LPP

Local Pensions Partnership

A Leading Pension Services Business

Annual Report 2017–18

Contents

*LPP's vision is to be '**a leading pension services business**'. With a 'not-for-profit' ethos at its heart, LPP can help clients achieve greater stability in employer contributions and effective management of pension assets and liabilities.*

Please visit
www.localpensionspartnership.org.uk
for more information

About us

Local Pensions Partnership Ltd (LPP) started operating in April 2016 following the collaboration of two local government pension scheme (LGPS) funds – Lancashire County Pension Fund (LCPF) and London Pensions Fund Authority (LPFA).

Our business model is a new proposition for the management of pension funds – a pension services business operating with a "not-for-profit" philosophy and sharing the benefits of success with clients. We offer a full range of pension fund management services (asset and liability risk management, pension administration and investment management and advisory) which can be delivered either as a "full service" or as a range of specific solutions.

We help our clients improve pension scheme performance, maintain stable contributions and funding levels through improved investment outcomes and reduced costs.

Our employees operate across four sites in London, Preston, Hertfordshire and Havering. We provide a full range of pension fund management services to LPP's two founding clients, and a range of specific solutions and services to a broad base of clients across the UK. Further details of the services can be found on the LPP website.

Principles that drive our success

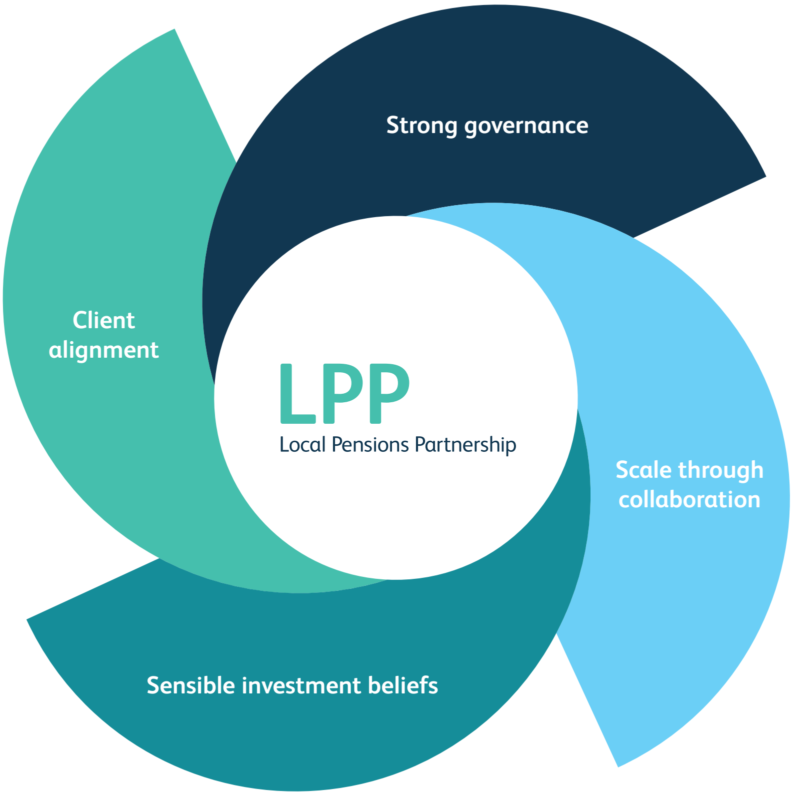
Whether it is asset and liability risk management, pension administration or investment management, we believe there are four guiding principles that drive our success.

Client alignment: everything we do is motivated by delivering success for our clients, not profits for our balance sheet. Any profits not reinvested in the business are returned to clients in the form of lower fees.

Strong governance: repeatable processes and clear measurement of everything we do.

Scale through collaboration: enables us to keep costs low and gain access to investments which smaller investors cannot.

Sensible investment beliefs: our approach to asset and liability management can help clients achieve sustainable pensions in the long term.



Key facts

Assets under management

£13.1bn

Group employees

284

This includes a number of employees who left the business on 31 March 2018 (see note 7).

of which are investment, investment risk and actuarial professionals

25

Number of pension administration clients

8
LGPS

8
Police and Firefighter schemes

Number of employers in pension schemes under administration

1,004

Number of members in pension schemes under administration

547,882

Number of investment funds established

6

Number of employer risk service clients

6

As at 31 March 2018

I am pleased to report that we are very much on track

Chairman's welcome

I have long believed in consolidation in the pensions industry, so the privilege of being able to assist LPP in this journey is a particular pleasure. The original business case for LPP set out a two-year programme to establish the business and to demonstrate to clients the benefits of pooling and collaboration. I am pleased to report that we are very much on track.

The primary driver of this success has been the establishment of our investment funds which have enabled us to pool client assets at a greater scale and at a lower cost than was previously the case. In parallel, we have developed our investment advisory capability and provided strategic asset allocation advice to our clients that is now in the process of being implemented. Another key achievement is the implementation of our approach and processes to asset and liability risk management; helping our clients to manage their scheme liabilities. We also administer pension services for 547,882 scheme members, having welcomed several additional clients this year. Of most importance to pension fund members, perhaps, we continue to ensure that pension payments are made as they are due. Looking to the future of these payments, we are pleased to see the funding levels of our current investment clients are close to, or more than, fully funded on a triennial valuation basis.

LPP continues to work with other LGPS pools and local authorities to develop opportunities that can contribute to improving the running of LGPS schemes for the benefit of the sector – and ultimately the members. GLIL Infrastructure, the £1.3 billion infrastructure joint venture (JV) partnership between five LGPS funds, has received approval from the Financial Conduct Authority (FCA) to operate as a regulated Alternative Investment Fund with Local Pensions Partnership Investments Ltd appointed the Alternative Investment Fund Manager. The fund is now open to other LGPS investors who may be looking to gain access to direct UK infrastructure investments.

All our work is reported to HM Treasury and the Ministry of Housing, Communities & Local Government (MHCLG) with our progress against the Government's pooling criteria well received to date. In the future I fully anticipate there will be further developments occurring in the LGPS sector as the process of pooling evolves. We will continue our engagement with Government departments to ensure LPP remains a positive advocate of this evolution.

On the governance side, we commissioned three externally-assessed independent governance reviews. More information is included later in this Report. The outcomes of the reviews confirmed that the governance and organisational structures at LPP are appropriate. A Board Effectiveness Review in February 2018 confirmed that the Board is operating effectively and made helpful suggestions for changes that we are currently implementing, including the addition of further non-executive directors to add to both our resilience and our diversity of thought and experience.

Our second year of operation has continued to be one of significant effort and change. My personal thanks go to my Board colleagues and our employees for their continued support and hard work, without which we wouldn't be in the position we are today. As we enter our third year, and with Royal Borough of Windsor and Maidenhead (Berkshire Pension Fund) joining us as an investment client, LPP's strategy is to build on our financial sustainability, enabling us to invest further in the business and deepen our operational resilience. The success of LPP is predicated on our ability to support our clients and deliver the benefits of pooling and collaboration. That will continue to be our focus.

Michael O'Higgins
Chairman

01

Strategic report and business review

We are building resilience in our business so we can deliver on our strategic objectives

Chief Executive's statement

It has been a year of good progress in building our business. We're now moving from the set-up of LPP to the next chapter in our development. This will be a period of consolidation and building resilience so we can continue to deliver on our strategic objectives. We will be focused on integrating technology and processes to enhance efficiencies and to add value to our clients. Additionally, we will be embedding our values and culture across our business as it matures.

Business performance and service delivery to clients

LPP Group's assets under management (AUM) increased from £12.5 billion to £13.1 billion during 2017–18. The increase in AUM has had a positive impact on income, which has also increased from £23 million to £26 million. Whilst LPP operates with a 'not- for- profit' philosophy, it must firstly meet its financial obligations as a business, particularly in respect of repaying loans and meeting regulatory capital obligations through building its capital reserves.

Whilst we have managed all our clients' assets from the start, this year we have expanded our pooled funds offering from two to six. The suite of investment funds not only serves as the investment pooling vehicles for our two full service clients, but they are also open to other pension funds who are supportive of our approach. We are delighted that the Berkshire Pension Fund will be pooling its assets with LPP during 2018–19. This will take LPP Group's AUM to around £16 billion, inclusive of the assets from Berkshire Pension Fund and GLIL Infrastructure.

The number of pension scheme members under our administration has exceeded 547,000 and we are confident that our new operating model will deliver a more efficient and professional service. The introduction of our contact centre in Preston allows for 96% of member calls to be resolved at the first point of contact. We now also provide an employer risk management service to an increased number of clients, who are seeing the benefits of having comprehensive employer covenant analysis. I am delighted to report that the quality of our member and employer service delivery has again been recognised with the Customer Service Excellence® accreditation.

Governance and resilience

Following such a significant change programme, it is important to me that we have robust governance arrangements and resilient processes in place. The additional standards of governance introduced by MiFID II are a further indication of the complex environment in which LPP operates. I am in no doubt that this degree of complexity will increase with the introduction of the Senior Managers Certification Regime (SMCR) in 2019 and the General Data Protection Regulation (GDPR) in 2018. We have implemented an effective regulatory change programme and our preparatory work has indicated that we are in a strong position to comply with GDPR, a reflection of the standards we already have in place through our Information Management Accreditation ISO27001.

Planned activities in 2018–19 include:

- Completing the asset pooling programme;
- Embedding the new operating model for pension administration;
- Developing new client relationships;
- Improving the infrastructure of our business operation, such as the introduction of additional systems to support investment operations;
- Assessing how broader system innovation can support LPP's future development; and
- Seeking wider partnership opportunities.

People and culture

We are continuing to invest in our teams in alignment with our strategy. Over the year we have added significant expertise to our Executive Committee. Allister Jeffrey, our Chief Financial Officer, joined the Board on 6 December 2017. He had been with LPP for six months prior to that and has created a robust and fit-for-purpose finance function.

The development of LPP's values (detailed on page 8) in collaboration with employees has been a significant step in our journey to create a culture as a single, unified business. Over the coming year we will be taking further steps to embed these into the way we work, including our performance and recognition programmes. Our values go beyond our employees; they embody the way we do business and will act as a measure for who we do business with.

Susan Martin
Chief Executive

LPP business model

LPP is a leading pension services business. We are all working together to develop a sustainable business which shares the benefits with its clients.

LPP's principal activity is the provision of a full pension service covering asset and liability risk management, pension administration and investment management. LPP manages £13.1 billion of assets on behalf of two full service clients LCPF and LPFA via our FCA authorised subsidiary, Local Pensions Partnership Investments Ltd (LPPI). We provide pension administration services to 1,004 employers with 547,882 members across 16 LGPS, Police and Firefighters pension schemes. In addition, we support a number of pension funds with our technical pension consultancy and support services in areas such as data cleansing. LPP delivers benefits to clients through its focus on asset and liability risk management, as well as seeking strong investment performance. Clients are able to select either the full pension services offering (asset and liability risk management, pension administration, and investment management and advisory) or an individual service line product such as participation in a particular investment fund or pension administration services.

LPP operates through a partnership approach. Clients retain their strategic responsibilities, but they delegate fully the implementation of pension administration and investment management activities.

LPP business model

Strategy

In LPP's first two years, it has focused on:

- Delivering the benefits to clients that were set out in the original business plan for the partnership;
- Establishing a single business and completing the transformation programme;
- Creating pooled funds and transitioning client assets into them; and
- Assessing business growth opportunities and taking those which are in line with our interests and those of our clients.

LPP's transformation programme has been successful in guiding the business through the integration period, including the establishment of target operating models and asset pooling vehicles. We anticipate that we will deliver savings to our two full service clients over a five year period from the launch of our first pooled fund to November 2021. LPP has begun to embed common standards across the business, such as employee terms and conditions, customer care standards, ISOs, and values and culture. The result of this is a cohesive stakeholder-focused business, which marries professionalism, scale and resilience.

The transformation programme is coming to an end now that LPP is operating as an aligned and integrated business. Further reviews of the new systems and processes will take place in the coming months to ensure they have been embedded within the business.

Moving forward, LPP will continue to operate as a pension services business, ensuring that on-going 'business as usual' resilience is implemented. As well as operational resilience, LPP will focus on technology innovation and new partnership opportunities which support LPP's financial targets.

LPP's existing full service clients come from the LGPS community, however, extensive client relationships and co-investment opportunities exist across the wider pension fund sector.

The key benefits of LPP's approach for clients are:

- Stable and sustainable investment returns with lower investment management costs;
- A governance model with full delegation from clients;
- Scale to access a wider choice of investment opportunities;
- Improved data quality, flow and control through a robust pension administration operating model; and

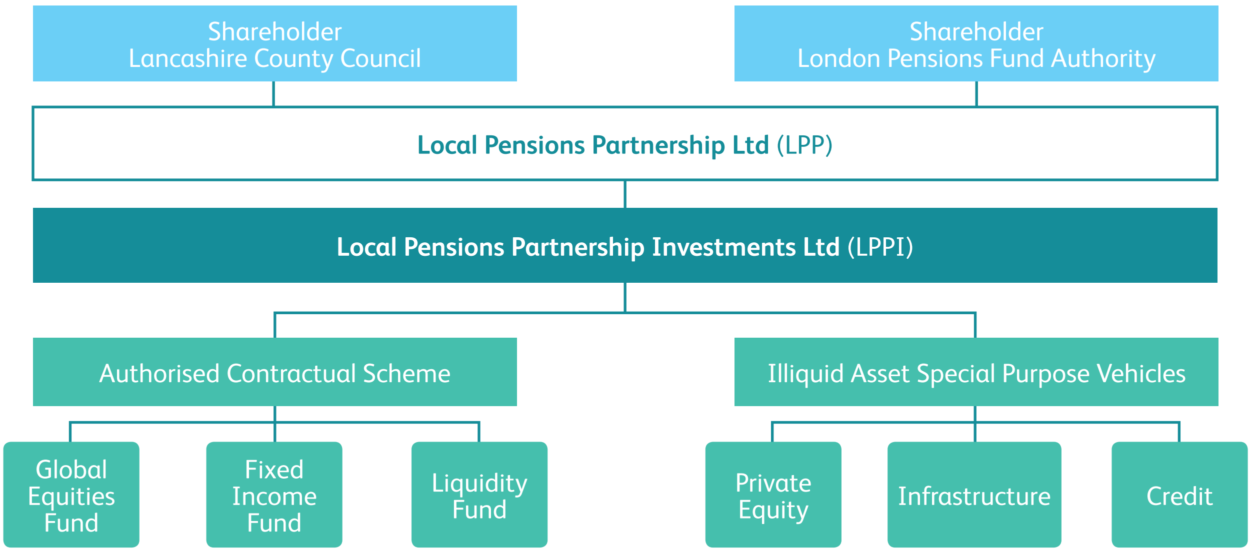
- Long term, stable and improved funding ratios, achieved through strong risk management with an aim to improve outcomes for members.

