LPP
Local Pensions Partnership Investments

LPPI MiFIDPRU Disclosures

31 March 2023

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1. Introduction

Local Pensions Partnership Investments Ltd (LPPI) is a wholly owned subsidiary of Local Pensions Partnership Ltd (LPP). LPPI is incorporated in England and Wales and is authorised and regulated by the Financial Conduct Authority (FCA).

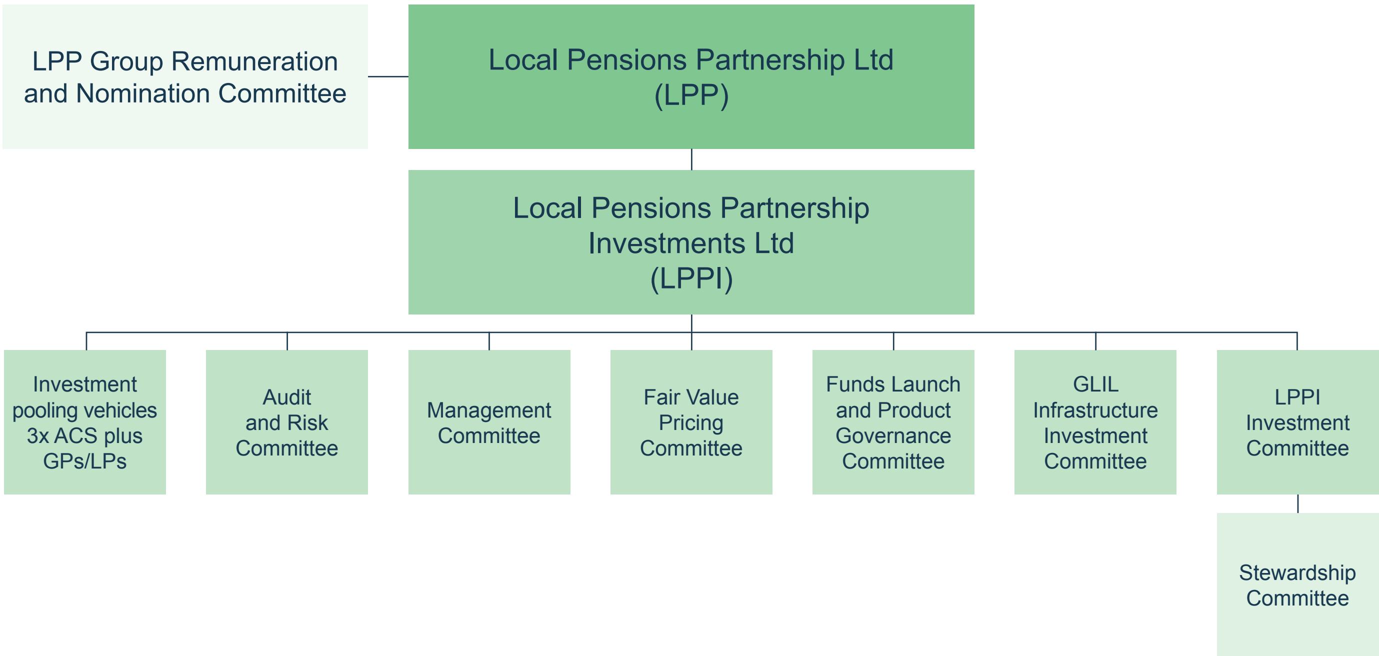
LPPI is classified as a Collective Portfolio Management Investment (CPMI) firm by the FCA, due to its regulatory permissions allowing it to provide portfolio management and advisory services to professional clients. The UK Investment Firms Prudential Regime (IFPR) applies to CPMI firms and therefore the FCA's Prudential Sourcebook for MiFID Investment Firms (MIFIDPRU) applies to LPPI. MIFIDPRU investment firms are categorised as either 'small and non-interconnected' (SNI) or non-SNI and in this regard, LPPI is categorised as a non-SNI MIFIDPRU investment firm. As a full scope Alternative Investment Fund Manager (AIFM), LPPI is also subject to the prudential requirements in place in chapter 11 of the FCA IPRU-INV Handbook.

These disclosures have been made in accordance with the rules and requirements of MIFIDPRU 8 as applicable to non-SNI firms and include disclosures on an individual basis about LPPI's risk management, governance arrangements, own funds and own funds requirements, and remuneration policy.

These disclosures are produced on an annual basis and are prepared for the financial position as at 31 March 2023. The disclosures are not required to be subject to an independent external audit.

2. Governance

The diagram below shows the governance structure in place at LPPI as at 31 March 2023.



