

**LOCAL GOVERNMENT PENSION SCHEME LEICESTERSHIRE**

**Administered by**

**LEICESTERSHIRE COUNTY COUNCIL**

**Pension Fund Annual Report**

**Year ended 31<sup>st</sup> March 2020**

## CONTENTS

1. INTRODUCTION .....	3
2. SCHEME MANAGEMENT AND ADVISORS .....	4
3. RISK MANAGEMENT.....	6
4. FINANCIAL PERFORMANCE.....	8
5. PENSION SCHEME ADMINISTRATION.....	10
6. INVESTMENT POLICY AND PERFORMANCE.....	16
7. MEMBER TRAINING & PERFORMANCE .....	18
8. RESPONSIBLE INVESTING.....	19
9. LGPS CENTRAL POOL.....	21
8. ACTUARIAL STATEMENT.....	26
9. FINANCIAL STATEMENTS.....	28
10. GOVERNANCE COMPLIANCE STATEMENT .....	69
11. APPENDIX A - SUMMARY VALUATION OF FUNDS PERFORMANCE.....	Attached
12. APPENDIX B - PENSION FUND ACCOUNTS.....	See link

The fund has a number of policy statements that are available on the links below. They have not been reproduced within the Annual report, as when taken in combination are sizeable and some have previously been seen by the Pensions Committee.

13. Statement of Accounts - <https://www.leicestershire.gov.uk/about-the-council/council-spending/accounts-and-payments>

14. Funding Strategy Statement - [https://leicsmss.pensiondetails.co.uk/documents/Funding\\_Strategy\\_Statement\\_September\\_2020.pdf?language\\_id=1](https://leicsmss.pensiondetails.co.uk/documents/Funding_Strategy_Statement_September_2020.pdf?language_id=1)

15. Statement of Investment Principles - [https://leicsmss.pensiondetails.co.uk/documents/Investment\\_Strategy\\_Statement\\_Feb\\_2020.pdf](https://leicsmss.pensiondetails.co.uk/documents/Investment_Strategy_Statement_Feb_2020.pdf)

16. Administration & Communication Strategy - <https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2018/9/7/LCC-Pension-Fund-Admin-and-Comms-Strategy.pdf>

## **1. INTRODUCTION**

Leicestershire County Council is the administering body for the Local Government Pension Scheme (LGPS) within Leicestershire and Rutland. Leicestershire County Council has a statutory obligation to administer a Pension Fund for eligible employees of all Local Authorities within the County boundary and also the employees of certain other scheduled and admitted bodies. The Fund does not cover teachers, police or fire-fighters as they have their own schemes.

This report has been produced in accordance with Section 57 of the Local Government Pension Regulations 2013. It sets out the way in which the Pension Fund is managed both in relation to the administration of benefits and to the investment of the Fund's assets.

The benefits within the scheme are determined by regulation and guaranteed by statute. The pension fund exists to help defray the cost of paying pension benefits. Contributions to the pension scheme are made by both employees and employers. Any new employee is automatically brought into the scheme unless they opt out.

$$\boxed{\begin{array}{l} \text{Employee} \\ \text{Contributions} \end{array}} + \boxed{\begin{array}{l} \text{Employer} \\ \text{Contributions} \end{array}} + \boxed{\begin{array}{l} \text{Investment} \\ \text{Returns} \end{array}} = \boxed{\begin{array}{l} \text{Pension} \\ \text{Payments} \end{array}}$$

The Fund's membership increased by approximately 2,500 during 2019/20 and at the year-end stood at just over 95,000. Active employees and Pensioners saw an increase in numbers while deferred pensioners saw a decrease in numbers.

## 2. SCHEME MANAGEMENT AND ADVISORS

The Local Pension Committee is responsible for the management of the Fund, and considers pensions matters with a view to safeguarding the interests of all Fund members. The Members who sit on the Committee act on behalf of the beneficiaries of the LGPS and in this way have a similar role to trustees in primarily protecting the benefits of the LGPS members, overseeing the direction of investments and monitoring liabilities. The Committee comprises of five County Council members, two from Leicester City Council, two members representing the District Councils, one representative of De Montfort/Loughborough Universities and three non-voting staff representatives. In order to ensure continuity, staff representatives, who are chosen at the Fund's Annual General Meeting, are appointed to the Committee for a three year period but arrangements have been made to ensure that at least one staff representative place becomes available each year. The Local Pension Committee sets the overall investment strategy for the Fund and will deal with all investment governance issues. The Committee meets quarterly and also has a separate annual meeting to consider strategic issues relevant to the Fund.

The Investment Subcommittee consists of six voting members (the Chair, Vice Chair, one other elected member of the County Council, the Universities representative and one member representing each of the City and District Councils, all of whom are members of the Local Pension Committee) and one non-voting staff representative. Its role is to consider action that is in-line with the strategic benchmark agreed by the Board and to take a pro-active approach to the Fund's investments, and also to deal with 'tactical' issues associated with implementing the strategy, such as investment manager appointments and the timing of asset allocation changes.

The Committee and Subcommittee receive investment advice from Hymans Robertson LLP and are supported by Independent Advisor, Clare Scott. Other consultants will also be utilised if there is felt to be an advantage to this.

The Local Pension Board was established by the Administering Authority under Regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended) and operates independently of the Local Pension Committee. The Board's role is to assist the County Council as the Administering Authority as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme. The Administering Authority retains ultimate responsibility for the administration and governance of the Scheme.

Membership of the Local Pension Board consists of six voting members. Three employee representatives elected in the same manner as those employee representatives on the Local Pension Committee, and three employer representatives comprising two elected members of Leicestershire County Council and one elected member from Leicester City Council.

There is a statutory requirement for the Fund to maintain a Governance Compliance Statement, and this is replicated in full in section 10.

At a national level the LGPS is governed by the Ministry of Housing Communities and Local government (MHCLG) and the LGPS Scheme Advisory Board (SAB). The LGPS also takes account of guidance issued by the Pensions Regulator and Pensions Ombudsman determinations.

The role of the Scheme Advisory Board is to help and support MHCLG and administering authorities fulfil their statutory duties and obligations. SAB aims to be both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues.