The establishment of our fund vehicles, spanning global equities, private equity, infrastructure, credit, fixed income and liquidity, is strengthening our position as a scalable low cost, high performing investment house.

The business continues to grow. During 2018–19 LPP will commence providing services to the Berkshire Pension Fund and the GLIL Infrastructure Platform.

Corporate structure

The LPP Group (LPP) comprises a holding company, Local Pensions Partnership Ltd (LPP Ltd), an investment management subsidiary LPPI which is authorised and regulated by the FCA, and other indirect subsidiaries as set out in the chart below. The Executive Committee drives the delivery of the asset and liability risk management, pension administration, and investment management and advisory services. During 2016–17, operations originally carried out by Local Pensions Partnership Administration Ltd were transferred to LPP Ltd, and the company is becoming dormant. 22 investment professionals are directly employed by LPPI, whereas all other resources are employed by LPP Ltd.



The Executive Committee drives the business of both LPP and LPPI. It is responsible for the day to day management of the Group and comprises seven executives.

The LPP Executive Committee

People and culture

During the course of the year, LPP has built capability and resilience across all business areas and our increasing workforce reflects this. A high level transformation programme has enabled us to change the way we operate; relocating administration processing and some supporting corporate service functions away from the high accommodation costs associated with central London to more economic outer London and North West locations. This approach has allowed us to build an organisation with a continued focus on developing an efficient, consistent and effective service for our clients, with new ways of working. We anticipate this growth continuing in 2018–19 as we seek to achieve greater operational robustness and maturity.

LPP is a business with a difference. It incorporates asset and liability risk management, pension administration, and investment management and advisory activities. We operate within the private sector with a not-for-profit philosophy whilst remaining accountable to our public sector shareholders. Our partnership approach to all areas of business enables us to fully understand our clients and their respective challenges, whilst delivering within a regulated financial services market. Our aim is to continue to recruit and retain talented expertise, with a shared sense of purpose, which will enable us to benefit from workforce stability and continuity of client knowledge.

The continued development of LPP's vision, mission and values has been a significant step on our journey to creating a single integrated business. LPP's mission statement **'Developing a sustainable pension services business and sharing the benefits with our clients'** sets out our purpose. Our values define how we work towards achieving that purpose through the delivery of our strategy and our interactions with each other, our clients, shareholders, peers and the wider world.

LPP values are:

- Doing the right thing
- Working together
- Committed to excellence
- Forward thinking

The values form a key aspect of the way we work throughout the organisation. We will continue to embed our values across the business including our processes and procedures as part of our resilience focus in 2018–19. During the year, we also consulted widely with our staff colleagues and representative bodies on a range of matters including the introduction of a consistent set of terms and conditions of employment to reflect our 'one LPP' philosophy.

We are a learning organisation; encouraging and supporting continued personal and professional development at all levels in addition to improving working practices. This is facilitated through our values and behaviours framework and a range of development and recognition initiatives designed to nurture our talent and deliver our ambitious strategic objectives. We value diversity of thought and appoint staff, directors and non-executive directors who contribute to a healthy environment of challenging the status quo.

This year LPP published its annual Equalities Statement along with the first Gender Pay Statement which are both available on LPP's website.

In summary, the gender pay statistics show:

- The median gender pay gap is 13.11%; and this is an area of continuous focus for us.
- In general, the proportion of males and females receiving a bonus payment during the course of the year shows a slight trend towards female staff.
- The proportion of males and females in each quartile pay band shows a trend moving progressively towards closer gender proportions particularly in the upper middle and upper quartiles.

LPP continues to review and evolve its staff remuneration policy and, through this, it will seek to reduce the gender pay gap over time. This includes auditing and reviewing staff bonus schemes annually, reviewing recruitment and succession planning processes and ensuring development opportunities are open to all employees within the business.

Asset and liability risk management

One of LPP's differentiating factors is the focus on liability management in conjunction with asset management. Liability management is the monitoring, reporting and advising on the balance sheet risks of pension schemes, also known as asset and liability risk management (ALM).

LPP has the skills, tools and processes to enable effective asset and liability risk management on behalf of our clients. The benefit of such an approach provides greater stability of contributions for employers and greater certainty of pension payments for members. The risk management function is independent of the investment team, which allows for effective oversight and constructive challenge of the investment process – leading to greater assurance for clients.

2017–18 saw increased levels of strategic hedging advice provided to clients. In addition, the liability management function worked with the investment team to develop a Strategic Asset Allocation Framework which was provided to our two full service clients.

The approach we have developed includes implementing state of the art analytical tools. We have implemented a market leading asset and liability management tool to enable us to monitor our clients' assets and liabilities through realistic scenario analysis. The tool is an integral part of our evolving Risk Management Framework which aims to deliver the following:

- Projections considering the balance of assets, liabilities and range of possible future funding levels over various time horizons;
- Identification, monitoring and reporting of key risk drivers;
- Development of risk mitigation strategies;
- Analysis of the impact of policy alternatives;
- Analysis of the impact of hedging strategies;
- Stress testing to help understand possible future risks; and
- Scenario analysis to improve understanding of balance sheet dynamics.

Employer risk management

The employer risk team works with employers of pension fund clients in order to manage data flow, accuracy and employer risk. This includes assessing the solvency of each employer and implementing additional security to protect taxpayers from inheriting pension fund liabilities. The team also monitors compliance with employer responsibilities under The Pensions Regulator's Code of Practice 14.

LPP has increased the number of employer risk clients to six from four during the year.

Looking forward to 2018–19

- Further promote our asset and liability risk management and employer risk management services to existing and potential clients; and
- Onboard Berkshire Pension Fund as a client.

Pension administration

LPP provides pension administration services to a wide range of clients including LGPS, Police and Firefighters pension schemes, representing 1,004 employers and 547,882 members.

Our services include:

- Full pension administration functions for London Boroughs, County Councils, Police and Firefighters authorities;
- Special projects such as data cleansing and health checks; and
- Employer and member engagement activities.

We deliver our services in line with The Pensions Regulator's Code of Practice 14, which relates to the administration and management of public sector schemes.

The pension administration business was created from the services transferred from Lancashire Country Council (LCC) and LPFA, both of which had a record of success. During 2017–18, a significant transformation programme enabled our move away from geographical centres to a 'common delivery' operating model. This went live on 1 April 2018 and created three main service hubs: member services, engagement and business development. Our dedicated contact centre is now typically the first point of contact, with the majority of calls and email traffic being managed directly by this team. We are also committed to greater online engagement with members and employers.

LPP's new operating model will provide greater resilience and flexibility, reduce costs, and enable a more efficient management of data flow and customer queries, ultimately giving clients and members an improved service and experience.

Our operating model is sustainable and offers 'value-for-money' services to clients in a number of areas:

- We are a centre of excellence and expertise for LGPS, Police and Firefighters pension scheme administration. Our employees are specialists with in-depth knowledge and experience in all aspects of LGPS and other public sector pension scheme administration;
- We apply best-in-class practices, processes and systems;
- We achieve economies of scale through servicing a much larger client base; and
- We have the scale to make greater investment in technology to achieve greater efficiencies..

These are the foundations for us to build strong relationships with clients and to continue to provide a high standard of service.

Performance

Despite the significant challenges in transforming the pension administration business, LPP has met or exceeded the majority of performance targets for clients.

Growth

We have seen significant growth in the number of pension fund members under management during 2017–18. Fund members grew from 517,000 to 547,882 by 31 March 2018, and projected growth during 2018–19 will take the total number of fund members to 570, 000.

Looking forward to 2018–19

- Embed the new processes and systems introduced by the transformation programme;
- Scope and move to a consolidated employer data flow system;
- Onboard one new client successfully;
- Grow our existing LGPS, Police and Firefighters client base and develop new business opportunities in other public sector pension schemes; and
- Expand our special projects, employer and member engagement services.

Investment management

LPP's investment philosophy has two key aims: (i) to help clients achieve a faster reduction in pension deficits by maximising risk-adjusted investment returns and lowering costs; and (ii) to deliver stable and sustainable investment outcomes to meet clients' long-term pension funding requirements. At all times, we operate within each client's independent and sovereign strategic asset allocation objectives.

Our model is built upon three pillars:

- **Scale** – enables us to access a broader range of investment opportunities
- **Governance** – delegated, independent decision making and governance structures enables effective investment management
- **In-house investment and risk management** – a deep and broad in-house investment and risk management expertise across major asset classes, in both public and private markets, enables us to better understand clients' liabilities and funding requirements – and to develop appropriate investment strategies to meet these requirements

During 2017–18, we made significant progress on both the strategic development of the business and capabilities alongside the core investment and risk management objectives. AUM have also grown by a further £0.6 billion to £13.1billion.

LPP's unique model goes beyond providing the benefits of scale. We have delivered a higher-than-expected reduction in ongoing investment management fees.

Key investment highlights

Summary

Significant progress has been made over the year, for both LPP and our clients. We now have six investment funds with a further two (Total Return and Real Estate) due to be launched in 2018–19. The build out of infrastructure and people has continued, and investment performance has remained strong. Funding ratios of both clients have improved significantly, underpinned primarily by the performance of the portfolios. In the coming year, our priorities are to further industrialise our operational processes, broaden our product offering, overcome barriers to increasing third-party sales and bolster internal resources.

Product range

LPP's suite of investment funds includes:

- Global Equities – £5.5 billion with £2.2 billion internally managed
- Private Equity – £1.1 billion
- Infrastructure – £1.0 billion
- Credit – £1.3 billion
- Fixed Income – £320m
- Liquidity – established but not launched

The remaining investments managed by LPP on behalf of its clients have yet to be pooled.

Data as at 31 March 2018

Investment performance update

- The economic and market backdrop for the year was favourable with robust performance across almost all risk assets. This fed through to strong performance across the range of our pooled funds and at the portfolio level for the clients
- The investment pipeline has remained strong with a combination of high conviction, direct and indirect new investments completed across the portfolios

Infrastructure and people

We have:

- Continued to make significant investment in our people, systems and processes to ensure we have a broad and resilient infrastructure;
- Grown our teams in investment, investment operations and risk, and established robust and efficient governance structures;
- Continued to develop our asset allocation methodology and delivered detailed Strategic Asset Allocation advice to both clients;
- Implemented the requirements of Markets in Financial Instruments Directive (MiFID II) on time and on budget;
- Provided the regulatory umbrella to enable LPPI to act as Alternative Investment Fund Manager (AIFM) to the GLIL Infrastructure fund (since 1 April 2018); and
- Operated with full oversight from our internal compliance function.

Looking forward to 2018–19

- Launch the Total Return and Real Estate funds to complete the asset transition into pooled investments;
- Continue to improve the operational resilience of our systems and processes by investing in enhanced analytical and reporting tools and technology;
- Continue to develop the successful track record of our funds;
- Continue to enhance our internal operational resilience by recruiting suitably skilled employees as appropriate; and
- Collaborate with our partners to further develop the GLIL Infrastructure platform.

Responsible investment and stewardship

LPP is committed to an approach to stewardship which embraces responsible investment principles and practice. In our second year of operations we have continued our efforts to build positively on the firm foundations already in place for achieving sustainable and accountable stewardship on behalf of client funds.

Under the oversight of our Stewardship Committee, we have focused on developing policies and procedures which translate the beliefs and standards set out in our Responsible Investment Policy into operational practice.

During the year LPP developed and published a Shareholder Voting Policy in which we explain our approach and arrangements in more detail. The policy confirms our belief that well-governed companies are best equipped to manage business risks and opportunities, and encouraging high standards and sustainable business practices contributes to achieving optimum risk-adjusted returns over the long term.

Shareholder voting is a key route for engaging with investee companies and the voting rights for the listed equities we manage are exercised centrally by LPPI, rather than being delegated to third party external managers. Our Shareholder Voting Policy clearly articulates our objectives which are:

- Voting rights are exercised;
- Our voting process is consistent, efficient and auditable;
- Voting decisions are congruent with our investment beliefs and reflect the long term financial interests of our clients; and
- Voting activity reflects our commitment to responsible investment.

Voting information for the LPP's global equities fund is published quarterly on the LPP's website.

Our provision of dedicated stewardship support has continued to involve helping clients fulfil their commitments as signatories to the Principles of Responsible Investment and the UK Stewardship Code. Our Responsible Investment Manager has advised on a range of stewardship priorities, supported a Responsible Investment Working Group convened by LCPF and provided substantial support to LPFA on the development of a policy approach to climate change which is now under implementation by LPPI.

Throughout the year we have continued to collaborate with other investors via a network of groups and initiatives, including the Local Authority Pension Fund Forum, the Institutional Investor Group on Climate Change, the Responsible Investment Sub-Group to the LGPS Cross Pool Collaboration Group, the Pension and Lifetime Savings Association and the UK Pension Fund Responsible Investment Roundtable. LPP has become an investor signatory to the Workforce Disclosure Initiative – a pilot scheme to encourage comparable workforce reporting by publicly listed companies. LPP has also committed to participation in Climate Action 100+ – a five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

Key performance indicators

Group employees

*This includes a number of employees who left the business on 31 March 2018 (see note 7).

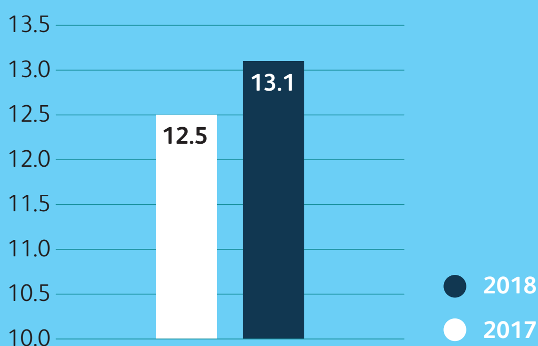
Employer risk service clients

An increase from 4 in 2017 to 6 in 2018

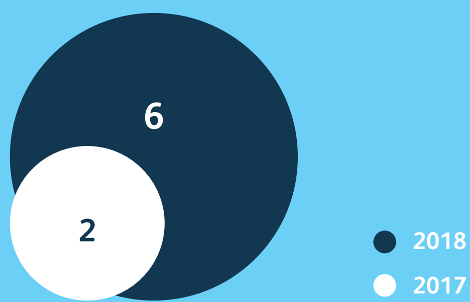
+50%

Assets under management

(£ billion)

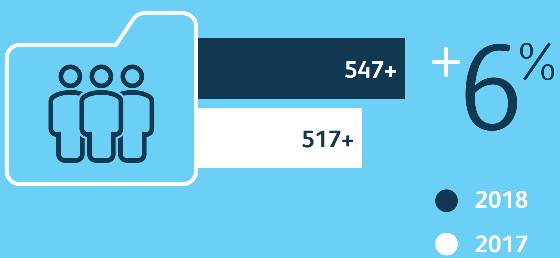


Number of investments funds



Pension members under administration

(in ’000)



Pension administration clients

An increase from 14 in 2017 to 16 in 2018

+14%

Risk management

LPP has a strong risk management culture which has undergone significant enhancement during 2017–18. Effective risk management is a core competence. We actively monitor the potential likelihood and impact of current and future risks.