LPPI Board

The LPPI Board (the Board) determines the strategy for the business taking account of the potential risks and mitigating actions. In doing this, the Board determines LPPI's attitude to risk and statements about its appetite for taking these risks. The Board comprises Non-Executive Directors (NEDs) and Executive Directors, with the Non-Executive Chair having a casting vote.

LPP Group Remuneration and Nomination Committee

The LPP Group Remuneration and Nomination Committee reports to the different Boards in the LPP group and is tasked with ensuring formal, transparent, and rigorous policies and procedures are in place for Executive Director remuneration and Non-Executive Director appointments. This Committee meets at least twice a year.

LPPI Audit and Risk Committee

The purpose of the Audit and Risk Committee is to assist the Board with its oversight responsibilities for present and emerging risks associated with LPPI's activities, and the financial reporting process, for the system of internal control, the audit process and LPPI's process for monitoring compliance with laws and regulations.The Audit and Risk Committee meets at least four times a year and reports to the Board on a quarterly basis.

LPPI Management Committee

The Management Committee assists the Chief Executive Officer with overseeing the activities of LPPI and determining key strategic and/or operational decisions under delegation from the Board. It also provides executive leadership of the business, taking responsibility for monitoring progress against the strategic objectives and providing an escalation point for important decisions. The Management Committee meets monthly, or more frequently as required.

LPPI Fair Value Pricing Committee

The purpose of the Fair Value Pricing Committee is to monitor compliance with LPPI's Valuation Policy, to approve the valuation of pooled assets, to appoint and monitor the use of independent external valuers, and approve and monitor the use of valuation models developed internally or by third party valuation providers. The Fair Value and Pricing Committee meets on a quarterly basis with additional ad hoc meetings as required.

LPPI Funds Launch and Product Governance Committee

The purpose of Funds Launch and Product Governance Committee is to approve the launch or the winding-up of a fund, asset pool or collective investment vehicle as directed by the Board, and to review existing products in accordance with product governance requirements. The Funds Launch and Product Governance Committee meets on an ad hoc basis around fund launches and annually reviews product governance.

GLIL Infrastructure Investment Committee

The GLIL Investment Committee acts under delegated authority from the Board and is responsible for investment proposals for GLIL Infrastructure and forms a key part of LPPI's role as AIFM over GLIL.

LPPI Investment Committee

The Investment Committee acts under delegated authority from the Board and is responsible for the monitoring of investment performance and risk analytics, investment proposals, on-going asset management and investment strategy. The Investment Committee meets on a quarterly basis with additional ad hoc meetings as required.

LPPI Stewardship Committee

The Stewardship Committee operates at an executive level under delegation from the Investment Committee. Its role is to develop and co-ordinate LPPI's approach to stewardship, responsible investment, ESG and collaborative engagement across the portfolio of both internally and externally managed investment funds. The Stewardship Committee meets quarterly and on an ad hoc basis.

Other executive committees / fora

In addition to the above committees, LPPI also has a number of other fora such as the Management Forum which, whilst not formal governance bodies, have been established to enable the senior management to exercise effective governance and communication and decision making.

2.1 Segregation of duties

The Board requires LPPI to operate a three lines of defence risk management model. The three lines of defence model is a way of apportioning and being transparent about roles and responsibilities. It provides a separation of origination and day-to-day management of risk, from advice, oversight, and challenge – both being separate from the provision of independent assurance. The benefit of the model is that it provides a way of ensuring decisions are made with independent opinion providing balance to any potential behavioural bias created by incentives or emotions associated with the origination of risks for which we aim to make a return.

The **'First Line'** includes the business operating areas which have prime responsibility for:

- Delivering actual performance aligned with the business plan.
- Making day-to-day decisions for the management of risks within the risk management framework.
- Complying with policies and risk appetite and limits.

The **'Second Line'** consists of the risk and compliance functions which:

- Develop, with the Board and its committees, the risk frameworks within which the strategy is delivered.
- Provide information (including to the first line to enable first line responsibility), insight, advice, support, and independent views to decision making.
- Advise the Board on forward looking assessment of threats and opportunities.
- Monitor compliance with the risk frameworks approved by the Board.

The **'Third Line'** consists of the internal audit function and external auditors which provide independent assurance on the overall design and operation of the systems of internal control.

2.2 Conflict of interest

Identifying and managing conflicts of interest is central to the duty of care LPPI owes to its clients. LPPI uses all reasonable endeavours to identify conflicts of interest and takes steps to either avoid or manage them effectively.

LPPI is committed to a strong culture of managing conflicts of interests, supported by a range of processes and policies. All staff are provided with training to ensure awareness and understanding of how conflicts could arise and to enable staff to identify, report and adequately manage such conflicts.

