 15.90               |
| Julian's Primary School                    | 11.20               |
| L.B. of Camden                             | 22.60               |
| L.B. of Enfield                            | -                   |
| L.B. of Greenwich                          | 22.20               |
| L.B. of Hackney                            | 20.70               |
| L.B. of Hammersmith & Fulham               | 24.50               |
| L.B. of Islington                          | 22.10               |
| L.B. of Lambeth                            | 22.30               |
| L.B. of Lewisham                           | 23.60               |
| L.B. of Southwark                          | 22.10               |
| L.B. of Tower Hamlets                      | 19.70               |
| L.B. of Wandsworth                         | 22.40               |
| La Retraite RC Girl's School               | 14.90               |
| La Sainte Union Convent School             | 20.10               |
| Lee Valley Regional Park Authority         | 15.60               |
| Lionheart (RICS Benevolent Fund)           | 25.70               |
| Local Pensions Partnership                 | 12.00               |
| Local Pensions Partnership Investments     | 12.00               |
| London Councils                            | 13.60               |
| London Fire & Emergency Planning Authority | 15.30               |
| London Legacy Development Corporation      | 12.00               |
| London Metropolitan University             | 16.20               |
| London Nautical School                     | 16.60               |
| London Pensions Fund Authority             | 12.00               |
| London South East Colleges                 | 17.80               |
| London Treasury Limited                    | 12.00               |
| Mary Ward Settlement                       | 16.60               |
| Morley College                             | 15.10               |
| Mountain Training limited                  | 18.80               |
| N.I.A.C.E.                                 | 22.80               |
| New City College                           | 14.40               |
| Newable Ltd                                | 13.50               |
| Newcastle College Group                    | 17.90               |
| Notre Dame School                          | 17.70               |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 8 Employers participating in the Fund

| Employer Body   | Contribution rate % |
|---|---------------------|
| NSL Limited   | 22.20               |
| Old Oak and Park Royal Development Corporation (OPDC) | 12.00               |
| Open College Network London Region                    | 20.50               |
| Orchard Hill College Academies Trust                  | 14.00               |
| Peabody Trust   | -                   |
| Poplar Harca  | 19.50               |
| R.B. of Kensington & Chelsea                          | 27.50               |
| Rathbone Training                                     | -                   |
| Roehampton University                                 | 15.40               |
| The Royal Central School of Speech & Drama            | 14.80               |
| SSAFA   | 19.70               |
| Sacred Heart School                                   | 16.20               |
| SITA UK Ltd   | 20.10               |
| South Bank University                                 | 15.40               |
| South Bank Colleges                                   | 16.30               |
| South Thames College Group                            | 18.50               |
| Sport and Recreation Alliance Limited                 | 12.40               |
| Sport England   | 16.00               |
| St Andrews RC Primary School                          | 16.70               |
| St Anne's RC Primary School                           | 18.50               |
| St Anthony's School                                   | 17.50               |
| St Bede's GM Infant & Nursery School                  | 18.00               |
| St Bernadette's School                                | 21.20               |
| St Francesca Cabrini Primary School                   | 17.80               |
| St Francis Xavier 6th Form College                    | 17.50               |
| St Joseph RC Infant School                            | 20.20               |
| St Joseph RC Junior School                            | 18.30               |
| St Martin in the Field High School                    | 20.90               |
| St Mary's RC Primary School                           | 17.80               |
| St Michael's RC School                                | 12.75               |
| St Thomas the Apostle College                         | 13.30               |
| Surrey Square Primary School                          | 15.90               |
| The English & Media Centre                            | -                   |
| The English Institute of Sport                        | 12.00               |
| The Froebel Trust                                     | 20.50               |
| The Pioneer Group                                     | 16.00               |

# London Pensions Fund Authority Statement of Pension Fund Accounts

## For the year to 31 March 2021

### 8 Employers participating in the Fund

| Employer Body                   | Contribution rate % |
|---------------------------------|---------------------|
| Transport for London            | 15.60               |
| Trinity Laban                   | 21.30               |
| Turney School                   | 15.50               |
| Turnham Primary GMS School      | 16.00               |
| UAL Short Courses Ltd           | 15.00               |
| UK Anti Doping                  | 12.00               |
| United Colleges Group           | 23.40               |
| United Kingdom Sport            | 12.00               |
| University of Arts London       | 15.00               |
| University of Greenwich         | 16.30               |
| University of St Mark & St John | 16.50               |
| University of Westminster       | 15.10               |
| Valuation Office Agency         | 21.00               |
| Valuation Tribunal Service      | 16.30               |
| West London Waste Authority     | 13.50               |
| West Riverside Waste Authority  | 13.80               |

Some participating employers have a nil contribution rate due to the fact that their pension is in a surplus position.