Managing risk

The LPP Board is ultimately responsible for risk and oversight of the business's approach to managing risk. The Board is supported by the Audit Committee (non-executive), which oversees Group-wide risks and controls. LPPI Risk Committee provides executive and non-executive oversight of risks relating to the regulatory responsibilities of LPPI.

Further details on the role and scope of work undertaken by the LPP Audit Committee and the LPPI Risk Committee can be found on pages 25 and 28.

Our approach to risk management recognises that it is the responsibility of all employees to manage risks in their respective areas of business. LPP's Executive Committee is responsible for the monitoring and reporting of risks and controls, and regularly reviews the key risks facing the business.

Executive oversight of risk is delegated to the Chief Risk Officer who is responsible for the design and implementation of the risk and control framework and reporting of risk.

Risk framework

LPP's Risk Management Framework can be described as a process which helps us prevent an unacceptable level of uncertainty in business objectives. The framework sets out what the business will undertake in order to:

- Establish and operate an effective risk management and internal control environment, including risk identification, assessment, reporting, monitoring and the development of actions arising;
- Establish, operate and report a regular programme of Group-wide risk, analysis, reporting, stress testing, scenario development, thematic review and reverse stress testing; and
- Integrate risk management into the culture of the business.

Best practice methods are adopted in the identification, evaluation and control of risks to ensure that they are treated to an acceptable level. The framework is used universally across the business and delivers both a 'bottom up' and 'top down' approach.

Key risk categories

Financial risk: We recognise that poor investment performance could result in a reduction in AUM. Our investment management business charges income as a percentage of AUM. A fall in AUM could result in a fall in income. We closely monitor the risk and performance of the assets we manage and maintain sufficient financial resources to meet regulatory requirements and to cover a sustained fall in income.

Business risk: Pension administration service contracts with clients may not be renewed or may be terminated, or the costs of our service increases to such an extent that contracts become unprofitable. We provide services to a broad range of clients to reduce the concentration risk. Service level performance is closely monitored and discussed with clients to assess the quality of service. Costs are controlled as part of the financial budgeting process.

Strategic risk: The Board has approved a strategic business plan which sets out LPP's key objectives. Failure to meet the objectives of the plan may undermine the success of the business, resulting in increased uncertainty over future revenues and costs.

The business environment in which we operate is highly exposed to changes in regulation and government policy, and volatility in the global financial markets. These changes can be unexpected and create additional business uncertainty.

Credit and Concentration risk: LPP has no significant concentration of credit risk. We do have a risk of client concentration, as a significant portion of our income comes from two large clients. This is likely to reduce following the onboarding of Berkshire Pension fund as an investment client.

Operational risk: Operational risks may arise as a result of failures in our internal controls or operational processes. Such failures may lead to financial and reputational losses which can have a permanent and negative impact on clients' trust and confidence in LPP. We have implemented a three-year internal audit plan to review our business operation. The results of the reviews are reported to the Audit Committee.

Lines of defence

LPP's individual business areas are the first line of defence in the management of risk. Business heads continuously identify potential risks, assess their impact and implement appropriate controls. The second line of defence consists of the control functions including: Compliance, Finance, Governance, Legal, Human Resources and Risk. Internal Audit is the third line of defence providing independent assurance over the effectiveness of the risk and control environment.

Going concern

In assessing the basis of preparation of the financial statements for the year ended 31 March 2018, the Board has considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; namely assessing the applicability of the going concern basis, the review period and disclosures.

The Board has undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts for the period to 31 March 2019. This reviewed the strength of LPP's balance sheet, the recoverability of assets and availability of funding through LPP's existing facilities. Based on the assessment, the Board is satisfied and confident with LPP's financial positions, and believe it is appropriate to prepare the financial statements on a going-concern basis.

Risk management
continued

Key risks to achieving LPP's strategy		Description	How we manage risk
Business risks	**1. Investment performance**	Poor investment performance could result in a reduction of AUM which subsequently results in a fall in income.	Close monitoring of performance of assets managed. Maintain financial resources at an amount sufficient to meet regulatory requirements and to cover a sustained fall in income.
	2. Client concentration	A risk of investment client concentration as a significant portion of income comes from two large clients. Similarly, our pensions administration business makes use of LCC's Local Government shared service powers, which creates a risk should LCC decide it no longer wishes to support this approach.	To increase investment client base such as the onboarding of Berkshire Pension Fund and launch of new products i.e. GLIL infrastructure. A review of legal options associated with future growth.
Financial risks	**3. Insufficient capital**	Failure to generate sufficient capital to sustain business investments, regulatory capital and loan repayment requirements which will enable LPP and LPPI to become financially independent.	LPPI sets and maintains a prudent level of capital, that includes a buffer over the minimum regulatory capital requirements. LPPI performs an assessment of the adequacy of its capital through the internal capital adequacy assessment process (ICAAP).
Operational risks	**4. Conduct and regulation**	Conduct and regulatory risks include: • Compliance with legislative change including GDPR, MiFID II and SMCR. • The risks of client detriment arising from inappropriate conduct, conflicts management, practice, behaviour or failing to meet client requirements. • The risks of money laundering, bribery, market abuse or negligence. • The risk of fines, penalties or other sanctions from failure to identify or meet regulatory requirements. • The risk that new regulations or changes to existing interpretations have a material effect on the Group's operations, risk profile or cost base.	Second line of defence, including operational risk and compliance supports management in meeting our regulatory obligations. Compliance with relevant regulatory requirements is monitored in accordance with the compliance monitoring programme and risk and control self-assessments.

Key risks to achieving LPP's strategy		Description	How we manage risk
Operational risks	**5. Operational process and system resilience**	Operational process and system resilience, including business continuity and disaster recovery. Failures in internal controls, systems or operational processes may lead to financial and reputational losses, which can have a permanent and negative impact on clients' trust and confidence in LPP.	Annual review and update of both the Business Continuity and Disaster Recovery Plans. Both plans are tested at least annually.
	6. Cyber and information security	Cyber and Information Security relates to the risk that our technology systems and support are inadequate or fail to adapt to changing requirements, that our systems are penetrated by third parties and that data is held insecurely.	Maintenance of the ISO27001 Information Security Standard. Development of a Cyber Security Policy.
	7. Key person	Recruitment and retention of key employees. Retention risk is compounded by potential change fatigue because of the constant, concurrent and often competing priorities.	Continual review of Remuneration Policy to ensure that it remains competitive in the market to attract the right people. Seek to build strength and depth through sustainable succession and development plan.
Transformation risks	**8. Pension Administration Target Operating Model**	The transition to the Pension Administration Target Operating Model is poorly managed which results in failure to deliver anticipated benefits and increases the likelihood of poor member, employer and client experience.	Transformation Programme Board reviews holistical progress, key risks and issues, deliverables and milestones, benefits and benefits realisation and resourcing. The Board focuses on supporting programmes to deliver the benefits whilst assuring that overall, LPP remains on target to deliver the strategic objectives.
	9. Asset transition	The establishment of pooled funds and the transfer of assets is poorly managed leading to an increased likelihood of error which, if materialised, could result in both reputational damage and financial penalties.	
Shareholder risks	**10. Break clause 2022**	LPP's current shareholders could potentially trigger a break clause in 2022 because of substandard performance by LPP.	Ongoing shareholder engagement, communications and forum. Periodic review and update of Service Level Agreements.

02

Corporate governance

Corporate governance statement

LPP Ltd was incorporated on 19 October 2015 as a Limited Company registered in England and Wales with the registered number 9830002 and a registered office situated at County Hall, Preston PR1 8XJ. It began trading on 8 April 2016 and has two main subsidiaries: LPPI, which is authorised and regulated by the FCA and manages the investments on behalf of its clients; and Local Pensions Partnership Administration Ltd (LPPA), together the 'Group'. During 2017–18, LPPA's activities were transferred to and carried out by LPP Ltd. LPPA is being made dormant.

The LPP Board is accountable to its shareholders and is committed to maintaining a strong corporate governance framework which supports and enables the Board to achieve its goals. It operates in accordance with the Company's Articles of Association and the written terms of reference (Schedule of Matters Reserved for the Board), obligations under the Companies Acts, FCA regulations and other relevant public law obligations.

The day to day implementation of the strategic direction of the business is carried out by the Executive Committee. Investment decisions are taken by individuals who are authorised by the FCA to carry out investment activities.

The LPP website contains a section on Governance which outlines the responsibility of each of the Boards and Committees in the Group governance framework.

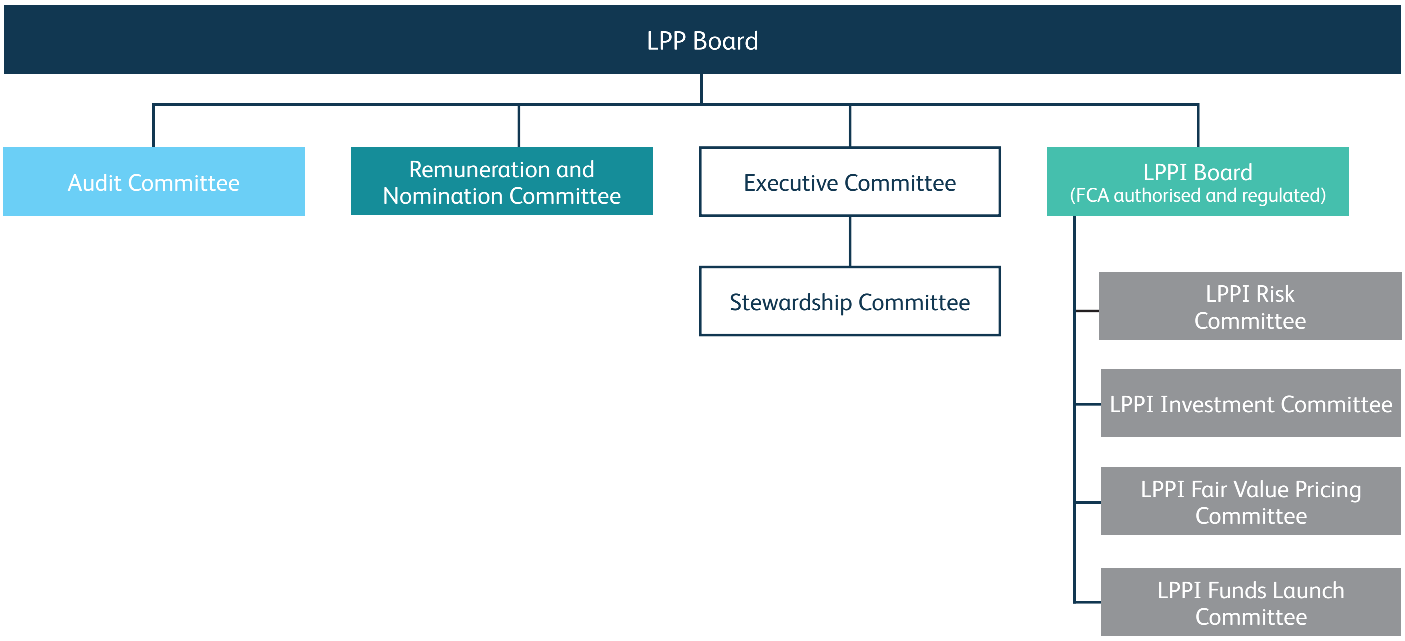
Governance Reviews

To ensure the appropriate governance structures were in place, LPP commissioned three externally-led independent governance reviews during the year. The reviews considered the Group's decision-making processes within the context of a regulated environment, existing governance processes against good practice and a Group structural review.

The review of the Group decision-making processes identified a need for greater clarity between the duties of the LPP Audit Committee and the LPPI Risk Committee, in line with best practice and the requirements of the EU's revised Markets in Financial Instruments Directive (MiFID II). Following discussions between the committees, in particular over the need to separate investment specific risks from general Group risks, the terms of reference of both committees were revised and the Boards of both LPP and LPPI approved these revisions.

The review into existing governance processes recommended a number of improvements in the way that the Group presented key governance documents such as terms of reference. These changes are still being implemented. In addition, and as part of a requirement of the Shareholder Agreement, a Group structural review was carried out by KPMG. The outcome confirmed that a structure which sought to ring-fence the Group's regulatory activities within LPPI remained appropriate. The review also suggested the appointment of additional non-Executive Directors to increase resilience and independence, and these appointments will be made during 2018–19. When making these appointments the Board will be mindful of the importance of Board diversity.

LPP Board and Committee structure



Board of directors

Composition

The Board comprises an independent Chair, three Executive members, three independent Non-Executive Directors and two shareholder non-Executive Directors. Each of LPP's shareholders appoints a shareholder non-Executive Director to the LPP Board.

All directors are subject to an annual re-appointment by the shareholders at the Annual General Meeting. During the year, David Borrow, who had been a shareholder non-Executive Director from the inception of the business, resigned and was replaced by Alan Schofield. George Graham, an Executive Director who joined us on inception, also resigned, following which Allister Jeffrey, our Chief Financial Officer was appointed to the Board.

Non-Executive Directors (NEDs) are appointed for an initial term of between three to four years. All directors undergo a tailored induction programme on appointment.

Conflicts of Interest and Independence

The Board may seek independent professional advice from an external provider for which LPP must pay. During the year no such advice was sought.

The process by which directors' conflicts might be authorised is set out in detail in LPP's Articles of Association. LPP and LPPI also have Board-approved conflicts of interest policies in place, ensuring a proper process for the identification, consideration of authorisation and appropriate recording of any conflicts of interest.

At all times during the year the independent directors met the criteria for independence.