Conflicts of interest are managed as outlined below:

- Maintenance of a register of conflicts of interest.
- Board members and senior managers have a responsibility to notify the Chairman and CEO of any changes in circumstances, business interest or activities that may represent a conflict of interest to pursuing the best outcomes for LPPI, clients and shareholders.
- Confidentiality agreements signed by Board members and senior management.
- Monitoring compliance standards and the fair treatment of all policyholders.
- Use of safeguards and information barriers to protect data and information.
- Conflict and confidentiality clauses in engagement terms.

2.3 Directorships

As part of its governance process, LPPI maintains a record of the number of directorships (executive and non-executive) held by each member of the Board. The following directorships are outside the scope of this disclosure requirement and are therefore not disclosed:

- Executive and non-executive directorships held in organisations which do not pursue predominantly commercial objectives.
- Executive and non-executive directorships held within the same group or within an undertaking (including a non-financial sector entity) in which LPPI holds a qualifying holding.

The table below sets out the number of directorships (executive and non-executive) held by each member of the LPPI Board (as at 31 March 2023).

Name of director	Executive directorships	Non-executive directorships
Margaret Ammon	Legal & General (Unit Trust Managers) Limited	None
Sally Bridgeland	Bridgeland Advisory Limited	• Regent Bidco Limited • Royal and Sun Alliance Insurance Limited • RSA Insurance Group Limited • Pension Insurance Corporation plc • Impax Asset Management Limited • Impax Asset Management (AIFM) Limited • Impax Asset Management Group plc • Royal London Mutual Insurance Society Limited
Malcolm Cooper	None	• Southern Water Services Limited • MORhomes plc • Morgan Sindall plc • Custodian REIT plc
Sarah Laessig	None	• United Trust Bank Limited • Nest
Tom Richardson	None	None
Chris Rule	None	None
Adrian Taylor	None	None
Richard Tomlinson	None	None
Martin Tully	• BT Pension Scheme Management Limited • Park End Advisory Ltd	None

2.4 Diversity

The LPPI Board comprises four executive directors and five non-executive directors, with gender diversity balanced across the non-executive population.

Creating a diverse and inclusive workplace sits at the heart of the LPPI Business Plan. A set of objectives has been agreed by the Board and progress is monitored by the Chief People and Culture Officer.

An example objective is to increase female representation at senior levels and implement targeted development plans to strengthen diversity on the succession pipeline for Management Committee positions.

Turning to ethnic diversity, LPPI participated for a second year in the 10,000 Black Interns programme, taking three interns during the summer of 2022 (an increase of one over 2021). Creating a diverse talent pipeline at entry role level will be a key strategy to deliver a diverse senior management pipeline for the future.

3. Risk management

3.1 Risk management framework

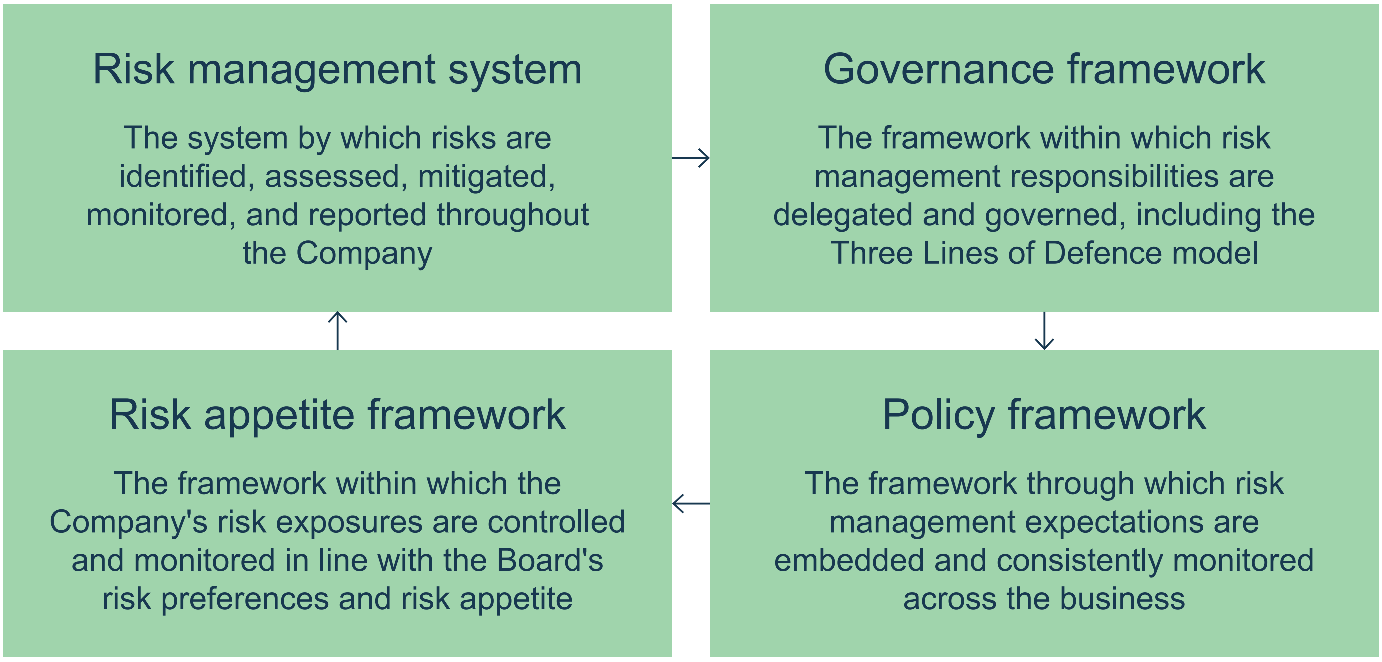
The LPPI risk policies, supported by the Risk Appetite and Tolerances Schedule (RATS), provide a framework for managing risk within appetite and form an integral part of management and board processes, including decision-making processes, and is embedded in the formulation of the business strategy, planning, forecast and business model.