**Scheme Management and Advisors**

<b><u>Local Pension Committee</u></b>	
<u>Leicestershire County Council</u> Mr. P. C. Osborne CC (Chairman) Mr. T. Barkley CC (Vice-Chairman) Mr. P. Bedford CC Dr. S. Hill CC Mr. M. Hunt CC	<u>Leicester City Council</u> Cllr. D. Bajaj Cllr. R. Govind  <u>District Council Representatives</u> Cllr. C. Frost Cllr. M. Graham MBE
<u>Employee Representatives</u> Ashley Wilson (from November 2019) Mr. R. Bone (to November 2019) Mr. N. Booth Ms. J. Dean	<u>University Representative</u> Mr. Z. Limbada
<b><u>Local Pension Board</u></b>	
<u>Employer Representatives</u> Mr. R. Shepherd Mrs. R. Page CC (Chair)  Cllr. E. Pantling	<u>Employee Representatives</u> Ms. C. Fairchild (Vice- Chair) Ms. D. Haller Ms. D. Stobbs (to November 2019) Ms. R. Wilson (from November 2019) Ms R. Gilbert (from November 2019)
<b><u>Officers responsible for the Fund</u></b>	
<u>Finance</u> Chris Tambini - Director of Corporate Resources - Leicestershire County Council	<u>Pensions Administration</u> Ian Howe - Pensions Manager - Leicestershire County Council
<b><u>Investment Managers</u></b>	
<b>Investments managed by LGPS central Pool</b> LGPS Central Global equities ( <i>Harris, Schroders &amp; Union</i> ), Emerging market equities multi-managers fund ( <i>BMO, UBS, Vantabel</i> ), LGPS Central PE Partnership 2018LP	
<b>Others:</b> Adams Street Partners Ashmore Aspect Capital La Salle Investment Management Catapult Venture Managers Colliers Capital UK Cristofferson, Robb & Company Infrastructure Funds Management Internally Managed JP Morgan Asset Management	Aegon Asset management (formerly Kames Capital) Kravis Kohlberg Roberts Legal & General Investment Management Macquarie Investments Partners Group Permal (formerly Fauchier Partners) Pictet Asset Management M&G Investments Ruffer LLP Stafford Capital Partners Standard Life Aberdeen
<b><u>Pooled investments</u></b> LGPS Central	
<b><u>Fund Custodian</u></b> JPMorgan, Bournemouth	<b><u>Legal Advisor</u></b> County Solicitor, Leicestershire County Council
<b><u>Independent Investment Advisor</u></b> Clare Scott	<b><u>Actuary and Investment Consultant</u></b> Hymans Robertson LLP, Glasgow
<b><u>Auditor</u></b> Grant Thornton LLP	<b><u>AVC Provider</u></b> Prudential, London
<b><u>Banker</u></b> National Westminster Bank, Leicester	<b><u>Scheme Administrator</u></b> Leicestershire County Council

### 3. Risk management

There are many risks associated with the Local Government Pension Scheme, covering both the investment of the assets and the administration of the benefits payable. It is almost impossible to create a definitive list of these risks and many of the on-going risks are monitored by Officers. Regular reports are brought to the attention of the Local Pension Committee and Local Pension Board to provide the latest position on key risks.

The biggest risk for the Fund is that the value of assets held will ultimately be insufficient to pay for all the benefits due. This risk is quantified by a triennial actuarial valuation, which compares the value of assets to the accrued liabilities and sets employer contribution rates that are considered appropriate to ensure that all benefits can be paid; the Fund is currently in deficit (i.e. the value of assets is less than the accrued liabilities) so the employer contribution rates, at a whole Fund level, include payment for not only future service as it accrues but also contributions towards the deficit. Given that many benefits will not become payable for a long time, and taking into account the financial strength of most employers, the actuary is able to take a long-term approach to recovery of the deficit.

The performance of the assets of the Fund is an important element in helping to maintain affordable employer contribution rates – the higher the long-term investment return achieved, the more of the benefits will be funded by investment returns rather than employer and employee contributions. A long-term approach is taken to agreeing an asset allocation benchmark, with both return and risk considered. The Fund's asset allocation policy is reviewed annually.

Individual investment manager performance is of lower importance than the asset allocation benchmark, but individual manager performance does have an impact and their performance is considered and reviewed regularly. When there are doubts about a manager's ability to generate future performance that is in line with the Fund's requirements/expectations appropriate action will be taken, and this may include the release of a manager. It is not generally optimal to change managers on a frequent basis due to the associated costs (which are mainly the impact of bid/offer spreads and charges within markets), and as a result changes are considered very carefully before they are agreed.

The Local Pension Committee receives advice from the investment practice of Hymans Robertson and is supported by an independent investment advisor, and this assists in making decisions in respect of both overall investment policy, manager selection/retention and good governance.

The Fund employs a large number of investment managers, and all of these invest in a specific asset class and can be termed 'specialist'. Many of these managers are required to have external assessments of their systems and operations and these are reviewed to ensure that there are no issues which put the Fund's investments at risk.

Other investment managers that the fund employs are appointed by LGPS Central Ltd, a company which pools together pension fund assets from various pension funds across the

Midlands. Leicestershire County Council along with 8 other pension funds is a joint owner of the company. The company has its own governance and risk management structures in place.

Under the Pensions Regulations all employers must pay over contributions deducted from employees, plus the required employer contributions, to the administering authority within certain timescales. These payments are monitored closely, and immediate action is taken in the event of a late payment. Late payment does not put the benefits of individuals at risk.

Many of the risks associated with providing efficient and cost-effective Pensions Administration are mitigated by ensuring that officers involved in LGPS are knowledgeable and well-trained on an on-going basis. Ensuring that employers understand their responsibilities to the Fund and fulfil them efficiently is also crucial, and an on-going programme of support for them is in place.

#### 4. Financial Performance

Non-investment cash inflows for the fund come via contributions from Employers. There were a small number of incidences of late payment of contributions by employers over the year, and these were exclusively because of administrative failings on their part. On each occasion the employer was reminded of their responsibilities, and it was not felt necessary to levy interest on overdue contributions. Employer contributions ranged from 15% to 32.0% with the average employer rate being 24.5%.

Administrative costs were at £40.1m for the year compared to £36.0m in the previous year (2018/19). This increase was largely due to additional investment manager costs based on the assets under management and transitioning investments to LGPS central. Investment management fees are variable as they are based on market values that are impossible to predict in advance. Action was taken during the year to reduce investment management costs where there was opportunity to do so. There were no material movements in non-investment assets and liabilities.