LPP has arranged for appropriate insurance cover in respect of legislation against directors of LPP and its subsidiaries.

Board Effectiveness Review

A Board Effectiveness Review was carried out in February 2018 by an external provider. The review found that overall the Board was performing well. The review made some recommendations for building on the good work to date, these recommendations included reviewing the structure of the Board packs, increasing the number of independent NEDs, and building further on the risk discussions. A plan to deliver these recommendations will be delivered during 2018–19.

Michael O'Higgins
Chair of LPP Board

Term of Office: 19 October 2015 to 18 October 2018

Michael O'Higgins is also Chairman of Calculus VCT, the Channel Islands Competition & Regulatory Authorities, and is a Non-Executive Director of Network Rail and of the pensions company Hedgehog.

Previous experience: Chairman of The Pensions Regulator from 2011 to 2014, Chairman of the Audit Commission from 2006 until 2012 and Chairman of the NHS Confederation from 2012 until 2015. Non-Executive Director of HM Treasury and Chair of the Treasury Group Audit Committee from 2008 to 2014. Michael was also the Chair of the youth homelessness charity, Centrepoint from 2004 to 2011.

Previously, Michael was a Managing Partner with PA Consulting, leading its Government and IT Consulting Groups, latterly as a Director on its International Board. Prior to that he was a Partner at PricewaterhouseCoopers, worked at the Organisation for Economic Co-Operation and Development in Paris and held academic posts at the University of Bath, the London School of Economics, Harvard University and the Australian National University.

Committee and subsidiary membership: Member of LPP Remuneration and Nomination Committee. Non-Executive Director on LPPI Board.

Key to Board and Committee memberships

- LPP Board
- LPP Audit Committee
- LPP Remuneration and Nomination Committee
- LPPI Board
- LPPI Risk Committee

Sally Bridgeland

Non-Executive Director

Term of Office: 1 July 2016 to 13 December 2018

Sally is well known in the UK pensions industry, for her thought-provoking views on risk, investment strategy and governance.

She combines investment governance consultancy for Avida International with a number of complementary roles, including Non-Executive Director and Investment Committee Chairman at mutual Insurance company Royal London and Trustee at both NEST Corporation and the Lloyds Bank pension schemes.

Sally also serves on the Trust Investment Committee of the innovation foundation, Nesta and she became a Trustee of the Nuclear Liabilities Fund in 2017.

Sally was previously the CEO of BP Pension Trustees Limited. Before joining BP, Sally spent twenty years with Aon Hewitt as a pensions actuary and in the investment practice, where she led a number of research initiatives. She was Master of the Worshipful Company of Actuaries 2016–17.

Committee and subsidiary membership: Chair of LPPI Board

Allister Jeffrey

Executive Director – LPP Chief Financial Officer

Term of Office: Appointed as Executive Director on 6 December 2017

Allister joined LPP in March 2017 as Chief Financial Officer. Allister has more than 25 years of experience as a chartered accountant with global financial services firms including RBS, JPMorgan, Ernst & Young and Deloitte. As Chief Financial Officer, his responsibilities have covered Finance and financial controls, Treasury, Strategy, Risk and Operations.

Allister graduated from the University of South Africa with a bachelor of accounting sciences and holds a postgraduate diploma in accounting from the University of Kwazulu Natal. He is a Chartered Accountant and a member of the South African Institute of Chartered Accountants.

Allister also carries out a CF28 function for LPPI.

Committee and subsidiary membership: none

Susan Martin

Executive Director – LPP Chief Executive

Term of Office: Appointed as Executive Director on 11 November 2015

Susan Martin is LPP's Chief Executive. Previously she held the role of LPFA Chief Executive from December 2013. Prior to this, she was Deputy Chief Executive (2011) and Acting Chief Executive (August 2013) having joined the LPFA in April 2007 as Director of Organisational Development. She has over 30 years' experience across all sectors in pensions, partnerships, mergers, acquisitions, organisational change and business development.

Susan sits on the Pensions and Lifetime Savings Association DB Council, the LGPS Forum and the Investors Committee of the 30% Club, which aims to increase Board diversity. She is a regular speaker, writer and contributor to discussions on pensions, partnership working, leadership and business change in the UK and internationally. Susan has been recognised for her innovative work on asset and liability management and for her successful partnerships with other administering authorities and pension funds by her industry peers, securing the Industry Achievement Award at the Portfolio Institutional Awards 2015 as well as being cited in the top most influential people in pensions and/or women in financial services.

Committee and subsidiary membership: Executive Director on LPPI Board

Board of directors
continued

Dermot 'Skip' McMullan

Shareholder Non-Executive Director (LPFA)

Term of Office: 9 October 2015 to 18 October 2018

Dermot 'Skip' McMullan was a Managing Director at Bank of America in a career spanning 28 years prior to becoming an Independent Chair of Trustees. During his career at Bank of America, he was involved with a number of major industries in the UK and globally, including construction, mining, real estate, shipping, and the oil and gas industries. Most recently he was responsible for all the relationships that the Bank had in Europe with other financial and non-financial institutions.

His earlier career included the creation of the first PFI company, structuring the financial package and concession for the Dartford Bridge, followed by the larger concession for the Second Severn Bridge and the smaller concession for the Skye Bridge. The latter also involved the buyout of the concession by the Scottish Executive.

Pension experience: Currently, he chairs the trustee boards of the Bank of America UK Pension Plan and the SSVC Pension Plan. He is a Director of the Bank of America Merrill Lynch UK Pension Plan and joined the LPFA board in April 2013. He became Deputy Chair of the LPFA Board in 2017. He is also a Trustee of a number of charities.

Committee and subsidiary membership: Chair of LPP Remuneration and Nomination Committee

Tom Richardson

Executive Director – LPP Chief Risk Officer

Term of Office: Appointed as Executive Director on 11 July 2016

Tom joined LPP in July 2016 from the Maple Financial Group where he spent almost 20 years building his skills in different parts of the business. From 2008, he was the Chief Risk Officer (Market Risk), Global, a role that saw him drive the management and communication of Maple's business line policies within an economic capital framework totalling £400 million.

Tom's areas of responsibility included the measurement and reporting of financial risk where he led the design and implementation of risk methodologies, policies and procedures to meet both internal and regulatory objectives, including Value at Risk, Credit Capital at Risk, scenario analysis and stress testing.

Tom graduated from Loughborough University with a BSc in Economics and Politics. He also holds a Certificate in Securities from the Chartered Institute for Securities & Investment.

At LPP, Tom is also responsible for ICT, facilities and operational and employer risk.

Committee and subsidiary membership: Executive Director on LPPI Board, Member of LPPI Risk Committee

Sir Peter Rogers

Non-Executive Director

Term of Office: 2 November 2015 to 1 November 2018

Sir Peter has more than 19 years' knowledge and experience of working within the public sector. Sir Peter is currently Chairman of New West End Company and was previously an advisor to Boris Johnson, Mayor of London, on regeneration, growth and enterprise at the Greater London Authority.

He is a former chief executive officer of Westminster City Council, a former Non-Executive Director to Liberata and also former Chief Executive Officer of the London Development Agency. Prior to that, Sir Peter worked in the private sector as a Senior Executive in one of the leading national transport operators.

Committee and subsidiary membership: Chair of LPP Audit Committee, Member of LPPI Risk Committee

Key to Board and Committee memberships

- LPP Board
- LPP Audit Committee
- LPP Remuneration and Nomination Committee
- LPPI Board
- LPPI Risk Committee

Alan Schofield

Shareholder Non-Executive Director (LCC)

Term of Office: Non-Executive Director 25 May 2017 – 24 May 2021

Councillor Schofield was elected to Lancashire County Council in May 2013 and re-elected in 2017. Prior to becoming a County Councillor, Alan held senior financial management posts in the Water Services industry at several locations, before moving to a local government career in 1992. He served in a metropolitan borough in Greater Manchester and then progressed upward at three local authorities in Cumbria and Lancashire, retiring in 2011. Alan is a life member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

At Lancashire, he is a member of the Pension Fund Committee (now Deputy Chair); and participated from the outset in the high level working party deliberating on, and overseeing, the preparations and approval stages toward achieving the April 2016 establishment of LPP. Also at Lancashire County Council, Alan chairs the Audit, Risk and Governance Committee. Outside the county council, Alan is a Trustee Director of a Citizens Advice Bureau and a Parish Councillor.

Committee and subsidiary membership:
Member of LPP Remuneration and Nomination Committee

Robert Vandersluis

Non-Executive Director

Term of Office: 2 November 2015 to 1 November 2018

Robert Vandersluis is the Director of Global Pension Investments at GlaxoSmithKline (GSK), where he manages £18 billion of investments and a substantial derivative portfolio. At GSK, Robert sits on a number of pension boards, and he provides strategic advice to GSK's pension fund trustees in Europe, the United States, and Japan. Robert established GSK's London-based pension investment department, where he developed and implemented GSK's interest rate and inflation hedging strategies.

Robert's previous roles include senior treasury and corporate finance positions at Affinity Sutton Group and FCE Bank plc. He also served on the board of the Pensions Trust, where he was Deputy Chair of the Investment Committee.

Committee and subsidiary membership:
Non-Executive Director on LPPI Board, Chair of LPPI Risk Committee

Board and Committee reports

LPP Board

The Board is responsible for the overall direction, supervision and management of LPP. It sets the company's values and standards and has oversight of operations. It operates under the powers delegated to it by the Shareholder Agreement, under which some matters remain reserved to shareholders. From formation, it operated under the guidelines of the Initial Strategic Plan, as agreed with the shareholders, for an initial period to transform two Local Authority pension schemes into a stand-alone business. From early 2017 and during 2017–18, the Board has established a new strategic plan and budget with its shareholders, driven by the experience of transformation and its understanding of the LGPS market. The Board continues to engage with its shareholders through regular shareholder meetings to discuss progress against goals and hosts an annual Shareholder event. This event seeks to update a wider shareholder audience with LPP's progress. In addition, the business runs an Investor Forum each year in order to discuss its investment strategies with shareholder investment panels.

On formation of LPP, the shareholders agreed to carry out a structural review of the operation of the business by March 2018. Accordingly, KPMG was engaged to carry out an organisational and governance review of the business to determine whether its structures were appropriate and fit for purpose, flexible and had capacity to scale the business, and were operating efficiently. KPMG reported to the Board in December 2017 that these goals were being met but that the complexity and expansion of the business meant the business would benefit from the appointment of further NEDs, in particular to assist the operation of the Audit and Risk Committees. In addition, at least one NED should be added to the LPP Group Board and one to the LPPI Board. The Board approved this recommendation and following the agreement of the shareholders, commenced the process of recruiting additional NEDs.

The Group's governance arrangements for the investment management business were further reviewed during the year by Travers Smith LLP and also Deloitte LLP as part of their internal audit programme. While the business was considered to be operating within the regulatory requirements, a number of improvements were identified and these changes are still being implemented. As a result, the committees had their terms of reference updated and both LPP and LPPI Boards committed to redraft their terms of reference to give greater clarity to their differing responsibilities.

Both the LPP and LPPI Boards have put in place delegations to a number of committees:

i. LPP Audit Committee;
ii. LPP and LPPI Remuneration and Nomination Committee;
iii. LPPI Risk Committee; and
iv. LPP Executive Committee.

The first two committees listed are non-executive, with LPPI Risk Committee comprising both executive and non-executive directors. As a result of the governance reviews, these committees reconsidered and updated their terms of reference.

The Board works to an annual Forward Agenda which sets the framework for meetings so that it covers an appropriate range of topics in order to meet its objectives as set out in the 'Shareholder Matters reserved by the Board' and its agreed strategy.

The Board held five meetings during the year. A two-day strategy awayday was also held. The table below shows the Board attendance for the year.

Looking Ahead

The Board will work with the shareholders in delivering the new strategic plan. Of immediate necessity is a period of resilience following a significant change programme. The Board will also seek to implement the changes recommended by

Director	Date of appointment	Number of meetings*	Meetings attended
LPP Board			
Michael O'Higgins	19 October 2015	5	5
Sally Bridgeland	1 July 2016	5	5
Allister Jeffrey	Appointed on 6 December 2017	2	2
Susan Martin	11 November 2015	5	5
Dermot 'Skip' McMullan	19 October 2015	5	5
Tom Richardson	11 July 2016	5	5
Sir Peter Rogers	2 November 2015	5	5
Alan Schofield	Appointed on 25 May 2017	5	5
Robert Vandersluis	2 November 2015	5	5
George Graham	Appointed on 11 November 2015 Resigned on 13 April 2017	0	0
David Borrow	19 October 2015 Resigned on 8 May 2017	0	0

*Four meetings were held in person, one meeting was held by conference call

Board and Committee reports
continued

the Board Effectiveness Review including welcoming new NEDs to the Group.

Committee membership and meetings

The LPP and LPPI Boards have established an appropriate committee structure to consider those matters which the Boards have delegated.

LPP Audit Committee

The Audit Committee is responsible for ensuring the financial integrity of the Group. The work carried out by the Committee plays a key role in LPP's governance framework.

Sir Peter Rogers is the Chair of the Audit Committee, supported by an independent advisor, Bharat Shah, who has a wealth of financial, business and pensions experience. The appointment of at least one new NED to the Committee is planned during 2018–19.

The Chief Financial Officer and the Chief Executive are invited to all meetings, as well as representatives from LPP's external and internal auditors. During the year the Committee met three times with full attendance.

The table below sets out the work of the Audit Committee during 2017–18:

	June 2017	September 2017	February 2018
Financial reporting			
Full year accounts	✓		
Going concern	✓		
Quarterly Financial Management Reporting		✓	✓
Budget processes		✓	✓
External audit			
External audit plan	✓		✓
Management Representation Letter			✓
Closed session without management	✓		
Reviewing external audit findings		✓	
Appointment 2017–18	✓		
Internal Audit			
Internal audit plan			✓
Review of reports and controls	✓	✓	
Closed session without the presence of management			✓
Risk			
Risk Management Framework			✓
Minutes from the LPPI Risk Committee	✓	✓	✓
Other			
Review of the whistleblowing policy and procedure		✓	
Forward agenda planner and Committee work plan for 2017–18	✓	✓	✓
Review the terms of reference to re-define the roles of the LPP Audit Committee and LPPI Risk Committee in relation to the decision of risk responsibilities across the LPP Group		✓	
Breaches of non-financial breaches, along with corporate responsibilities such as Freedom of Information Requests (FOI) and compliance with policies and Codes of Practice of the LPP Group such as Gifts and Hospitality		✓	✓
Regulatory updates on MiFID II and GDPR 2018		✓	

Board and Committee reports continued

Responsibilities

Audit Committee members are appointed by the Board. Its Terms of Reference are reviewed annually and the current revised Terms of Reference were approved by the Board in December 2017. These revisions resulted in the Committee confirming its responsibility for Group risk management, while the LPPI Risk Committee focuses on risks associated with LPPI's role as an AIFM. A joint meeting was held between the two Committees to finalise the respective Terms of Reference and to ensure clarity around the division of responsibilities. This will be kept under review during 2018–19.