The LPPI Risk Management Policy articulates the approach, appetite, and expectations in relation to the management of risks that have the potential to cause material harm should they materialise. This includes ensuring that LPPI has appropriate systems and controls to identify, monitor and, where proportionate, reduce all potential material harms that may result from the ongoing operation of its business, or from winding down its business. The LPPI Risk Management Policy supports meeting the expectations of stakeholders.

LPPI adopts an enterprise-wide perspective on risk, facilitated through commitment to a strong risk culture. LPPI's ambition is to protect its obligations to clients and treat them fairly, whilst making better risk-return based business decisions resulting from a balanced awareness of the opportunities and threats; only taking risks it has the capability to understand and manage.

LPPI achieves this by linking its strategic objectives and approach to risk management through to the key business processes.

The enterprise risk system is outlined below:



3.2 Business strategy and risk appetite statements

The Board controls and monitors risk through the application of a risk governance framework, and through setting risk appetite and limits across a number of strategic objectives and critical success factors, and through control of the risk profile. The exposure against the RATS, which includes appetite and limits for own funds and liquid assets, is monitored regularly and is reported to the Audit and Risk Committee and the Board quarterly. Exposure to principal risks is measured and managed as part of the Internal Capital Adequacy and Risk Assessment process (ICARA process) which is at the core of the LPPI risk management framework and embedded into key decision making.

As part of the strategic planning process, the Chief Risk Officer leads the ICARA process that supports the assessment of the amount of own funds and liquid assets required to support the objectives within the business plan on a forward-looking basis. The ICARA process includes:

- Ensuring that LPPI's risk appetite is consistent with its business model and strategy.
- Ensuring that any material risks of misalignment between its business model and operating model are identified and mitigated.
- Considering and assessing the key risks that could potentially cause material harm as identified in the strategic planning process and recorded through the use of risk registers.
- Ensuring that LPPI holds own funds and liquid assets which are adequate to ensure that it is able to remain financially viable throughout the economic cycle, or so that it can be wound down in an orderly manner, considering potential material harm in each case.
- Considering severe but plausible stressors as part of capital and liquidity planning, supported by credible recovery actions.

Understanding the implications of strategic proposals and informed by stress and scenario testing, the Board defines factors critical for the successful delivery of the Business Plan and statements of risk appetite in achieving these ambitions.

3.3 Identification, assessment and management of risks

Current risks are identified, assessed and managed on a regular basis using a broad range of inputs, such as: the business plan, balance sheet exposures, bottom-up risk and control self-assessments, risk events, the report on internal controls (the AAF report), the compliance monitoring programme, and internal audit reports. Key risks are considered from a top-down perspective as part of the business planning process and are reviewed and updated regularly.

Emerging risks are emerging trends or potential future impacts of which the nature and timing of impact are uncertain. Emerging risks are identified from internal and external sources and consider geopolitical, macroeconomic, legal, regulatory, operational, technological, and business and strategic risks.

Key and emerging risks are reported to the Management Committee, the Audit and Risk Committee and the Board quarterly. Key and emerging risks are a central component of the ICARA process and are used, for example, to inform LPPI's risk profile, as an input into the estimation of own funds and liquid assets, and for stress and scenario testing.