The general trend of overall net cash flows is monitored, whether these are derived from investment or non-investment related sources. Non-investment cash flows were positive by almost £44.1m in 2019/20, compared to £25.9m in 2018/19. In addition, the Fund received investment income of £36m. In the context of the funds, £4 billion of assets, the cash flow movements are not material. Any short-term cash surpluses or shortfall can be managed through the funds passive investments that have good levels of liquidity.

Cash flows are unlikely to reduce in the near future, despite cuts to budgets within Local Authorities that could reduce membership (and hence employee/employer contributions). Whilst benefits paid are increasing, due to increasing numbers of pensioners and inflation-linked annual increases, the value of this increase is offset by the increasing rate of employers' contribution. In future years this could result in a reduction in the available cashflow and will require monitoring. The Fund also has significant investments in accumulation funds where the investment income is reinvested rather than distributed, and these could, if required, be changed to income producing funds with the generation of an extra £30m+ cash flow p.a.

The overall impact of a strong positive cash flow is that the Fund has flexibility in the selection of investments and fewer restrictions due to liquidity concerns. There are strong controls in place for ensuring that all income due is received and that benefits are not overpaid. A monthly automated check of pensioners is carried out through a reliable tracing agency to ensure that pensions cease upon death, and the Fund has a very low incidence of overpayments that occur either as a result of fraud, late notification or error.



Details of contributions in and payments out of the fund are shown below:

<b>2018/19</b>		<b>2019/20</b>
<b>£m</b>	<b>Payments in:</b>	<b>£m</b>
<b>(149.5)</b>	Employer Contributions	<b>(167.9)</b>
<b>(39.9)</b>	Member Contributions	<b>(42.7)</b>
<b><u>(10.3)</u></b>	Transfers in From Other Pension funds	<b><u>(12.3)</u></b>
<b>(199.7)</b>	Total Inflows	<b>(222.9)</b>
	<b>Payments out:</b>	
<b>124.8</b>	Pensions	<b>127.8</b>
<b>32.5</b>	Lump Sum Retirement Benefits	<b>32.9</b>
<b>4.6</b>	Lump Sum Death Benefits	<b>3.1</b>
<b><u>11.9</u></b>	Payments to and on Account of Leavers	<b><u>15.0</u></b>
<b>173.8</b>		<b>178.8</b>
<b>(25.9)</b>	<b>Net Cash (inflows)</b>	<b>(44.1)</b>

**5. Pension Scheme Administration**

The number of scheme members who are either receiving a benefit or who have a future entitlement to one increased by 2355 over the course of the year. This figure excludes the 4,000+ members who have no entitlement to a benefit from the fund but do retain the right to either a refund of contributions or a transfer to an alternative pension arrangement.

Active membership increased by 1367 from 34,412 to 35,779.

Pensioners increased by 1063 from 27,973 to 29,036.

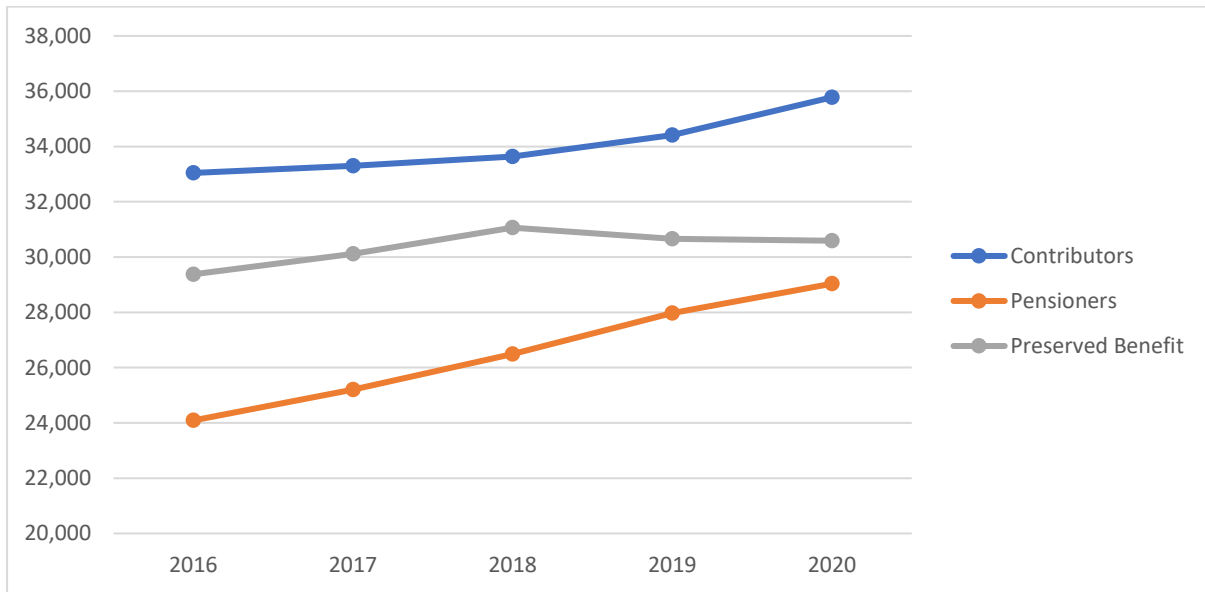
Preserved membership decreased by 75 from 30661 to 30586.6.

The Fund’s employers have completed the auto enrolment process, with many of the larger employers completing this prior to 2017/18. The auto enrolment process forces employing bodies to bring almost all employees that are eligible to join the LGPS but are not currently scheme members into the scheme. This is reflected by the increase in active members over the past 5 years.

The number of pensioners has been increasing at a rate of 2% per annum over the past 5 years, a trend that is expected to continue.

Membership numbers over the last 5 years are shown in the graph below:-

	<b>% increase over 5 years</b>
Contributors	8.3%
Pensioners	20.5%
Preserved Benefit	4.1%



Leicestershire Pension Fund contributions:

<b>Employer Name</b>	<b>Employer Contributions</b>	<b>Employee Contributions</b>
	<b>£000</b>	<b>£000</b>
Leicester City Council	43,603	11,135
Leicestershire CC	38,076	9,673
The Chief Constable & The OPCC	9,237	2,745
Leics De Montfort University	9,569	2,908
Loughborough University	6,659	1,629
Charnwood Borough Council	3,721	791
North West Leics DC	2,890	776
Rutland CC	2,581	742
Hinckley and Bosworth BC	2,515	692
Blaby District Council	1,957	551
ESPO	1,893	496
Leics Fire Service (Civilians)	857	249
Harborough District Council	1,709	375
Oadby and Wigston BC	1,163	245
Melton BC	1,045	283
FE and Sixth Form colleges	5,872	1,628
Town & Parish Councils	609	155
Academies, Free Schools and others	33,946	7,627
<b>Total</b>	<b>167,900</b>	<b>42,700</b>

The Leicestershire Local Government Pension Fund provides services in line with the requirements of a fund of this nature. This includes the correspondence with members, calculation of benefits, maintenance of members records and data and Pension payments through the payroll service. A service is also provided for members to log onto the online member site and a service for employers to upload member data monthly.