The key responsibilities of the Audit Committee are to:

- Monitor the operation and integrity of the Group's financial reporting obligations and any announcements relating to the Group financial performance;
- Maintain oversight of the Group risk management systems, appetite and tolerance, financial and operational internal controls, and monitor top risks for the whole business. The Committee does not directly manage risk and related exposure of LPPI which has its own Risk Committee. However, through regular reporting, the Committee is made aware of the risks facing the investment management business;
- Monitor and review the effectiveness of the external and internal audit functions;
- Review and monitor LPP's governance and compliance arrangements with the Group-wide policies and codes of practice; and
- Be alive to information management and significant ICT activity such as cyber security.

Looking ahead

In 2018–19, the Committee will focus on working closely with LPPI's Risk Committee to ensure the division of risk management and responsibilities is carried out in line with their Terms of Reference. Embedding LPP's major transformation programme will continue to be a focus. The programme is a key initiative for the development of the business and will ensure LPP is delivering the benefits it outlined in the original strategic business case. The Committee also oversees the work of the internal and external auditors and will lead on the tender exercise for an external audit provider.

LPP and LPPI Remuneration and Nomination Committee

The Remuneration and Nomination Committee is a Group-wide committee responsible for remuneration, nomination and succession planning for the Group. The establishment of this Committee is a key development of LPP's governance framework. Remuneration above a certain level and the approval of the LPP's Remuneration Policy, is a shareholder reserved matter. As a Group-wide committee, it reports to the LPP Board where required, in line with that Board's responsibility for the reward structure of its own employees. A formal delegation from the LPPI Board to the Committee is also in place.

Dermot 'Skip' McMullan is Chair of the Remuneration and Nomination Committee. Other members include Michael O'Higgins and Alan Schofield (appointed to the Committee upon joining the Board in May 2017). David Borrow, who was appointed to the Committee upon its formation, stepped down on 8 May 2017 on his departure from the Board. The Committee held three scheduled meetings during the year with full attendance.

In 2017–18 the Committee continued to work on the harmonisation of employee terms and conditions across the Group and updated the Remuneration Policy to include associated pay bands, allowing the business more flexibility to recruit and retain employees within predetermined reward ranges without the need for frequent referral to the shareholders. This was approved by the Board for shareholder consideration.

All directors are subject to annual re-appointment at the Annual General Meeting. The Committee is responsible for the annual review of the suitability of the Chair and other NEDs to continue in office. Under the annual review, the two shareholder NEDs will consider the work of the Chair during the year, and the Chair will conduct individual appraisals with each NED. The outcome of those reviews is communicated to the Board who will consider the same when proposing any re-appointment of directors to the shareholders.

The Committee has also driven succession planning for senior management to support resilience across the Group, considered individual Executive Director pay and objectives, and approved the Group's Gender, Pay and Inclusion reporting.

Upon the shareholder approval of the KPMG structural review, which identified the need to recruit further NEDs, the Committee reviewed the existing skills and experience of the Board members to identify the requirements for future hires. A review panel was then established to interview prospective candidates and the executive search firm, Odgers Berndtson was retained to assist in this process. Odgers Berndtson does not provide any other services to LPP or its subsidiaries.

Board and Committee reports
continued

Directors' emoluments

Paid by LPP (unless stated)		Basic salary (£)	Bonuses (£)	Pensions (£)	Total (£)
Sally Bridgeland		35,000	–	–	**35,000**
Allister Jeffrey		138,000	32,000	20,400	**190,400**
Susan Martin		205,000	53,300	30,996	**289,296**
Dermot 'Skip' McMullan		35,000	–	–	**35,000**
Michael O'Higgins		70,000	–	–	**70,000**
Tom Richardson		177,281	36,000	24,770	**238,051**
Sir Peter Rogers		35,000	–	–	**35,000**
Chris Rule	1	246,000	123,000	44,280	**413,280**
Alan Schofield		25,577		–	**25,577**
Jacqui Self		102,500	20,500	14,760	**137,760**
Greg Smith		130,000	26,000	18,720	**174,720**
Robert Vandersluis		35,000	–	–	**35,000**
		1,234,358	290,800	153,926	**1,679,084**
Former directors who left in the year		292,451	–	19,859	**312,310**
Employers NI					**229,431**
					2,220,825

1 Paid by LPPI and highest paid director

Executive Committee

The Executive Committee is chaired by the Chief Executive with the other members being: the Director of Human Resources and Pensions Administration; the Chief Investment Officer and Managing Director (Investments); the Chief Risk Officer; the Chief Financial Officer; the Director of Client Relations, Business Development and Communications; and the Group Company Secretary and Director of Strategic Programmes.

The purpose of the Committee is to assist the Chief Executive in the leadership and management of the business across the LPP Group. To this end it acts to:

- Develop and implement strategy, operational plans, policies, procedures and budgets;
- Monitor operating and financial performance;
- Assess and control risk; and
- Prioritise and allocate resources.

The Committee has regular monthly meetings and conference calls and determines the matters that should be put forward to the Board of Directors for further consideration as set forth in its Terms of Reference and the Shareholder Agreement.

LPP Stewardship Committee

The Stewardship Committee is chaired by the Managing Director (Investments) & Chief Investment Officer of LPPI, supported by the Chief Executive of LPP and the Responsible Investment Manager of LPPI. Representatives of the Investment Management, Governance and Communications teams are also invited to the meetings.

The Stewardship Committee reports to the Executive Committee and is responsible for developing and co-ordinating LPP's approach to stewardship, responsible investment, Environmental, Social and Governance (ESG) and collaborative engagement across the Group's portfolio of both internally and externally managed investment funds.

Local Pensions Partnership Investments Board (LPPI Board)

LPPI is a wholly-owned subsidiary of LPP and is authorised and regulated by the FCA. It is responsible for the implementation of clients' strategic asset allocations as set out in the Advisory and Asset Management Agreement between LPPI and its clients. LPPI operates in accordance with its Articles of Association, as well as the relevant rules and regulations in the market in which it operates.

Board and Committee reports continued

Sally Bridgeland is the Chair of the LPPI Board. Other members are Michael O'Higgins, Robert Vandersluis, the Chief Investment Officer & Managing Director (Investment Business), the Chief Risk Officer and the Group Chief Executive. LPP's Head of Compliance, Group Company Secretary and Chief Financial Officer attend all Board meetings.

LPPI Board oversees the investment activities undertaken by LPPI. The business regularly reviews its performance against budgets and benchmarks. The business also regularly assesses its operating model to ensure a robust system of internal controls is in place, with strong emphasis on risk management.

During the year, the LPPI Board approved the process and implementation of the provision of investment advice to clients, as well as the launch of the global infrastructure, credit and fixed income investment arrangements.

LPPI Risk Committee

Robert Vandersluis is the Chair of the Risk Committee. Other members include Sir Peter Rogers and Chief Risk Officer. The Chief Executive and Head of Compliance are also invited to attend each quarterly meeting along with members of the Risk team. The Committee held four meetings during the year which all members attended.

The recent governance review provided greater clarity over the separation of roles and responsibilities between the LPPI Risk Committee and the LPP Audit Committee. During the year, the Risk Committee considered matters such as:

- Risks surrounding the investment processes;
- Constitutive and offering documents of LPPI's investment funds;
- Material investment breaches;
- Effectiveness of the framework in relation to risk limits and compliance issues; and
- Internal controls, investment risks and compliance monitoring.

The effective understanding, acceptance and management of risk is fundamental to LPPI's long-term success as an investment management business. In this regard, the Committee will consider the implementation of a risk management system in 2018–19 to ensure that effective procedures are in place to understand, assess, monitor and manage investment risks. This will include, but not exclusively, those arising in accordance with requirements of the Alternative Investment Fund Manager Directive and the Commission Delegated Regulation.

LPPI Investment Committee

The LPPI Board has delegated its day-to-day investment decisions to the Investment Committee which is chaired by the Managing Director (Investments) & Chief Investment Officer. The two other permanent members are the Chief Risk Officer and the Head of Investment Strategy. Other members are CF30 approved Investment Directors and the Head of Compliance. The Committee considers investment decisions and discusses the Investment Performance Reports which measure performance against targets. Whilst monitoring is carried out on an ongoing basis, the reports along with the Investment Decision Index are reported to the LPPI Board on a quarterly basis.

LPPI Fair Value Pricing Committee

The Fair Value Pricing Committee was established in May 2017 and is chaired by the Head of Investment Operations. Other members are: Head of Financial Control, Market Risk Specialist and in-house Actuary. The Head of Compliance is invited to attend, along with an observer from the Depositary. The Committee meets on a quarterly basis.

The Committee's core objectives are to:

- Monitor LPPI's compliance with the Valuation Policy;
- Approve the valuation of pooled assets; and
- Regulate and monitor the use of independent external valuers and valuation models together with any internal valuation models in use.

LPPI Funds Launch Committee

The Funds Launch Committee comprises three Executives: Chief Risk Officer, Managing Director (Investments) & Chief Investment Officer and Head of Investment Strategy, together with the Group Company Secretary who attends as required.

The Committee considers and approves any document or action required that is pertinent to the launch or winding-up of in-house funds or the like. It will do so taking into consideration product governance requirements.

Directors' report

The directors present their report and financial statements for the year ended 31 March 2018.

Incorporation

The Company was incorporated on 19 October 2015 under the name of Lancashire and London Pensions Partnership Ltd and began trading on 8 April 2016. On 12 February 2016 a special resolution was passed to change the company name to Local Pensions Partnership Ltd.

Directors

The directors in office during the period and at the date of signing this report were as follows:

David Borrow
(resigned 8 May 2017)

Sally Bridgeland

George Graham
(resigned 13 April 2017)

Allister Jeffrey
(appointed 6 December 2017)

Susan Martin

Dermot 'Skip' McMullan

Michael O'Higgins

Tom Richardson

Sir Peter Rogers

Alan Schofield
(appointed 25 May 2017)

Robert Vandersluis

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under the law, the directors have elected to prepare the financial statements in accordance with United Kingdom applicable law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 (FRS 102) 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit and loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for ensuring that the Group keeps adequate accounting records that are sufficient to show and explain the Group's transactions; disclose with reasonable accuracy at any time the financial position of the Group; enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results and dividends

The Group's result for the year ended 31 March 2018 is a loss after tax of £2,110,000 (2017 – profit of £3,443,000). LPP itself made a loss after tax of £3,795,000 (2017 – profit of £1,388,000).

No dividends were paid during the year (2017 – nil) and no recommendation is made to pay a final dividend.

Expected Future Developments

Expected future developments are set out in the strategic report.

Political or Charitable Donations

During 2017–18 the Company did not make any political or charitable donations.

Research and Development

There was no research and development expenditure during the year.

Financial Instrument Risk

The Group does not use hedging or financial risk management instruments and all cash is held within bank accounts with highly rated financial institutions.

Employee representation

LPP has in place a Staff Committee which meets the CEO and other Executive Directors on a quarterly basis. This is one of the mechanisms by which organisational wide changes are communicated to the employees and major strategic projects are discussed with employees. During 2017–18 the Staff Committee were heavily involved in the project to harmonise employee terms and conditions throughout the business.

Disabled Employees

LPP is committed to ensuring equality of opportunity and access in both our employment and service arrangements. We aim to promote diversity within our

Directors' report
continued

workforce and ensure that our services meet the different needs of our staff, and clients at all times. LPP has published an Equality Policy on its website. 18% of LPP's employees have reported some form of disability.

As a Group, we aim to ensure fairness and equality towards all applicants through objective based recruitment practices and family friendly policies to support staff during changing circumstances. This includes flexible working arrangements to support participation in religious and/or cultural events, to care for dependents or where reasonable adjustments are required to roles/working patterns to support declared disabilities.

Training methods and environments are tailored to support staff with declared disabilities including delivering the training with the support of sign language.

Post Balance Sheet Events

None.

Disclosure of information to Auditors

Each of the persons who is a director at the date of the approval of this report confirms that:

1. So far as the directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and

2. The Directors have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

At the Annual General Meeting held on 22 August 2017 Grant Thornton UK LLP was reappointed as auditor of the Company, in accordance with s487 of the Companies Act 2006. Following the finalisation of the 2017–18 external audit, LPP will begin a formal tender exercise for an external audit provider.

Approved by the Board of Directors and signed on behalf of the Board:

Susan Martin
Director
31 July 2018

Independent auditor's report

Opinion

We have audited the financial statements of Local Pensions Partnership Ltd (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 March 2018 which comprise the consolidated income statement, the consolidated parent and company statement of comprehensive income, the consolidated and parent company company statement of financial position, the consolidated statement of cash flows, the consolidated and parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2018 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the 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.

Who we are reporting to

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent auditor's report
continued

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge 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 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Independent auditor's report
continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company'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 the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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.