3.4 Own funds requirements – MIFIDPRU 4

In providing a full fiduciary management service to our clients, which includes advisory, investment management and fund management, LPPI recognises that the materialisation of risk could potentially cause material harm to clients and counterparties, the market within which it operates, and upon LPPI itself. Material harm may also arise in the very unlikely event that LPPI would need to wind-down its regulated activities.

LPPI has assessed the risk of harm through its ICARA process, and which is captured by the following regulatory prescribed own funds requirements:

- The Permanent Minimum Requirement is based on the investment services or activities that LPPI has permission from the FCA to carry on and amounts to £75,000.

- The Fixed Overheads Requirement is a measure applied in the regulation to cover the potential harm from wind-down and relates to a proportion of LPPI's expenses. The Fixed Overheads Requirement amounts to £6.0m.

- K-Factor Requirement are parameters prescribed by the FCA which are used to determine an amount of own funds that should be held against risks resulting from the ongoing activities of investment firms. The K-Factors for LPPI amount to £4.2m and are based on average assets under management (K-AUM) and client orders received and handled (K-COH) as at 31 March 2023:

Breakdown of K-Factor Requirements	
The sum of K-AUM, K-CMH, K-ASA	£4,191,268
The sum of K-COH, K-DTF	£0
The sum of K-NPR, K-CMG, K-TCD, K-CON	£0

A description of the K-Factors and how they apply to LPPI is provided in Appendix A: K-Factor definitions.

LPPI monitors its exposure to its own funds requirements monthly and reports the results to the Audit and Risk Committee and the Board quarterly.

3.5 Concentration risk – MIFIDPRU 5

LPPI does not conduct any trading on its own account and does not have regulatory permissions for dealing as principal. Therefore, LPPI does not hold own funds for the K-Factor Requirement relating to concentration risk (K-CON).

However, concentration risk is not limited to trading book exposures, but also includes concentration in assets not recorded in a trading book and off-balance sheet items.

Sources of concentration risk for LPPI are earnings, cash deposits, and its exposure to critical and material suppliers and systems. LPPI monitors its exposure to earnings and cash deposits monthly and reports the results, including vendor risk, to the Audit and Risk Committee and the Board quarterly.

Clients could also suffer potential material harm from concentrations in their portfolios or funds to market exposures, counterparties, industry and/or economic sectors, geographic regions, and similar collateral types. These risks are monitored by the fund managers and at the LPPI Investment Committee and do not constitute a concentration risk for LPPI.

3.6 Liquid assets – MIFIDPRU 6

Under MIFIDPRU 6, firms must hold a minimum level of core liquid assets known as the Basic Liquid Assets Requirement which is to ensure that firms always have a minimum stock of liquid assets to fund the initial stages of their wind-down process. The parameters are prescribed by the FCA and for LPPI this amounts to £2.0m at 31 March 2023. LPPI monitors its exposure to its own funds requirements monthly and reports the results to the Audit and Risk Committee and the Board quarterly.

3.7 Firm approach to assessing the adequacy of own funds and liquid assets

The FCA requires firms to hold own funds and liquid assets which are the higher of regulatory prescribed approaches and the firm's own internal assessments.

The ICARA process is the centrepiece of the LPPI risk policies incorporating the identification and management of potential material harm, business and operating model assessment, financial, capital and liquidity planning, stress and scenario testing, recovery planning, and wind-down planning. The ICARA process is an internal risk process that is operated on an ongoing basis and applies to the entire business, including all regulated and unregulated activities. LPPI reviews the adequacy of its ICARA process at least once every 12 months or following any material change in the business model or operating model.

As part of the ICARA process, LPPI considers whether it can, at all times, hold own funds and liquid assets which are adequate, both in amount and quality, to ensure that it is able to remain financially viable throughout the economic cycle, with the ability to address any potential material harm that may result from its activities, or so that it can be would down in an orderly manner, minimising harm to consumers or to other market participants. This requirement is known as the Overall Financial Adequacy Rule.

The amount of own funds that LPPI needs has been calibrated to a 99.5% confidence level (that is, a 1-in-200-year level) over a one-year time horizon. The assessment is based on severe but plausible assumptions because measures taken to reduce the impact of harms could fail or prove to be ineffective under severe circumstances. Additional own funds may be held above this level as a buffer to provide sufficient financial resources to manage through market fluctuations, evolving the investment offering, acquiring new clients, and for other scenarios the LPPI Board feels appropriate.

As part of the annual ICARA process, LPPI has established the levels of own funds and liquid assets that it considers, if reached, may indicate that there is a credible risk of breaching its threshold requirements. These levels are documented in the RATS and are monitored monthly and reported to the Audit and Risk Committee and the Board quarterly.