The fund has 28.3 full time equivalent working in Pension Scheme Administration. Scheme membership is 95,000 equating to 3,371 members per FTE.

The fund has several performance indicators in respect of administration performance, which are split between speed of processes and customer satisfaction. These are reported on a quarterly basis to the Local Pension Board.

## Pension Fund Annual Report

Accuracy of Data	Common Data	99.20%
	Scheme Specific (Conditional Data)	90.40%
Average Cases Per Member of Staff	Average per FTE (Completed tasks)	608
Complaints	6 stage 2 IDRPs in 2019/20	Less than 0.5%
Types of cases dealt with (only KPI tasks)	Deaths	928
	Pension Estimate	999
	CETV Estimate	312
	Retirement	3,222
	Deferred Benefits	2,723
	Transfers in and Out	87
	Calculate and Pay a Refund	812
	Formal notification of Joining	8,142

### Leicestershire Pension Fund key administrative Performance Statistics

**Full Year - 1 April 2019 to 31 March 2020**

Business Process Perspective	Target †			Customer Perspective - Feedback	Target †		
Retirement Benefits notified to members within 10 working days of paperwork received	92%	94 %	▲	Establish members understanding of info provided - rated at least mainly ok or clear	95%	99 %	▲
Pension payments made within 10 working days of receiving election	95%	90 %	▼	Experience of dealing with Section - rated at least good or excellent	95%	90 %	▼
Death benefits/payments sent to dependant within 10 working days of notification	90%	91 %	▲	Establish members thoughts on the amount of info provided - rated as about right	92%	95 %	▲
				Establish the way members are treated - rated as polite or extremely polite	97%	99 %	▲
Good or better than target	▲			Email response - understandable	95%	91 %	▼
Close to target	▶			Email response - content detail	92%	92 %	▲
Below target	▼			Email response - timeliness	92%	95 %	▲

Other fund information:

Help desk arrangements and information are as follows:

Contact Type	From	To	Contact
MSS Helpdesk Phones	8:00am	17:00pm	0116 3057886
Benefits Helpdesk			0116
Phone	8:00am	17:00am	3054000
Pensions Benefits Queries	<a href="mailto:Pensionsbenefits@leics.gov.uk">Pensionsbenefits@leics.gov.uk</a>		
Email MSS Queries	<a href="mailto:PensionsMSS@leics.gov.uk">PensionsMSS@leics.gov.uk</a>		
General Pensions Queries	<a href="mailto:Pensions@leics.gov.uk">Pensions@leics.gov.uk</a>		

Address Pensions Section  
Leicestershire County Council  
County Hall  
Glenfield  
Leicester  
LE3 8RB

### Internal Disputes

If you are not satisfied with any decision given by either the Pension Section or your employer/ former employer, relating to your Local Government Pension Scheme (LGPS) benefits, you may appeal in writing under the Internal Disputes Resolution Procedure (IDRP). You must write within 6 months of receiving the decision.

Any points of difference should firstly be addressed with the Pensions Office on an informal basis. You can write to:

The Leicestershire County Council Pension Section, County Hall, Glenfield, Leicester, LE3 8RB

Or, contact the Pensions Officer who has dealt with your case. Their name and contact details will be on your correspondence.

We will then try to resolve the matter for you. Should you still be unhappy and wish to take the matter further you can request an information sheet and form to complete. This will contain the name and address of the ‘Specified Person’ nominated by your employer or former employer who would formally investigate your complaint.

Following this, if you are still dissatisfied with their decision, a ‘second stage’ of complaint can be requested, which will be looked at by the Legal Services team at Leicestershire County Council in most cases.

Should you be dissatisfied with the outcome of this, further details of the next stages of complaint would be provided at the time, should this be necessary.

Further advice can be found at the following:

Pension Advisory Service	web	<a href="https://www.pensionsadvisoryservice.org.uk/">https://www.pensionsadvisoryservice.org.uk/</a>
	phone	0800 011 3797
LGPS Regulation & Guidance		<a href="https://www.lgpsregs.org/">https://www.lgpsregs.org/</a>

## Good Governance in the LGPS

Following on from the production of the Good Governance Report to the national Scheme Advisory Board (SAB) on 8th July 2019, which was presented to the Board on 16th September 2019, the SAB agreed to constitute two working groups to take forward the proposals included in the report. Hymans Robertson were appointed to assist the working groups in this next phase of the good governance project.

The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wishes to see achieved by funds under the proposed approach, and how these outcomes should be evidenced.

The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

A report, 'Good governance in the LGPS Phase 2' has been prepared for the SAB by both working groups and includes detailed implementation proposals for their workstream including a list of the changes required to guidance to implement this framework. The Fund's officers are working through the proposals, some areas have been addressed and are listed below:

- A training policy approved by the Pensions Committee
- The fund having an administration and communication strategy in place
- A specific Pensions Business Plan and separate Pension Fund budget was approved by Pensions Committee
- The Fund administration is not limited to the same Council decisions in terms of certain functions e.g. recruitment freezes

In terms of wider improvements that link to scheme governance the following are being implemented:

- Greater development of on-line solutions for scheme members to enhance the user experience, e.g. preserved benefit modeller and move to an online retirement process.
- Further roll out of monthly data posting using IConnect, which links to data improvements.
- Implementation of pensioner payroll through the pensions administration system.
- Implementation of immediate payments, allowing Pensions to make payment of single values directly e.g. lump sums, death grants, refunds etc

## 6. Investment Performance

The Fund's strategic asset allocation benchmark at the year end was as follows:

	Weighting	Benchmark	Difference
Equities	46.50%	46.75%	-0.25%
Real Income Fund	26.90%	24.75%	2.15%
Alternatives	24.20%	27.50%	-3.30%
Cash and hedge Collateral	2.40%	1.0%	1.40%
	100.00%	100.00%	0.00%

The setting of the strategic benchmark is the most important decision that the Committee makes. It is this decision that will have by far the most significant impact onto the investment return achieved and approximately 90% of the Fund's overall risk is encompassed within the choice of benchmark. Individual investment manager choices are important as they can produce added value by outperforming their benchmarks, but their influence is small in comparison to the choice of benchmark.