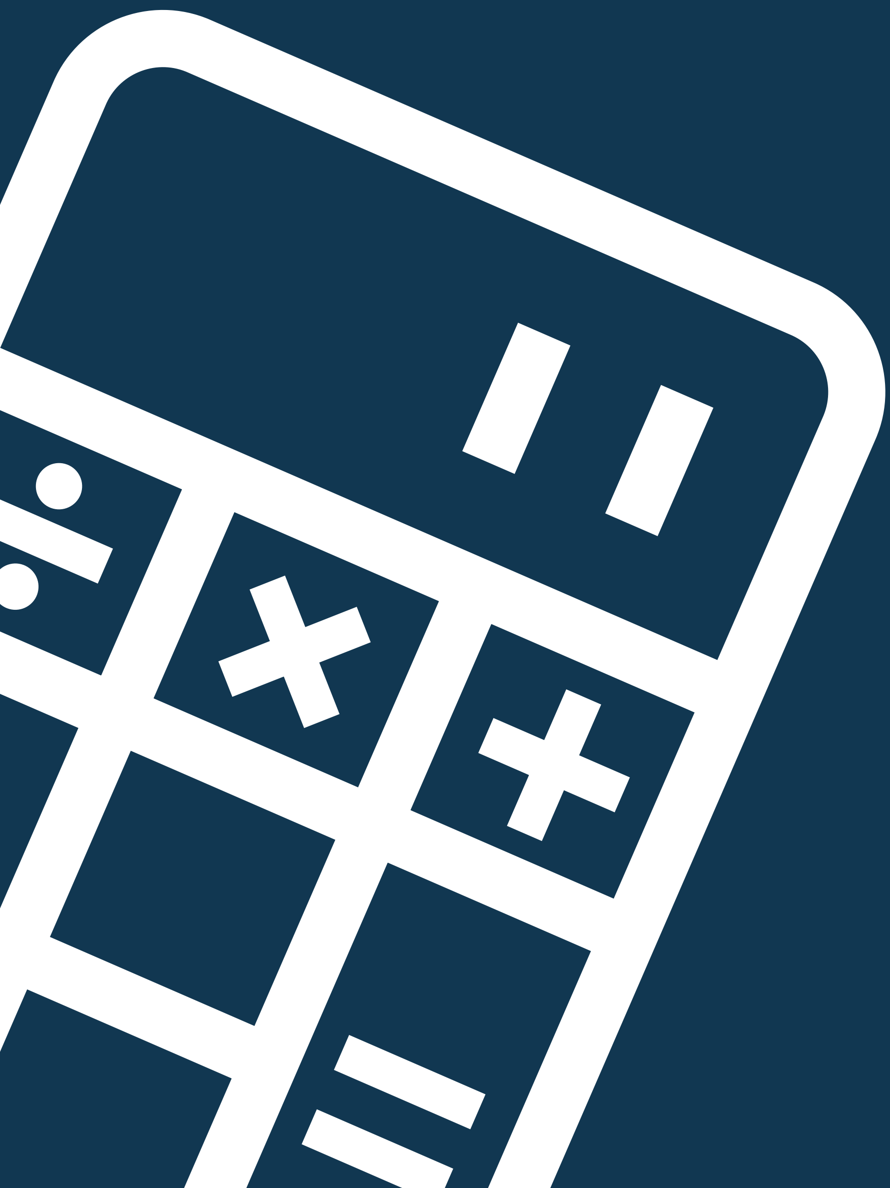
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditors responsibilities. This description forms part of our auditor's report.

Paul Flatley
for and on behalf of Grant Thornton UK LLP, Chartered Accountants & Statutory Auditor

31 July 2018

03

Financial statements



Consolidated income statement

For the year ended 31 March 2018

	Notes	Year to 31 Mar 2018 £'000	From 19 Oct 2015 to 31 Mar 2017 £'000
Turnover	5	26,140	23,306
Administrative expenses		(27,906)	(18,243)
Operating (loss)/profit	6	(1,766)	5,063
Interest receivable and similar income		16	25
Interest payable and similar charges		(742)	(729)
(Loss)/profit before tax		(2,492)	4,359
Tax credit/(charge) for the year/period	8	382	(916)
(Loss)/profit for the financial year/period		**(2,110)**	**3,443**

Consolidated statement of comprehensive income

For the year ended 31 March 2018

	Notes	Year to 31 Mar 2018 £'000	From 19 Oct 2015 to 31 Mar 2017 £'000
(Loss)/profit for the financial year/period		(2,110)	3,443
Net actuarial gain/(loss) on defined benefit schemes	16	5,062	(5,570)
Deferred tax on actuarial gain/(loss)		(861)	947
Total comprehensive income/(loss) for the financial year/period		**2,091**	**(1,180)**

Company statement of comprehensive income

For the year ended 31 March 2018

	Notes	Year to 31 Mar 2018 £'000	From 19 Oct 2015 to 31 Mar 2017 £'000
(Loss)/profit for the financial year/period		(3,795)	1,388
Net actuarial gain/(loss) on defined benefit schemes	16	4,468	(4,386)
Deferred tax on actuarial gain/(loss)		(760)	746
Total comprehensive loss for the financial year/period		**(87)**	**(2,252)**

Consolidated statement of financial position

As at 31 March 2018

	Notes	31 Mar 2018 £'000	31 Mar 2017 £'000
Fixed assets			
Intangible fixed assets	9	865	55
Tangible fixed assets	10	765	80
		1,630	135
Current assets			
Debtors	12	10,557	9,853
Cash at bank and in hand	13	18,064	17,561
		28,621	27,414
Current liabilities			
Creditors: amounts falling due within one year	14	(6,655)	(4,247)
Net current assets		21,966	23,167
Total assets less current liabilities		**23,596**	**23,302**
Creditors: amounts falling due after one year	15	(17,500)	(17,500)
Post employment benefits	16	(13,242)	(15,039)
Net liabilities		**(7,146)**	**(9,237)**
Capital and Reserves			
Called up share capital	17	–	–
Retirement benefit obligations reserve		(8,057)	(8,057)
Profit and loss account		911	(1,180)
Total Shareholders' Funds		**(7,146)**	**(9,237)**

The financial statements on pages 35 to 64 were approved by the board of directors and authorised for issue on 31 July 2018 and were signed on their behalf by:

Allister Jeffrey
Director

Company Registration Number: 09830002

Company statement of financial position

As at 31 March 2018

	Notes	31 Mar 2018 £'000	31 Mar 2017 £'000
Fixed assets			
Intangible fixed assets	9	392	55
Tangible fixed assets	10	765	80
Investments	11	10,000	10,000
		11,157	10,135
Current assets			
Debtors	12	10,615	8,196
Cash at bank and in hand	13	1,013	5,925
		11,628	14,121
Current liabilities			
Creditors: amounts falling due within one year	14	(3,622)	(3,294)
Net current assets		8,006	10,827
Total assets less current liabilities		19,163	20,962
Creditors: amounts falling due after one year	15	(17,500)	(17,500)
Post employment benefits		(11,498)	(13,210)
Net liabilities		(9,835)	(9,748)
Capital and Reserves			
Called up share capital	17	–	–
Retirement benefit obligations reserve		(7,496)	(7,496)
Profit and loss account		(2,339)	(2,252)
Total Shareholders' Funds		**(9,835)**	**(9,748)**

The financial statements on pages 35 to 64 approved by the board of directors and authorised for issue on 31 July 2018 and were signed on their behalf by:

Allister Jeffrey
Director

Company Registration Number: 09830002

Consolidated statement of cash flows

For the year ended 31 March 2018

	Notes	Year to 31 Mar 2018 £'000	From 19 Oct 2015 to 31 Mar 2017 £'000
Cash flows from operating activities			
Consolidated operating (loss)/profit for the financial year		(2,110)	3,443
Adjustments for:			
Depreciation of tangible assets	10	115	7
Amortisation of intangible assets	9	58	4
Decrease/(increase) in trade & other debtors	12	(978)	(9,853)
(Decrease)/increase in trade creditors	14	3,309	4,247
Pension movements in the year/period		2,404	2,359
Cash from operations		2,798	207
Net cash from operating activities			
Taxation paid		(627)	–
Net cash from operating activities		(627)	–
Cash flows from investing activities			
Purchase of tangible assets	10	(1,273)	(87)
Purchase of intangible assets	9	(395)	(59)
Net cash from investing activities		(1,668)	(146)
Cash flows from financing activities			
Subordinated loan	15	–	17,500
Net cash used in financing activities		–	17,500
Net increase in cash and cash equivalents		503	17,561
Cash and cash equivalents at the beginning of the year/period		17,561	–
Cash and cash equivalents at the end of the year/period	13	**18,064**	**17,561**

Consolidated statement of changes in equity

For the year ended 31 March 2018

	Called-up share capital £'000	Retirement benefit obligations reserve £'000	Profit and loss account £'000	**Total £'000**
At 19 October 2015	–	–	–	**–**
Profit and total comprehensive income for the period	–	–	(1,180)	**(1,180)**
Pension deficit for the period	–	(9,469)	–	**(9,469)**
Deferred tax on retirement benefit obligation deficit	–	1,412	–	**1,412**
At 31 March 2017	–	(8,057)	(1,180)	**(9,237)**
At 1 April 2017	–	(8,057)	(1,180)	**(9,237)**
Profit and total comprehensive income for the year	–	–	2,091	**2,091**
At 31 March 2018	–	(8,057)	911	**(7,146)**

Company statement of changes in equity

For the year ended 31 March 2018

	Called-up share capital £'000	Retirement benefit obligations reserve £'000	Profit and loss account £'000	**Total £'000**
At 19 October 2015	–	–	–	**–**
Profit and total comprehensive income for the period	–	–	(2,252)	**(2,252)**
Pension deficit for the period	–	(8,824)	–	**(8,824)**
Deferred tax on retirement benefit obligation deficit	–	1,328	–	**1,328**
At 31 March 2017	–	(7,496)	(2,252)	**(9,748)**
At 1 April 2017	–	(7,496)	(2,252)	**(9,748)**
Profit and total comprehensive income for the year	–	–	(87)	**(87)**
At 31 March 2018	–	(7,496)	(2,339)	**(9,835)**

Notes to the financial statements

For the year ended 31 March 2018

1. Company information

Local Pensions Partnership Ltd ('LPP' or 'the Company') is a private company limited by shares and incorporated in England. Its registered office is County Hall, Fishergate, Preston, United Kingdom, PR1 8XJ.
The Company's principal activities and nature of operations is included in the Strategic report on page 6.

2. Basis of preparation

The LPP and its subsidiaries (together 'the Group') financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The Group financial statements have been prepared on the historical cost basis.

The Group financial statements are presented in Sterling (£).

The Group financial statements consolidate the financial statements of Local Pensions Partnership Ltd and all its subsidiary undertakings drawn up to 31 March each year.

LPP has taken advantage of section 408 of the Companies Act 2006 and has not included its own Income Statement in these financial statements.

The individual financial statements of LPP have also adopted the following disclosure exemptions, as they are included in the Group financial statements:

- the requirement to present a statement of cash flows and related notes (s7 FRS 102)
- financial instrument disclosures (s11 & s12 FRS 102), including:
  - categories of financial instruments;
  - items of income, expenses, gains or losses relating to financial instruments; and
  - exposure to and management of financial risks.
- the exemption has been claimed not to disclose related party transactions (s33 FRS 102).

There are no other FRS102 interpretations that are not yet effective that would be expected to have a material impact on the Group or Company.

Going concern

After reviewing the Group's forecasts and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

3. Significant judgements and estimates

In the process of applying the Group's accounting policies, which are described in note 4, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Deferred taxation

The financial statements include judgements and estimates that have been made regarding deferred taxation, as described in note 4.9.

Pensions liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Firms of consulting actuaries are engaged to provide the Group with expert advice about the assumptions to be applied. However, because these judgements cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to the financial statements
continued

For the year ended 31 March 2018

4. Principal accounting policies

4.1 Investment in subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Group (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in total comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate using accounting policies consistent with those of the parent. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

4.2 Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using the straight-line method. The intangible assets are amortised over the following useful economic lives:

- Software costs, over the life of the licence

4.3 Tangible assets

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, other than freehold land, over their expected useful lives, using the straight-line method. The rates applicable are:

- Computer equipment – 3 to 5 years
- Office equipment – 3 to 5 years
- Improvements to leasehold over the length of the lease

4.4 Impairment of assets

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carry amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4.5 Debtors

Loans receivable are measured initially at fair value, net of transaction costs.

4.6 Cash at bank and in hand

Cash at bank and in hand also includes deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

4.7 Creditors

Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs.

Notes to the financial statements
continued

For the year ended 31 March 2018

4. Principal accounting policies (continued)

4.8 Provisions for liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

4.9 Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

- the Group is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

Deferred tax is calculated using the tax rates and laws that that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.10 Turnover

Turnover is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes.
Turnover includes revenue earned from the rendering of administration, investment and risk management services.

4.11 Employee and pension costs

Participation by Group employees in four administered defined benefit scheme funds began on 8 April 2016. Contributions from the employer were payable to the schemes and are charged to the profit and loss account in the period to which they relate.

Notes to the financial statements
continued

For the year ended 31 March 2018

5. Turnover

	Year to 31 Mar 2018 £'000	From 19 Oct 2015 to 31 Mar 2017 £'000
Pension administration	10,543	9,608
Investment management fees	14,065	12,184
Risk management services	1,532	1,514
	26,140	**23,306**

6. Operating (loss)/profit

	Year to 31 Mar 2018 £'000	From 19 Oct 2015 to 31 Mar 2017 £'000
Operating profit is stated after charging:		
Staff costs (note 7)	14,690	10,720
Fee payable to external auditor:		
– Auditor's remuneration for audit of group and company	90	52
– Fees payable to auditor for other services: regulatory assurance	8	8
Internal audit	124	–
Operating lease rentals:		
– Land and buildings	1,373	1,019

7. Directors and employees

	Year to 31 Mar 2018 £'000	From 19 Oct 2015 to 31 Mar 2017 £'000
Wages and salaries	12,114	8,764
Social security costs	1,259	961
Other pension costs	1,317	995
	14,690	**10,720**

The companies in the Group are members of four defined benefit pension schemes for the benefit of the employees and directors. The assets of the scheme are administered in house. Employer contributions recognised as an expense during the year amount to £1,317,000 (March 2017 – £995,000). Not included above are IAS19 pension cost adjustments made at the 2018 year end of £3,265,000 (2017 – nil).

The average monthly number of employees for the Group, during the year to 31 March 2018 was 255 (period to 31 March 2017 – 226), of which 8 (period to 31 March 2017 – 9) were directors and 247 (period to 31 March 2017 – 217) were staff.

At 31 March 2018, the Group head count was 284, which includes 19 people who left the Group on this date.

Remuneration in respect of directors was as follows:

	Year to 31 Mar 2018 £'000	From 19 Oct 2015 to 31 Mar 2017 £'000
Emoluments	1,818	1,366
Social security costs	229	175
Pension contributions to defined benefit schemes	174	141
	2,221	**1,682**

Not included in Emoluments above are LTIP payments of £93,303 (2017 – £93,303) made to directors by a shareholder.