Wind-down planning is undertaken to assess the financial and non-financial resources required to wind-down LPPI in an orderly manner and to terminate its business within a realistic timescale. The Board has established own funds and liquid assets risk appetites and limits to support trigger levels for the cessation of business, noting that deferring or delaying a wind-down decision to a point where the level of resources is no longer available or sufficient, significantly increases the risk of a disorderly wind-down.

LPPI considers the following principal risks within its ICARA process:

- Market risk: The risk of volatility in LPPI's income and/or balance sheet as a result of changes in values of the assets managed by LPPI. The exposure to market risk arises from investments managed on behalf of clients, and assets held on the corporate balance sheet.

- Counterparty default risk: The risk that a party may fail to fulfil its obligations. Within the funds managed by LPPI due to adverse performance that reduces the investment fee income to LPPI; on the corporate balance sheet, LPPI holds cash with banks and other third parties, whose default could give rise to a direct loss to the balance sheet.

- Liquidity risk: The risk that assets on the balance sheet are invested in such a way that LPPI is unable to meet its obligations in a timely manner without incurring excessive cost. It includes the risk that LPPI has insufficient liquid assets to remain viable over the economic cycle, with the ability to address any potential material harm that may result from its ongoing activities, and so that it can wind down its regulated activities in an orderly manner without causing harm to clients and counterparties, and the market within which it operates.

- Concentration risk: The risk of material loss resulting from the adverse movement in value, or failure of a risk exposure. This concentration risk may arise in one of the funds resulting in a loss in fee income from the associated adverse impact on performance, or on the corporate balance sheet.

- Pension obligation: The risk of a decrease in pension scheme funding position on an accounting basis, which adversely impacts LPPI's balance sheet and in turn capital adequacy.

- Operational risk: The risk of loss arising from inadequate or failed internal processes, from personnel or systems, or from external events.

- Business risk: The risk arising from exposure to factors or events connected with our business which, if allowed to crystallise, could materially reduce revenue, or increase expenses.

4. Own funds

4.1 Composition of regulatory own funds

Own funds are determined in a manner defined within the FCA's regulations. As at 31 March 2023, LPPI held own funds of £22.9m. All own funds are held within common equity Tier 1 capital and comprise share capital, share premium, and retained earnings.

Share capital consists of fully paid ordinary shares of £1 each. On 20 December 2021, 3,000,000 ordinary shares were issued at par for £3.0m. Each share has full rights in the company with respect to voting, dividends and distributions. The disclosures presented below are made in line with the template requirement set out in MIFIDPRU 8.4 and MIFIDPRU 8 Annex 1.

	Item	Amount (GBP thousands)	Source based on reference numbers/ letters of the balance sheet in the audited financial statements
1	**Own funds**	**22,918**	2+25
2	**Tier 1 capital**	**22,918**	3+20
3	**Common equity Tier 1 capital**	**22,918**	4+5+6+7+8+9+10+11+19
4	Fully paid-up capital instruments	3,000	Share capital
5	Share premium	10,000	Share premium
6	Profit and loss account	12,069	Profit and loss account
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-) Total deductions from common equity Tier 1	(830)	Intangible assets
19	CET1: Other capital elements, deductions, and adjustments[1]	(1,321)	
20	**Additional Tier 1 capital**	**-**	21+22+23+24
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) Total deductions from additional Tier 1	-	
24	Additional Tier 1: Other capital elements, deductions, and adjustments	-	
25	**Tier 2 capital**	**-**	26+27+28+29
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) Total deductions from Tier 2	-	
29	Tier 2: Other capital elements, deductions, and adjustments	-	

[1] Adjustments include a modification to MIFIDPRU 3.3.1 as allowed by the FCA. Under MIFIDPRU regulation, current year profits are not eligible for inclusion in capital resources until audited and so are excluded from the regulatory position as at 31 March 2023.

4.2 Reconciliation of regulatory own funds to balance sheet

The table below reconciles LPPI's regulatory own funds to the statement of financial position (balance sheet) as at 31 March 2023:

		a) Balance sheet as in published/audited financial statements	b) Under regulatory scope of consolidation	c) Cross-reference to template OF1
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Intangible assets	830		11
2	Tangible assets	129		
3	Investments	0		
4	Debtors	6,259		
5	Cash at bank and in hand	24,947		
xxx	**Total assets**	**32,165**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Creditors: amounts falling due within one year	6,111		
2	Provisions for other liabilities	120		
3	Creditors: amounts falling due after more than one year	580		
4	Post-employment benefits	285		
xxx	**Total liabilities**	**7,096**		
Shareholders' equity				
1	Share capital	3,000		4
2	Share premium	10,000		5
3	Profit and loss account	12,069		6
xxx	**Total shareholders' equity**	**25,069**		

5. Remuneration policy and practices

LPPI's senior management bodies are responsible for developing and managing LPPI's business in accordance with the strategic business and operational plans. This includes developing a Remuneration Policy and framework for all employees, including executive directors and code staff, which is agreed with the LPP Group Remuneration and Nomination Committee, the LPP Group Board and LPP Group Shareholders.