Although some investments have moved over to LGPS central as part of asset pooling, the Local Pension Committee still retain full responsibility for asset allocation and will continue to be accountable for the majority of the Fund's investment performance.

A comprehensive analysis of investment holdings by manager and their associated performance is provided in Appendix A. A summary is provided below:

	1 Year %p.a.		3 Years %p.a.	
	Fund	Benchmark	Fund	Benchmark
Equities	-11.5	-8.8	-0.9	0.5
Private	11.1	-6.2	11.3	2.2
Real Income	2.7	2.6	5	4.6
Alternative	0.7	4.2	1.4	4.2
<b>TOTAL FUND</b>	<b>-4.3</b>	<b>-2.3</b>	<b>1.8</b>	<b>2.5</b>

The Fund has a large number of investment managers and it is inevitable that some of them will have periods of disappointing performance – sometimes this disappointing performance can last multiple years, and can be the result of a particular investment 'style' not being in favour with market sentiment. It is important to understand why managers are performing as they are – regardless of whether this is above or below their benchmark – and to assess whether this is of cause for concern. Knee-jerk reactions that are based on relatively short periods of poor performance are not sensible, and understanding the reasons for poor performance is vital. It is implausible to believe that all managers appointed by the Fund can simultaneously perform well, the Fund needs to have a



reasonable spread of management styles and asset classes and occasionally a manager is chosen specifically because they are different to other managers.

The Local Pension Committee and Investment Subcommittee will continue to monitor the performance of managers and make changes when it is deemed appropriate, although the pooling of investments within the Local Government Pension Scheme mentioned earlier in this report means that there needs to be a greater awareness of when action is appropriate and when it is not and indeed action will be taken at a pooled level rather than an individual pension fund level. Since 1<sup>st</sup> April 2014 all investment performance has been measured net of investment management fees and the figures quoted above are, therefore, after taking these into account.

The management of the individual asset classes is carried out as follows:

### ***Equities***

The Fund has a global passive equity manager (Legal & General) that manages against both market capitalisation benchmarks and also against alternative benchmarks. The Fund has two active equity investments with LGPS Central (the pooling company), a global equity multi manager investment and an active emerging market multi manager product.

Within equities the Fund also has private equity investments (i.e. investment in unquoted companies), the vast majority of which is managed by Adams Street Partners.

### ***Real Income Fund***

Property - Colliers Capital UK manage a directly owned property portfolio but have scope to invest in specialist pooled property funds which are in areas that they find attractive but would not be practical to buy directly, usually due to the size of individual investments (for example leisure complexes based around multiplex cinemas or Central London offices).

La Salle Investment Management manage a portfolio of pooled property funds, which includes some covering a wide range of property types and some which are specialist in nature. Via their ability to research the underlying holdings and the skills of the property managers, it is expected that they will add value to the Fund.

The Fund has also invested in two stand-alone property 'recovery' funds, managed by Kames Capital.

### ***Inflation-linked***

UK inflation is one of the Fund's biggest risks, due to the direct link to benefits and the less-direct link to salary growth of active members. Protecting against this risk is, therefore, sensible but it is also very expensive – it would involve taking money out of assets that are seeking investment growth (e.g. equities) and investing it in safer, and therefore lower-returning, index-linked bonds. This would push up employers' contribution rates to levels which are unaffordable, so cannot be implemented in a large scale manner.

The most natural asset for protecting the Fund against its inflation risk is UK Government index-linked bonds, but these are expensive as there are a number of price-insensitive buyers and a lack of supply. As a result the Fund has a three-pronged approach to obtaining some protection against inflation – investment in infrastructure and timberland (both of which have a good historic link to inflation, and also good return prospects), and also a global government index-linked portfolio.





## Pension Fund Annual Report

Timeline	Title	Description	Complete / new date
Q4 19/20	Communicate RI plan	Publication of the Fund's RI plan.	✓
	Responsible Investment Guidance	SAB expected to issue final guidance in February. Fund draft response, including update of this plan to Local Pension Board before report to Committee.	Delayed update from SAB
	RI Training for Local Pension Board		Ongoing
Q1 20/21	Quarterly stewardship reporting	Inclusion in Committee papers of LGPS Central's Quarterly Stewardship Report	✓
	RI Training for Local Pension Committee		✓
	Voting report inclusion in Committee papers	Reporting explaining the execution of shareholder voting on the Fund's listed equity investments. To include funds managed by LGPS Central and LGIM initially.	✓
Q2-Q3 20/21	Quarterly manager reporting on ESG	The formal inclusion by external fund managers of ESG information in quarterly reporting in order to facilitate regular monitoring.	
	New manager selections: integrate ESG where relevant	Include an ESG assessment in processes for appointing fund managers.	
	Receive Climate Risk Report	Report comprising (i) Climate scenario analysis (ii) Carbon risk metrics (iii) Annual Climate Stewardship Plan.	Possibly delayed
Q3 20/21	Climate Plan	Publish a climate plan for 2021 based on the key findings of the Climate Risk Report. To be done ahead of Hymans Robertson's 2021 strategic asset allocation refresh so the Fund can fully embed their RI plan in investment decision-making.	
	Climate Risk Training	Training of pension fund officers, Pension Committee and Pension Board on the risks and opportunities associated with climate change, and the Fund's Climate plan.	
	TCFD Report (Taskforce on Climate related Financial Disclosures)	Public-facing report of the Fund's approach to climate risk, set out in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures	
	Mid-year review	Assess preparedness for UK Stewardship Code Review RI plan and capture any developments in the regulations, statutory guidance, or RI Guidance from the Scheme Advisory Board.	
	Annual Report	Revised report including new RI content, review by Board before approval at Committee.	

## 9. LGPS Central Pool

As mentioned earlier in the report the Fund is an investor in LGPS Central Ltd, a company which pools together pension fund assets from various pension funds across the Midlands. Leicestershire County Council along with eight other funds is a joint owner of the company. The company has its own governance and risk management structures in place. The aim of the Company is to use the combined buying power of its partner funds to reduce costs, improve investment returns and widen the range of available asset classes for investment – all for the benefit of local government pensioners, employees and employers.