Notes to the financial statements
continued

For the year ended 31 March 2018

7. Directors and employees (continued)

The amounts set out above include remuneration in respect of the highest paid director and are as follows:

	£'000	£'000
Emoluments	369	355
Social security costs	50	48
Pension contributions to defined benefit schemes	44	43
	463	**446**

8. Taxation

	Year to 31 Mar 2018 £'000	From 19 Oct 2015 to 31 Mar 2017 £'000
The tax charge is based on the profit for the year/period and represents:		
UK Corporation Tax	189	1,091
Prior year tax adjustment	16	–
	205	1,091
Deferred tax:		
Current year/period	(587)	(206)
Effect of changes in tax rates	–	31
Tax (credit)/charge for the year/period	**(382)**	**916**
The tax charge for the year can be reconciled to the profit per the income statement as follows:		
(Loss)/profit on ordinary activities before tax	(2,492)	4,359
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 19% (PY: 20%)	(473)	872
Expenses not deductible for tax purposes	66	13
Prior year tax adjustment	16	–
Tax rate changes	9	31
Tax charge for the year/period	**(382)**	**916**
Deferred taxation		
Deferred tax credit to income statement for the year/period	(587)	(175)
Deferred tax charge/(credit) in equity for the year/period	–	(1,412)
Deferred tax charge/(credit) in OCI for the year/period	861	(947)
	274	**(2,534)**

Notes to the financial statements
continued

For the year ended 31 March 2018

9. Intangible fixed assets

	Company software £'000	Group software £'000
Cost		
At 1 April 2017	59	59
Additions	395	868
At 31 March 2018	**454**	**927**
Amortisation		
At 1 April 2017	4	4
Charge for the year	58	58
At 31 March 2018	**62**	**62**
Net book value		
At 31 March 2018	**392**	**865**
At 31 March 2017	55	55

10. Tangible fixed assets

The Group	Leasehold improvements £'000	Office equipment £'000	IT equipment £'000	Total £'000
Cost				
At 1 April 2017	–	–	87	87
Additions	191	106	503	800
At 31 March 2018	**191**	**106**	**590**	**887**
Depreciation				
At 1 April 2017	–	–	7	7
Charge for the year	32	8	75	115
At 31 March 2018	**32**	**8**	**82**	**122**
Net book value				
At 31 March 2018	159	98	508	765
At 31 March 2017	**–**	**–**	**80**	**80**

The Company	Leasehold improvements £'000	Office equipment £'000	IT equipment £'000	Total £'000
Cost				
At 1 April 2017	–	–	87	87
Additions	191	106	503	800
At 31 March 2018	**191**	**106**	**590**	**887**
Depreciation				
At 1 April 2017	–	–	7	7
Charge for the year	32	8	75	115
At 31 March 2018	**32**	**8**	**82**	**122**
Net book value				
At 31 March 2018	159	98	508	765
At 31 March 2017	**–**	**–**	**80**	**80**

Notes to the financial statements
continued

For the year ended 31 March 2018

11. Investments

The Company

	Investment in subsidiaries £'000
Cost	
At 31 March 2017 & 2018	10,000

Subsidiaries – direct

	Type of shares held	Proportion held	Country of incorporation	Nature of business
Local Pensions Partnership Administration Ltd	Ordinary	100 %	UK	Non-trading
Local Pensions Partnership Investments Ltd	Ordinary	100 %	UK	Investment

Subsidiaries – indirect

	Type of shares held	Proportion held	Country of incorporation	Nature of business
LPPI Scotland (No.1) Ltd	Ordinary	100 %	UK	Investment
LPPI Scotland (No.2) Ltd	Ordinary	100 %	UK	Investment
Daventry GP Limited	Ordinary	100 %	UK	General partner
LPPI PE GP (No 1) LLP	LLP	100 %	UK	General partner
LPPI PE GP (No 2) LLP	LLP	100 %	UK	General partner
LPPI Infrastructure GP LLP	LLP	100 %	UK	General partner
LPPI Credit GP Limited	Ordinary	100 %	UK	General partner

12. Debtors

	The Group		The Company	
	31 Mar 2018 £'000	31 Mar 2017 £'000	31 Mar 2018 £'000	31 Mar 2017 £'000
Amounts falling due within one year:				
Trade debtors	7,682	4,981	4,893	1,427
Amounts owed by group undertakings	–	–	2,870	2,500
Corporation tax	–	–	329	–
Deferred tax	2,260	2,534	1,953	2,223
Prepayments and accrued income	615	2,338	570	2,046
	10,557	**9,853**	**10,615**	**8,196**

Included in the company "Amounts owed by group undertakings" is a loan made to LPPI Ltd by LPP Ltd as the same basis as the loan facility disclosed in note 15.

13. Cash at bank and in hand

	The Group		The Company	
	31 Mar 2018 £'000	31 Mar 2017 £'000	31 Mar 2018 £'000	31 Mar 2017 £'000
Cash at bank	**18,064**	**17,561**	**1,013**	**5,925**
	18,064	**17,561**	**1,013**	**5,925**

Notes to the financial statements
continued

For the year ended 31 March 2018

14. Creditors: amounts falling due within a year

	The Group		The Company	
	31 Mar 2018 £'000	31 Mar 2017 £'000	31 Mar 2018 £'000	31 Mar 2017 £'000
Trade creditors	1,216	236	1,057	725
Taxation and social security costs	949	836	832	538
Corporation tax	189	1,090	–	528
Other creditors	172	186	133	129
Accruals	4,129	1,899	1,600	1,374
	6,655	**4,247**	**3,622**	**3,294**

15. Creditors: amounts falling due after one year

	The Group		The Company	
	31 Mar 2018 £'000	31 Mar 2017 £'000	31 Mar 2018 £'000	31 Mar 2017 £'000
Loans	**17,500**	**17,500**	**17,500**	**17,500**

Loans are repayable as follows:

	£'000	£'000	£'000	£'000
More than five years	**17,500**	**17,500**	**17,500**	**17,500**

On 8 April 2016, the Company entered into a term loan facility agreement with Lancashire County Council, one of its shareholders. The term is for ten years with no schedule of fixed repayments. The loan facility bears interest at 4.25% per annum. No repayments have been made as at 31 March 2018.

The Company also has a loan facility with its other shareholder, LPFA, but is not drawn down as at 31 March 2018. The facility is for £17.5m, to be repaid within ten years of the withdrawal date, at a rate initially of 1.3% before draw down and at 4.25% thereafter.

16. Pension schemes

Defined benefit pension schemes

On 8 April 2016 current employees of the London Pensions Fund Authority (LPFA) and Lancashire County Council (LCC) who were members of the Lancashire County Pension Fund (LCPF), were TUPE transferred to the Local Pensions Partnership Ltd (LPP) and Local Pensions Partnership Investments Ltd (LPPI). A subsequent transfer of employees into LPP from LPFA took place during the period.

The transferring employees are all members of the Local Government Pension Scheme (LGPS). LPP and LPPI were allocated notional shares of the LPFA and LCPF Fund assets equal to 100% of the value of the transferring pension liabilities. The liabilities were calculated on the ongoing basis appropriate for funding, either the LPFA or LCPF 2016 Triennial valuation assumptions depending on the Fund from which employees' liabilities were transferred. As such LPP and LPPI 's pension liabilities were 100% funded on the relevant ongoing basis at the dates of transfer.

Notwithstanding differences between the LPFA and LCPF ongoing 2016 Triennial valuation basis, when the pension liabilities are valued for the purposes of IAS19 disclosures, the discount rate is prescribed by the IAS19 standards to be set with reference to corporate bond yields. The assessment of pension liabilities on this accounting basis at the date of transfer results in pension liabilities greater than those assessed on the LPFA and LCPF ongoing valuation basis. Therefore at the date of transfer LPP and LPPI's pension liabilities on the IAS19 accounting basis were not fully funded.

The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972. The benefits under the scheme are based on the length of membership and the average salary. Each member contributes a proportion of their salary, within a 5.5% to 12.5% range depending on their rate of pay. LPP and LPPI, as the employing bodies, also contributes in to the scheme on the employee's behalf at 12.0% of the employee's salary.

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

LGPS is accounted for as a defined benefits scheme. The liabilities of the LGPS attributable to the Group are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
In accounting for the defined benefit schemes, the Group has applied the following principles:

- No pension assets are invested in the Group's own financial instruments or property.

The schemes in the UK typically expose the Group to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk, as follows:

- Investment risk – the present value of the defined benefit schemes' liability is calculated using a discount rate determined by reference to high quality corporate bond yields. If the return on plan assets is below this rate, a deficit will be created;
- Interest risk – a decrease in the bond interest rate will increase the scheme liability but this will be partially offset by an increase in the return of the plan's debt investments;
- Longevity risk – the present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability; and
- Salary risk – the present value of the defined benefit scheme liability is calculated by reference to the future salaries of plan participants, as such, an increase in the salary of the plan participants will increase the plan's liability.

In summary, the four defined benefit pension schemes can be summarised, by entity, as follows:

Post employment benefits summary

	Year to 31 March 2018		
	LPP £'000	**LPPI £'000**	**Total £'000**
Net assets	20,257	2,846	23,103
Net liabilities	(31,755)	(4,590)	(36,345)
	(11,498)	(1,744)	(13,242)
Consolidated statement of comprehensive income	4,468	594	5,062
Pension costs expensed for the year	3,676	846	4,522

	From 19 Oct 2015 to 31 Mar 2017		
	LPP £'000	**LPPI £'000**	**Total £'000**
Net assets	18,008	2,127	20,135
Net liabilities	(31,218)	(3,956)	(35,174)
	(13,210)	(1,829)	(15,039)
Consolidated statement of comprehensive income	4,386	1,184	5,570
Person costs expensed for the year	1,638	361	1,999

London Pensions Fund Authority

LPP pension information

The normal contributions expected to be paid during the financial year ending 31 March 2019 are £743,000 (2018: £589,000) for LPP.

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

A summary of the defined benefit pension schemes on the group balance sheet is as follows:

	LPP 31 Mar 2018 £'000	LPP 31 Mar 2017 £'000
Retirement benefit assets	11,002	9,521
Retirement benefit obligations	(18,912)	(18,671)
Net retirement benefit deficit	**(7,910)**	**(9,150)**

Scheme assets – Changes in the fair value of scheme assets are as follows:

	LPP 31 Mar 2018 £'000	LPP 31 Mar 2017 £'000
Fair value of plan assets at beginning of year/period	9,521	5,131
Interest income on scheme assets – employer	280	232
Return on scheme assets less interest income	276	1,230
Administrative expenses and taxes	(12)	(7)
Employer contributions	614	342
Contributions by employees	429	276
Benefits paid	(106)	(36)
Plan settlements	–	2,353
Fair value of plan assets at end of year/period	**11,002**	**9,521**

Analysis of assets – The major categories of scheme assets are as follows:

	LPP 31 Mar 2018 £'000	LPP 31 Mar 2017 £'000
Equity instruments	6,727	5,642
Target return portfolio	2,466	2,012
Infrastructure	481	501
Property	792	485
Cash and other	536	881
At 31 March	**11,002**	**9,521**

The pension scheme has not invested in any of the Group's own financial instruments or in properties or other assets used by the Group. Virtually all equity and debt instruments have quoted prices in an active market.

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Scheme liabilities – Changes in the fair value of scheme liabilities are as follows:

	LPP 31 Mar 2018 £'000	LPP 31 Mar 2017 £'000
Benefit obligation at beginning of year/period	18,671	8,392
Current service cost – employer	2,269	980
Effect of changes in financial assumptions	(2,123)	3,271
Effect of demographic assumptions	(1,042)	–
Interest cost – employer	527	385
Past service costs	287	–
Benefits paid	(106)	(36)
Contributions by scheme participants	429	276
Plan settlements	–	5,403
Benefit obligation at end of year/period	**18,912**	**18,671**

Amounts recognised in the income statement

	LPP 31 Mar 2018 £'000	LPP From 19 Oct 2015 to 31 Mar 2017 £'000
Amounts recognised in operating profit		
Current service cost	2,556	4,030
Settlement gain	–	(3,050)
Administrative expenses and taxes	12	7
Recognised in arriving at operating profit	2,568	987
Amounts recognised in interest receivable and similar income		
Interest cost on scheme liabilities – employer	247	153
Recognised in interest receivable and similar income	247	153
Total recognised in the profit and loss account	**2,815**	**1,140**

Amounts recognised in the statement of comprehensive income

	LPP 31 Mar 2018 £'000	LPP From 19 Oct 2015 to 31 Mar 2017 £'000
Remeasurements recognised in the statement of comprehensive income		
Return on scheme assets less interest income	276	1,230
Effect of changes in financial assumptions	2,123	(3,271)
Effect of changes in demographic assumptions	1,042	–
	3,441	**(2,041)**
Total pension cost recognised in the statement of comprehensive income	**3,441**	**(2,041)**

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Principal actuarial assumptions
The principal actuarial assumptions at the balance sheet date are as follows:

	LPP 31 Mar 2018 %	LPP 31 Mar 2017 %
Discount rate	2.6	2.8
Future salary increases	3.6	4.2
Future pension increases (CPI)	2.1	2.7
Future pension increases (RPI)	3.1	3.6
Inflation assumption (CPI)	2.1	2.7
Inflation assumption (RPI)	3.1	3.6

Post retirement mortality assumptions

	LPP 31 Mar 2018 Years	LPP 31 Mar 2017 Years
Current UK pensioners at retirement age – male	21.1	21.7
Current UK pensioners at retirement age – female	23.9	24.5
Future UK pensioners at retirement age – male	22.6	24.0
Future UK pensioners at retirement age – female	25.4	26.7

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality.

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant.

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2017 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2018 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Assumption	Change in assumption %	Change of +0.1% in present value of scheme liabilities £'000	Change of (0.1%) in present value of scheme liabilities £'000
	Year to 31 March 2018		
LPP			
Discount rate: 2.6%	0.1	18,402	(19,437)
Inflation: 2.1% CPI	0.1	19,341	(18,495)
Rate of salary increase: 3.6%	0.1	19,009	(18,816)
	From 19 Oct 2015 to 31 Mar 2017		
LPPI			
Discount rate: 2.8%	0.1	18,169	(19,188)
Inflation: 2.1% CPI	0.1	19,044	(18,310)
Rate of salary increase: 4.2%	0.1	18,815	(18,529)

If the mortality rate were increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 21.7 – 26.7 years, post retirement age, the change in present value of scheme liabilities would be an increase of 0.3%.

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

LPPI pension information

The normal contributions expected to be paid during the financial year ending 31 March 2019 for LPPI are £187,000 (2018: £187,000).