The LPP Group Remuneration and Nomination Committee takes full account of the Group's strategic objectives in setting remuneration policy and is mindful of its duties to its shareholders. Some matters are shareholder reserved matters. The Committee is formed of non-executive directors from across the Group, appointed to the Committee by the LPP Board, and is chaired by an LPPI non-executive director. It seeks to preserve shareholder value by ensuring successful recruitment, retention, and motivation of all employees throughout the Group and particularly those senior employees covered by the Code. Robert Head from MCR Consultancy acts as an independent advisor to the Committee.

Code staff are defined as those employees who perform a significant influencing function, a senior manager and/or risk taker whose professional activities could have a material impact on LPPI's risk profile. Remuneration comprised of fixed pay (that is, salary and benefits) and performance related variable pay. Variable pay decisions are made annually based on performance, taking into account the employee's achievement of agreed individual, team and organisational objectives aligned with the strategic business plan.

There is a requirement for a remuneration statement to form part of the annual report of any Alternative Investment Fund (AIF) to which the firm acts as AIFM and which is either domiciled in the European Economic Area (EEA) or marketed in the EEA.

5.1 Design characteristics of the remuneration framework

Fixed pay

Salary increases are linked to benchmarking against the market including industry inflation levels for cost of living. Individual capability, talent potential and flight risk are other factors that are considered in salary decisions.

Salary decisions are communicated to individuals in April and paid with effect from the end of April payroll. Promotions and salary increases above inflation are discussed and approved by the Management Committee.

Variable pay

All employees have the opportunity to be considered for variable pay in the form of cash awards. The wording of employment contracts is clear that any actual award is entirely discretionary and dependant on a number of factors including firm and individual performance and individual conduct. There are no other variable pay arrangements available to employees, therefore LPPI has taken reasonable steps to ensure that those under the Remuneration Code (Material Risk Takers) do not use personal hedging strategies or remuneration and liability related contracts of insurance to undermine the FCA's remuneration rules.

Bonus awards typically range from 2% to 75% of salary. Variable pay awards of 0% to 100% are possible, wholly dependent on under/over performance and ensuring the fixed and variable components of total remuneration are appropriately balanced.

There are no roles within LPPI for which remuneration is 100% variable.

The LPP Group Remuneration and Nomination Committee has delegated powers to approve the total annual payments made under any approved performance-related scheme (within budget). There is scope for the Group CEO to recommend a reduction of up to 20% of the LPPI, LPPA and LPP bonus pools individually. The LPP Group Remuneration and Nomination Committee approves the recommendations for onward submission to the respective Boards for approval. The Committee does not have the authority to increase the bonus pool value.

The Chief Risk Officer provides the Committee with an independent assessment of the Chief Executive Officer's variable pay recommendations, from a risk perspective.

Objective setting and assessment of actual performance

At the start of each performance year, around April/ May, the business priorities for the coming year are communicated by the Chief Executive Officer, including key performance indicators that will be used to measure actual business performance.

Management Committee members then lead conversations with their respective teams to agree the team priorities for the year and these are cascaded into individual objectives. Typically, individuals agree around five or six objectives and progress against them is then discussed regularly.

LPPI uses a two-part ratings scale which separately considers performance against agreed objectives and behaviours/conduct. Both elements can contribute towards an upward or downward revision in the actual bonus allocation, with zero bonus being one potential outcome.

The separate conduct rating directly aligns with the FCA's objective of promoting good conduct across financial services and is an important part of year end performance review discussions.

The process for individual performance review as follows:

- Employee prepares a self-assessment with a proposed rating.
- Manager reviews the self-assessment and has a one-to-one discussion to compare with own view and ask questions/seek clarifications.
- Manager submits a proposed rating (covering both performance and conduct) to the People and Culture team.
- Moderation process reviews the ratings spread across the firm to ensure both good differentiation of performance and that LPPI is fairly and consistently rewarding high performance.

  There are four steps:

  1. Review by manager's manager
  2. Review by head of function
  3. Review by Management Committee
  4. Final review by CEO

  A summary of the outcomes is shared with the LPP Group Remuneration and Nomination Committee at its May meeting.