LGPS Central Ltd is based in Wolverhampton and their details can be found below:

Address:

LGPS Central Ltd,  
Mander House,  
Mander Centre,  
Wolverhampton,  
WV1 3NB

Website: <https://www.lgpscentral.co.uk>

e-mail: [enquiries@lgpscentral.co.uk](mailto:enquiries@lgpscentral.co.uk)

During the 2019/20 financial year, the following emerging markets investments were made via the pool by the Leicestershire Fund as follows:

	<b>Value at 31st March 2020</b>
<b>LGPS Central</b>	<b>£m</b>
BMO	48.6
UBS	49.9
Vontabel	53.7
<b>Total</b>	<b>152.2</b>

A further £308.1m of assets are managed by the pool from investments made in previous years. As at 31<sup>st</sup> March 2020 all other assets held by the fund were held outside the Pool.

There are also advisory and executions mandates held with the pool for the following assets:

	<b>Assets under management</b>
	<b>£m</b>
Targeted Return	465.5
Property	400.2
Fixed Income	94.5

### **Post Pooling report**

The information request set out below reflects the information required by Partner Funds to meet the CIPFA Annual Report Pooling Disclosures in 2019/20. Please note that the information request reflects the start-up nature of LGPSC, and the level and complexity of the disclosures required will increase in later years.

The analysis provided by LGPS Central (LGPSC) relates to the Leicestershire Pension Fund. The provision of the information by LGPSC to each Partner Fund should ensure consistent reporting across Partner Funds, and allow LGPSC to aggregate, and reconcile back the individual Partner Fund disclosures, to the Company's financial statements.

### **Set up costs**

Leicestershire's share of the set-up cost associated with the pool were as follows:

£000	Cumulative 2014/15 to 2018/19 Total
Set Up Costs	
Recruitment	0
Procurement	27
Professional Fees	2
IT	187
Staff Costs	97
Other Costs	142
Premises	49
Staffing-Related Costs	5
Travel and Expenses	1
Training and Events	1
FCA Fees	1
General Admin Costs	2
<b>Set-Up Costs Before Funding</b>	<b>514</b>
Share Capital	1315
Debt	685
Other Costs	
<b>Set-Up Costs After Funding</b>	<b>2514</b>

£000	2016/17	2017/18	2018/19	Cumulative Total
<b>Set-Up Costs Before Funding</b>	95	419	-	514
<b>Set-Up Costs After Funding</b>	95	2,419	-	2,514
<b>Transition Costs</b>				

Recharges By Partner Funds to LGPSC in respect of Set-Up Costs

£000	At 1 April-18	Recharges in Year	Settled in Year	At 31 March-19
Set-Up Cost Recharges	502	-	(502)	-

Governance, Operator and Product Development Charged by LGPSC to Partner Funds

£000	At 1 April-19	Charges in Year	Settled in Year	At 31 March-20
Total	151	898	(774)	275

Other Transactions between Partner Funds and LGPSC

£000	At 1 April-19	Charges in Year	Settled in Year	At 31 March-20
Interest Payable	43	36	(43)	36
Total	43	36	(43)	36

The following Investment management costs have been charged by the pool to the Leicestershire Fund.

LGPSC Investment Management Expenses Charged to Partner Funds

	£000	Direct	Total	Bps Charge
1	Ad Valorem	1,325	1,325	26.08
2	Performance	-	-	-
3	Research	-	-	-
4	PRIIIPS Compliance	-	-	-
5	Other (provide details)	-	-	-
	<b>Management Fees</b>	<b>1,325</b>	<b>1,325</b>	<b>26.08</b>
6	Commissions	192	192	3.78
7	Acquisition/issue costs	29	29	0.57
8	Disposal costs	-	-	-
9	Registration/filing fees	-	-	-
10	Taxes and Stamp Duty	172	172	3.39
11	Other (provide details)	-	-	-
	Implicit Costs	1,500	1,500	29.53
	<b>Transaction Costs</b>	<b>1,893</b>	<b>1,893</b>	<b>37.26</b>
				-
12	<b>Custody/Depository</b>	<b>49</b>	<b>49</b>	<b>0.96</b>
13	<b>Other (provide details)</b>			-
	Fund Accounting	13	13	0.26
	Transfer Agent	4	4	0.08
	External Audit	4	4	0.08
	Performance Reporting	6	6	0.12
	<b>Total Costs</b>	<b>3,294</b>	<b>3,294</b>	<b>64.84</b>

Note: The total of the analysis should reconcile to request (6) below

\*BPS= Basis points charged based on Assets under Management

**Pension Fund Annual Report**

£000	1	2	3	4	5	6	7	8	9	10	11	12	13	Total 2019/20 Costs	AUM At 31 March 2020 £m	2019/20 Bps Charge
Global Multi-Manager	836					151				118	1,436	36	11	2,588	307	71.29
GEMS	482					41	29			54	64	13	16	699	152	51.78
<b>ACS Sub-Funds</b>	<b>1,318</b>	-	-	-	-	<b>192</b>	<b>29</b>	-	-	<b>172</b>	<b>1,500</b>	<b>49</b>	<b>27</b>	<b>3,287</b>	<b>459</b>	
Private Equity 2018 V'tage	7													7	10	7.00
<b>Alternative Vehicles</b>	<b>7</b>	-	-	-	-	-	-	-	-	-	-	-	-	<b>7</b>	<b>10</b>	
<b>Total</b>	<b>1,325</b>	-	-	-	-	<b>192</b>	<b>29</b>	-	-	<b>172</b>	<b>1,500</b>	<b>49</b>	<b>27</b>	<b>3,294</b>	<b>469</b>	<b>64.84</b>

Items 1 – 13 relate to the categories highlighted in the management costs table.

**Asset Under Management & Performance by Product / Service**

£000	AUM At 1 April-19 £m	AUM At 31 March-20 £m	One Year Gross Performance % (*)	One Year Net Performance % (*)	Passive Benchmark Used	One Year Passive Index % (*)
Global Multi-Manager	340	307	-	N/A	FT: All World	-
GEMS	-	152		N/A		
<b>ACS Sub-Funds</b>	<b>340</b>	<b>459</b>				
Private Equity 2018 Vintage	10	10				
<b>Alternative Vehicles</b>	<b>10</b>	<b>10</b>				
<b>Total</b>	<b>350</b>	<b>469</b>				

(\*) Inception to 31 March 2019





## 8. Actuarial Statement

### Leicestershire County Council Pension Fund (“the Fund”) Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

#### Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 17 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target over 17 years.

#### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £4,312 million, were sufficient to meet 89% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £537 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers’ contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund’s funding policy as set out in its FSS.

#### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 formal valuation report.

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.8%
Salary increase assumption	2.8%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.5 years	23.8 years
Future Pensioners*	22.2 years	25.2 years

\*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

### Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Tom Hoare FFA

10 June 2020

For and on behalf of Hymans Robertson LLP



Membership details are set out below:

	31-Mar-19	31-Mar-20
<b>Number of employers</b>	263	268
<b>Number of employees in the scheme (Actives)</b>		
County Council	7,875	8,488
Other employers	26,537	27,291
<b>Total</b>	<b>34,412</b>	<b>35,779</b>
<b>Number of pensioners</b>		
County Council	11,177	11,399
Other employers	16,796	17,637
<b>Total</b>	<b>27,973</b>	<b>29,036</b>
<b>Deferred pensioners</b>		
County Council	12,423	12,377
Other employers	24,183	24,997
<b>Total</b>	<b>36,606</b>	<b>37,374</b>
<b>Total number of members in the pension scheme</b>	<b>98,991</b>	<b>102,189</b>

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% and 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers contributions are set based on triennial actuarial funding valuations. In 2019/20 the average employer rate was 24.5% of pay (23.8% 2018/19).

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based in final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is updated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website, <https://www.leicestershire.gov.uk>

## Fund Account for the Year Ended 31 March 2020

2018/19 £m		Notes	2019/20 £m
	<b>Contributions</b>		
(149.5)	Employer Contributions	6	(167.9)
(39.9)	Member Contributions	6	(42.7)
(10.3)	Transfers in from Other Pension Funds	7	(12.3)
<b>(199.7)</b>	<b>Total Contributions</b>		<b>(222.9)</b>
	<b>Benefits</b>		
121.6	Pensions	8	127.8
35.7	Commutation of Pensions and Lump Sum Retirement Benefits	8	32.9
4.6	Lump Sum Death Benefits		3.1
11.9	Payments to and on Account of Leavers	9	15.0
<b>173.8</b>	<b>Total Benefits</b>		<b>178.8</b>
<b>(25.9)</b>	<b>Net (Additions)/Withdrawals from Dealings with Members</b>		<b>(44.1)</b>
36.0	Management Expenses	10	40.1
<b>10.1</b>	<b>Net (Additions)/Withdrawals Including Fund Management Expenses</b>		<b>(4.0)</b>
	<b>Returns on investments</b>		
(36.8)	Investment income (Profit) and Losses on Disposal of Investments and Changes in Value of Investments	11 12	(35.8)
(202.0)			196.6
<b>(238.8)</b>	<b>Net Returns on Investments (Sub Total)</b>		<b>160.8</b>
<b>(228.7)</b>	<b>Net (Increase) / Decrease in the Net Assets Available for Benefits fund During the Year</b>		<b>156.8</b>
(4,083.3)	Net assets of the scheme Opening		(4,312.0)
<b>(4,312.0)</b>	<b>Net assets of the scheme Closing</b>		<b>(4,155.2)</b>

## Net Assets Statement as at 31 March 2020

2018/19 £m		Notes	2019/20 £m
4,361.2	Investment assets	12	4,152.7
(54.0)	Investment liabilities	12	(5.8)
<b>4,307.2</b>			<b>4,146.9</b>
10.6	Current Assets	15	12.7
(5.8)	Current Liabilities	15	(4.4)
<b>4,312.0</b>	<b>Net Assets of the Fund at 31 March</b>		<b>4,155.2</b>

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position on the Scheme, which does take account of such obligations, is set out in the Actuary's Report.

The notes below form part of the Financial Statements.

## Notes to the Accounts

### 1. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position as at 31 March 2020. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take account of the actuarial present value of promised retirement benefits. The Fund has disclosed this information, by appending a copy of the report to the Pension Fund accounts.

The Accounts have been prepared on a going concern basis.

### 2. Accounting policies

The following principal accounting policies, have been adopted in the preparation of the financial statements:

#### Fund Account – Revenue Recognition

##### *a) Contribution Income*

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

##### *b) Transfers to and from other Schemes*

Transfers in and out relate to members who have either joined or left the fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in

Transfers In, shown in Note 7. Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

### *c) Investments*

Interest Income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend Income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the terms of the lease.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

### Fund Account – Expense Items

#### *d) Benefits Payable*

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### *e) Taxation*

The fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

#### *f) Management Expenses*

The fund discloses management expenses for administration, oversight and governance, and investment management. The disclosures comply with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016)'.  
  
Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 10A and grossed up to increase the change in value of investments.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.



### Net Assets Statement

#### *g) Investments*

Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued at bid price. Other quoted securities and financial futures are valued at the last traded price. Private equity investments and unquoted securities are valued by the fund managers at the year end bid price, or if unavailable in accordance with generally accepted guidelines. Accrued interest is excluded from the market value of fixed interest securities and index-linked securities but is included in investment income receivable.

Pooled Investment Vehicle units are valued at either the closing bid prices or the closing single price reported by the relevant investment managers, which reflect the accepted market value of the underlying assets.

Private equity, global infrastructure and hedge fund valuations are based on valuations provided by the managers at the year end date. If valuations at the year end are not produced by the manager, the latest available valuation is adjusted for cash flows in the intervening period.

Property investments are stated at open market value based on an expert valuation provided by a RICS registered valuer and in accordance with RICS guidelines.

Options are valued at their mark to market value. Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. The investment reconciliation table in Note 12 discloses the forward foreign exchange settled trades as net receipts and payments.

#### *h) Foreign currencies*

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated at a rate that is relevant at the time of the receipt of the income or the exchange rate at the year end, whichever comes first.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

#### *i) Cash and Cash Equivalents*

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### *j) Financial Assets*

Financial Assets classes as amortised cost are carried in the net assets statement at amortised cost, i.e. the outstanding principal as at the year end date.

#### *k) Financial Liabilities*

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains and losses arising from changes in the fair value of the liability between contract date, the year end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost, i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest.

**l) Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by appending a copy of the report to the Pension Fund Accounts.

**m) Additional Voluntary Contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC's are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed for information in Note 26.