A summary of the defined benefit pension schemes on the Group balance sheet is as follows:

	LPPI 31 Mar 2018 £'000	**LPPI 31 Mar 2017 £'000**
Retirement benefit assets	833	403
Retirement benefit obligations	(1,364)	(974)
Net retirement benefit deficit	**(531)**	**(571)**

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Scheme assets – Changes in the fair value of scheme assets are as follows:

	LPPI 31 Mar 2018 £'000	LPPI 31 Mar 2017 £'000
Fair value of plan assets at beginning of year/period	403	154
Interest income on scheme assets – employer	17	9
Return on scheme assets less interest income	16	41
Administrative expenses and taxes	(1)	–
Employer contributions	210	120
Contributions by employees	130	93
Benefits paid	58	(14)
Fair value of plan assets at end of year/period	**833**	**403**

Analysis of assets – The major categories of scheme assets are as follows:

	LPPI 31 Mar 2018 £'000	LPPI 31 Mar 2017 £'000
Equity instruments	509	239
Target return portfolio	187	85
Infrastructure	36	21
Property	60	21
Cash and other	41	37
At 31 March	**833**	**403**

The pension scheme has not invested in any of the Group's own financial instruments or in properties or other assets used by the Group. Virtually all equity and debt instruments have quoted prices in an active market.

Scheme liabilities – Changes in the present value of scheme liabilities are as follows:

	LPPI 31 Mar 2018 £'000	LPPI 31 Mar 2017 £'000
Benefit obligation at beginning of year/period	974	353
Current service cost – employer	497	205
Effect of changes in financial assumptions	(223)	322
Effect of changes in demographic assumptions	(102)	–
Interest cost – employer	30	15
Benefits paid	58	(14)
Contributions by scheme participants	130	93
Benefit obligation at end of year/period	**1,364**	**974**

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Amounts recognised in the income statement

	LPPI Year to 31 Mar 2018 £'000	LPPI From 19 Oct 2015 to 31 Mar 2017 £'000
Amounts recognised in operating profit		
Current service cost	497	205
Settlement gain	–	–
Administrative expenses and taxes	1	–
Recognised in arriving at operating profit	**498**	**205**
Amounts recognised in interest receivable and similar income		
Interest cost on scheme liabilities – employer	13	6
Recognised in interest receivable and similar income	13	6
Total recognised in the profit and loss account	**511**	**211**

Amounts recognised in the statement of comprehensive income

	LPPI Year to 31 Mar 2018 £'000	LPPI From 19 Oct 2015 to 31 Mar 2017 £'000
Remeasurements recognised in the statement of comprehensive income		
Return on scheme assets less interest income	16	41
Effect of changes in financial assumptions	223	(322)
Effect of changes in demographic assumptions	102	–
Effect of experience adjustments	–	–
	341	(281)
Total pension cost recognised in the statement of comprehensive income	**341**	**(281)**

Principal actuarial assumptions
The principal actuarial assumptions at the balance sheet date are as follows:

	LPPI 31 Mar 2018 %	LPPI 31 Mar 2017 %
Discount rate	2.6	2.8
Future salary increases	2.7	4.2
Future pension increases (CPI)	2.1	2.7
Future pension increases (RPI)	3.1	3.6
Inflation assumption (CPI)	2.1	2.7
Inflation assumption (RPI)	3.6	3.6

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Post retirement mortality assumptions

	LPPI 31 Mar 2018 %	LPPI 31 Mar 2017 %
Current UK pensioners at retirement age – male	21.1	21.7
Current UK pensioners at retirement age – female	23.9	24.5
Future UK pensioners at retirement age – male	22.6	24.0
Future UK pensioners at retirement age – female	25.4	26.7

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality.

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant.

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2017 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2017 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Assumption	Change in assumption %	Change of +0.1% in present value of scheme liabilities £'000	Change of (0.1%) in present value of scheme liabilities £'000
	Year to 31 March 2018		
LPPI			
Discount rate: 2.6%	0.1	1,318	(1,411)
Inflation: 2.1% CPI	0.1	1,364	(1,364)
Rate of salary increase: 2.7%	0.1	1,412	(1,318)
	From 19 Oct 2015 to 31 March 2017		
LPPI			
Discount rate: 2.8%	0.1	1,008	(1,008)
Inflation: 2.1% CPI	0.1	941	(941)
Rate of salary increase: 4.2%	0.1	974	(974)

If the mortality rate were increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 21.7 – 26.7 years, post retirement age, the change in present value of scheme liabilities would be an increase of 0.3%.

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Lancashire County Pension Fund

The actuaries for LCPF are Mercer.

LPP pension information

The normal contributions expected to be paid during the financial year ending 31 March 2019 are £683,000 (2018: £279,000) for LPP.

A summary of the defined benefit pension schemes on the Group balance sheet is as follows:

	LPP 31 Mar 2018 £'000	LPP 31 Mar 2017 £'000
Retirement benefit assets	9,255	8,487
Retirement benefit obligations	(12,843)	(12,547)
Net retirement benefit deficit	**(3,588)**	**(4,060)**

Scheme assets – Changes in the fair value of scheme assets are as follows:

	LPP 31 Mar 2018 £'000	LPP 31 Mar 2017 £'000
Fair value of plan assets at beginning of year/period	8,487	6,743
Interest income on scheme assets – employer	227	257
Return on scheme assets less interest income	86	1,092
Administrative expenses and taxes	(12)	(11)
Employer contributions	306	283
Contributions by employees	165	148
Benefits paid	(4)	(25)
Fair value of plan assets at end of year/period	**9,255**	**8,487**

Analysis of assets – The major categories of scheme assets are as follows:

	LPP 31 Mar 2018 £'000	LPP 31 Mar 2017 £'000
Equity instruments	8,024	7,341
Bonds	398	306
Property	870	747
Cash and other	(37)	93
	9,255	**8,487**

The pension scheme has not invested in any of the Group's own financial instruments or in properties or other assets used by the Group. Virtually all equity and debt instruments have quoted prices in an active market.

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Scheme liabilities – Changes in the fair value of scheme liabilities are as follows:

	LPP 31 Mar 2018 £'000	LPP 31 Mar 2017 £'000
Benefit obligation at beginning of year/period	12,547	8,243
Current service cost – employer	747	437
Effect of changes in financial assumptions	(941)	3,437
Effect of experience adjustments		–
Interest cost – employer	329	307
Benefits paid	(4)	(25)
Contributions by scheme participants	165	148
Benefit obligation at end of year/period	**12,843**	**12,547**

Amounts recognised in the income statement

	LPP Year to 31 Mar 2018 £'000	LPP From 19 Oct 2015 to 31 Mar 2017 £'000
Amounts recognised in operating profit		
Current service cost	747	437
Administrative expenses and taxes	12	11
Recognised in arriving at operating profit	**759**	**448**
Amounts recognised in interest receivable and similar income		
Interest cost on scheme liabilities – employer	102	307
Interest cost on scheme assets – employer	–	(257)
Recognised in interest receivable and similar income	102	50
Total recognised in the profit and loss account	**861**	**498**

Amounts recognised in the statement of comprehensive income

	LPP Year to 31 Mar 2018 £'000	LPP From 19 Oct 2015 to 31 Mar 2017 £'000
Remeasurements recognised in the statement of comprehensive income		
Return on scheme assets less interest income	86	1,092
Changes in financial assumptions	941	(3,437)
Effect of experience adjustments		–
	1,027	(2,345)
Total pension cost recognised in the statement of comprehensive income	**1,027**	**(2,345)**

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Principal actuarial assumptions
The principal actuarial assumptions at the balance sheet date are as follows:

	LPP 31 Mar 2018 %	LPP 31 Mar 2017 %
Discount rate	2.7	2.6
Future salary increases	3.6	3.7
Future pension increases (CPI)	2.2	2.2
Inflation assumption (CPI)	2.1	2.2

Post retirement mortality assumptions

	LPP 31 Mar 2018 %	LPP 31 Mar 2017 %
Current UK pensioners at retirement age – male	22.0	22.6
Current UK pensioners at retirement age – female	24.4	25.2
Future UK pensioners at retirement age – male	23.5	24.9
Future UK pensioners at retirement age – female	26.3	27.9

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality.

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant.

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2017 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2017 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Assumption	Change in assumption %	Change of +0.1% in present value of scheme liabilities £'000	Change of (0.1%) in present value of scheme liabilities £'000
	Year to 31 March 2018		
Discount rate: 2.7%	0.1	12,505	(12,505)
Inflation: 2.1% CPI	0.1	13,190	(13,190)
Rate of salary increase: 3.6%	0.1	12,966	(12,966)
	From 19 Oct 2015 to 31 March 2017		
Discount rate: 2.6%	0.1	12,217	(12,217)
Inflation: 2.2% CPI	0.1	12,887	(12,887)
Rate of salary increase: 3.7%	0.1	12,701	(12,701)

If the mortality rate were increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 22.6 – 27.9, the change in present value of scheme liabilities would be an increase of 2%.

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

LPPI pension information
The normal contributions expected to be paid during the financial year ending 31 March 2019 are for LPPI £88,000 (2018: £88,000).

A summary of the defined benefit pension schemes on the Group balance sheet is as follows:

	LPPI 31 Mar 2018 £'000	**LPPI 31 Mar 2017 £'000**
Retirement benefit assets	2,013	1,724
Retirement benefit obligations	(3,226)	(2,982)
Net retirement benefit deficit	**(1,213)**	**(1,258)**

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Scheme liabilities – Changes in the fair value of scheme assets are as follows:

	LPPI 31 Mar 2018 £'000	LPPI 31 Mar 2017 £'000
Fair value of plan assets at beginning of year/period	1,724	1,305
Interest income on scheme assets – employer	48	51
Return on scheme assets less interest income	17	217
Administrative expenses and taxes	(5)	(4)
Employer contributions	127	89
Contributions by employees	102	66
Fair value of plan assets at end of year/period	**2,013**	**1,724**

Analysis of assets – The major categories of scheme assets are as follows:

	LPPI 31 Mar 2018 £'000	LPPI 31 Mar 2017 £'000
Equity instruments	1,746	1,491
Bonds	86	62
Property	189	152
Cash and other	(8)	19
	2,013	**1,724**

The pension scheme has not invested in any of the Group's own financial instruments or in properties or other assets used by the Group. Virtually all equity and debt instruments have quoted prices in an active market.

Scheme liabilities – Changes in the fair value of scheme liabilities are as follows:

	LPPI 31 Mar 2018 £'000	LPPI 31 Mar 2017 £'000
Benefit obligation at beginning of year/period	2,982	1,599
Current service cost – employer	299	137
Effect of changes in financial assumptions	(236)	706
Effect of experience adjustments	–	414
Interest cost – employer	79	60
Contributions by scheme participants	102	66
Benefit obligation at end of year/period	**3,226**	**2,982**

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Amounts recognised in the income statement

	LPPI Year to 31 Mar 2018 £'000	LPPI From 19 Oct 2015 to 31 Mar 2017 £'000
Amounts recognised in operating profit		
Current service cost	299	137
Administrative expenses and taxes	5	4
Recognised in arriving at operating profit	**304**	**141**
Amounts recognised in interest receivable and similar income		
Interest cost on scheme liabilities – employer	79	60
Interest cost on scheme assets – employer	(48)	(51)
Recognised in interest receivable and similar income	31	9
Total recognised in the profit and loss account	**335**	**150**

Amounts recognised in the statement of comprehensive income

	LPPI Year to 31 Mar 2018 £'000	LPPI From 19 Oct 2015 to 31 Mar 2017 £'000
Remeasurements recognised in the statement of comprehensive income		
Return on scheme assets less interest income	17	217
Changes in financial assumptions	236	(706)
Effect of experience adjustments	–	(414)
	253	(903)
Total pension cost recognised in the statement of comprehensive income	**253**	**(903)**

Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date are as follows:

	LPPI 31 Mar 2018 %	LPPI 31 Mar 2017 %
Discount rate	2.7	2.6
Future salary increases	3.6	3.7
Future pension increases (CPI)	2.2	2.2
Inflation assumption (CPI)	2.1	2.2

Notes to the financial statements
continued

For the year ended 31 March 2018

16. Pension schemes (continued)

Post retirement mortality assumptions

	LPP 31 Mar 2018 %	LPP 31 Mar 2017 %
Current UK pensioners at retirement age – male	22.0	22.6
Current UK pensioners at retirement age – female	24.4	25.2
Future UK pensioners at retirement age – male	23.5	24.9
Future UK pensioners at retirement age – female	26.3	27.9

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality.

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant.

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2017 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2017 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Assumption	Change in assumption %	Change of +0.1% in present value of scheme liabilities £'000	Change of (0.1%) in present value of scheme liabilities £'000
	Year to 31 March 2018		
Discount rate: 2.7%	0.1	3,140	(3,140)
Inflation: 2.1% CPI	0.1	3,313	(3,313)
Rate of salary increase: 3.6%	0.1	3,253	(3,253)
	From 19 Oct 2015 to 31 March 2017		
Discount rate: 3.8%	0.1	2,903	(2,903)
Inflation: 2.1% CPI	0.1	3,063	(3,063)
Rate of salary increase: 2.6%	0.1	3,019	(3,019)

If the mortality rate were increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 22.6 – 27.9, the change in present value of scheme liabilities would be an increase of 2%.

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

Notes to the financial statements
continued

For the year ended 31 March 2018

17. Share Capital

	31 Mar 2018 £'000	31 Mar 2017 £'000
Authorised, allotted and fully paid:		
2 ordinary shares of £1 each	2	2
Total	**2**	**2**

The shares issued in the period have full rights in the Company with respect to voting, dividends and distributions.

18. Leasing commitments

At the period end the Company was committed to make the following payments during the next year in respect of operating leases with expiry dates as follows:

	Year to 31 Mar 2018 Land and Buildings £'000	From 19 Oct 2015 to 31 Mar 2017 Land and Buildings £'000
Expiry date:		
Within one year	1,129	76
Between one and five years	220	1,787
As at 31 March	**1,349**	**1,863**

19. Contingent liabilities and capital commitments

The Group and the Company have no contingent liabilities at the year end.

The Group and the Company have no capital commitments at the year end.

20. Related party transactions and ultimate controlling party

The Key Management Personnel emoluments paid by the Group total £1,615,373 (2017 – £796,204) for the year.

The directors of Local Pensions Partnership Ltd had no transactions with the Company or its subsidiaries during the period other than service contracts and directors' liability insurance. A summary of directors' remuneration is disclosed in the notes to the accounts and also in detail as part of the LPP Remuneration and Nomination Committee section of the Board and Committee reports.

The Company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are 100% owned by Local Pensions Partnership Ltd.

The Company is a joint venture and its ultimate parents and controlling parties are London Pensions Fund Authority and Lancashire County Council.

Notes

Notes

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