- Group CEO and LPPI Executive Director ratings and awards are subject to Board approval via the LPP Group Remuneration and Nomination Committee.

Deferral mechanisms within variable pay framework

Within the schemes there are two types of deferral that may be applied to the actual award, and these are described in the Remuneration Policy.

For those individuals falling within the scope of the Remuneration Code (as described in the FCA Handbook SYSC 19B, LPPI has no requirement to defer under SYSC19G but applies the principles of SYSC19B as the more stringent requirement) there are specific conditions set by the FCA where bonuses may need to be deferred.

The current requirements are that bonuses will need to be partially deferred where:

1. Total compensation exceeds £500,000, and/or

2. The bonus awarded equates to more than 33% of total compensation.

Total compensation for the purposes of this calculation will be based on the standard definition of fixed and variable pay related to a specific role and will not include, for example, any other legal obligation to make payments arising after the date that LPPI adopted the relevant remuneration policy.

For Remuneration Code staff (Material Risk Takers) 40% of the bonus will be deferred for three years. This means 60% of the bonus will be paid immediately subject to income tax and other withholdings in the normal way and 40% will be deferred and paid ("vest") in equal instalments over the following three years.

Where deferral is not required by regulation, LPPI will nevertheless apply deferral rules for any bonus awards in excess of 40% of salary. The portion in excess of 40% of base salary will be deferred and paid ("vest") one year later.

For the avoidance of doubt, employees will normally be required to be in employment on the payment or vesting date to receive a bonus award. Employees who leave prior to the payment or vesting date of the bonus will normally forfeit their entitlement.

The Board may take action on recommendation of the LPP Group Remuneration and Nomination Committee to reduce (malus) or recover (clawback) variable remuneration where, inter alia, there is reasonable evidence that an individual has acted in a manner that causes significant financial/operational losses or reputational damage to the business. Malus and clawback will apply to the period of any relevant deferrals of variable compensation.

5.2 Disclosures relating to material risk takers

For the purposes of this disclosure, the population has been aligned with the relevant categories of the Senior Manager and Certified Persons populations as defined by the Senior Manager and Certification Regime. Total remuneration for the year to end of March 2023 was as shown in the table below.

The number of individuals in the table includes leavers during the financial year.

Of the below, £313,700 of variable pay was deferred for a period of 1 to 3 years under either the internal LPPI deferral rules or the FCA deferral rules. This impacted eight individuals.

Deferrals from the 2020/21 and also the 2021/22 performance years were paid in May 2023 totalling £250,857 for 11 individuals in addition to the amounts above.

The total amount of severance payments made during the 2022/23 performance year was £287,024 paid to nine individuals which included three senior management and other material risk takers. The highest payment to an individual material risk taker was £105,799.

There were no sign-on payments made during this financial year.

	Fixed pay	Variable pay	Number of individuals
Senior management	£1,434,596	£612,431	7
Other material risk takers	£3,263,019	£1,104,464	32
Other staff	£6,872,930	£1,046,435	120
Total	**£11,570,545**	**£2,763,330**	**159**

6. Appendix A: K-Factor definitions

K-factor	Explanation	LPPI application
K-AUM	This captures the risk of harm to clients from the poor management or execution of client portfolios	K-AUM is the value of assets, that a firm manages for its client's discretionary portfolio management and non-discretionary arrangements constituting investment advice of an ongoing nature
K-COH	This captures the risk to clients of an investment firm that executes orders in the names of clients, and not in the firm's name, say in providing execution-only services or when a firm is part of a chain of client orders	LPPI only transmits orders in relation to investment management and advice, which are excluded from the COH calculation, as they are covered by the K-AUM factor
K-ASA	This K-factor ensures that an investment firm holds capital in proportion to Client assets safeguarded and administered, regardless of whether they are on its own balance sheet or in third-party accounts	LPPI does not safeguard and administer assets
K-CMH	This captures the risk of harm where an investment firm holds its clients' money, whether on its own balance sheet or in third-party accounts	LPPI does not hold client money
K-NPR	This is a point-in-time measure of net position risk for investment firms with trading books	LPPI does not have a trading book
K-CMG	The clearing margin given factor relates to a MiFID investment firm's derivatives positions that are subject to clearing	LPPI does not have a trading book
K-TCD	This applies to a finite set of transactions within a firm's trading book to determine capital that should be held against counterparty credit risk	LPPI does not have a trading book
K-DTF	This captures the operational risks of a firm executing many trades (on its own account or on behalf of clients) due to inadequate or failed processes, people, and systems, or from external events	LPPI does not have a trading book
K-CON	This captures the concentration risk from individual or highly connected counterparties	LPPI does not have a trading book

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