**n) Contingent Assets and Contingent Liabilities**

A contingent asset arises where an event has taken place giving rise to a plausible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

**3. Critical Judgements in Applying Accounting Policies**

Pension Fund Liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. The estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in the introduction to the accounts. Actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance between longer term and short term yield/ return.

Investment in LGPS Central Asset Pool

This investment has been valued at cost on the basis that fair value as at 31 March 2020 cannot be reliably estimated. Management have made this judgement because; a) the Pool only became licensed to trade in February 2018, b) no dividends to shareholders has yet been declared, and c) no published trading results are yet available.

Directly Held Property

The fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants. The fund has determined that these contracts all constitute operating lease arrangements under IAS7 and the Code, and therefore the properties are retained on the net assets statement at fair value. Rental income is recognised in the fund account on a straight line basis over the life of the lease.

#### 4. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historic experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment in the following year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Actuarial Present Value of Promised Retirement Benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: <ul style="list-style-type: none"> <li>• A 0.5% decrease in the discount rate used would result in an increase in the pension liability of £632m</li> <li>• A 0.5% increase in the pension increase rate would increase the pension liability by £562m</li> <li>• A one year increase in assumed life expectancy would increase the liability by between £211m and £352m.</li> </ul>
Private Equity Investments	Private equity investments are valued at fair value. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £249m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by up to 28%, an increase or decrease of £70m.
Freehold, Leasehold Property and Pooled Property Funds	Valuations techniques are used to determine the carrying amount of pooled property funds and directly held freehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data. The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation.	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property based investments by up to 15%, i.e. an increase or decrease of £57m on the carrying value of £379m.
Private Debt Investments	Private debt funds are valued in accordance with each investment managers valuation policy. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private Debt funds are valued at £277.5m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by up to 10%, an increase or decrease of £27.8m

Infrastructure Investments	Infrastructure funds are valued in accordance with each investment managers valuation policy. Where possible these valuation techniques are based on observable data but where it is not possible management uses the best data available.	Infrastructure funds are valued at £287.2m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by up to 14%, an increase or decrease of £40.2m
Timberland Investment	Investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by an underlying fund manager. In circumstances where audited financial statements are not available, the valuations are then derived from unaudited quarterly reports.	Timberland funds are valued at £143.9m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by up to 16%, an increase or decrease of £23m

## 5. Events after the Reporting Date

The Statement of Accounts was authorised for issue by the Director of Corporate Resources on 21 December 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information (where known).

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2020 as they provide information that is relevant to an understanding of the fund's financial position, but do not relate to conditions at that date.

The outbreak of Covid-19 has impacted global economies. The full impact of this on the fund's investments are not yet known. Although a substantial proportion of the fund's investments are in liquid assets (listed equities for example) there are a proportion of assets (Private equity, Property etc.) where the full impact of the epidemic will take time to filter through. Stock markets had a substantial fall in the last week of March 2020 and therefore the impact of this is reflected in the fund's investment values.

## 6. Contributions

2018/19 £m		2019/20 £m
	<b>Employers</b>	
143.1	Normal	160.0
3.7	Deficit Repair	4.6
0.1	Voluntary additional	0.0
1.8	Advanced payments for early retirements	2.4
0.8	Additional payments for ill-health retirements	0.9
	<b>Members</b>	
39.5	Normal	42.3
0.4	Purchase of additional benefits	0.4
<b>189.4</b>	<b>Total</b>	<b>210.6</b>

Additional payments for early retirements are paid by employers, once calculated and requested by the Fund, to reimburse the Pension Fund for the cost to the Fund of employees who are allowed to retire before their normal retirement age. Additional payments for ill-health retirements are generally paid by the insurance company, where the employer has taken out ill-health insurance and the claim has been accepted as valid. On occasions employers without ill-health insurance are charged for at least part of the ill-health costs. Purchase of additional benefits by members allows either extra service to be credited on top of any service earned via employment, or an additional annual pension amount in cash to be paid following retirement. Termination valuation payments relate to the actuarially assessed deficit within an employer's sub-fund when their last active employee leaves.

The contributions can be analysed by the type of Member Body as follows:

2018/20 £m		2019/20 £m
44.4	Leicestershire County Council	50.1
136.2	Scheduled bodies	150.1
8.8	Admitted bodies	10.4
<b>189.4</b>	<b>Total</b>	<b>210.6</b>

#### 7. Transfers In

2018/19 £m		2019/20 £m
10.3	Individual transfers in from other schemes	12.3
<b>10.3</b>	<b>Total</b>	<b>12.3</b>

#### 8. Benefits

The benefits paid can be analysed by type of Member Body as follows:-

2018/19 £m		2019/20 £m
57.3	Leicestershire County Council	57.2
96.4	Scheduled bodies	98.5
8.2	Admitted bodies	8.1
<b>161.9</b>	<b>Total</b>	<b>163.8</b>

9. Payments to and on Account of Leavers

2018/19 £m		2019/20 £m
0.9	Refunds to members leaving the scheme	0.3
11.0	Individual transfers to other schemes	14.7
<b>11.9</b>	<b>Total</b>	<b>15.0</b>

10. Management Expenses

RESTATEMENT		
2018/19 £m		2019/20 £m
33.8	Investment Management Expenses (Note 10A)	37.4
1.8	Pension Scheme Administration Costs	2.0
0.4	Oversight and Governance Expenses	0.7
<b>36.0</b>	<b>Total</b>	<b>40.1</b>

2018/19 updated to report management expenses on a gross basis per the Code of Practice (previously on a net basis)

10A. Investment Management Expenses

2018/19 £m		2019/20 £m
23.7	Management Expenses	24.6
6.9	Transaction Costs	12.1
3.2	Performance Related Fees	0.7
<b>33.8</b>	<b>Total</b>	<b>37.4</b>

11. Investment Income

2018/19 £m		2019/20 £m
2.4	Dividends from equities	1.8
0.2	Income from Government Bonds	0.1
2.2	Income from index-linked securities	2.0
24.4	Income from pooled investment vehicles	24.8
7.0	Net rents from properties	6.7
0.5	Interest on cash or cash equivalents	0.6
0.1	Net Currency Profit / (Loss)	(0.2)
<b>36.8</b>	<b>Total</b>	<b>35.8</b>

**Pension Fund Annual Report**

**12. Investments**

	Value at 1 April 2019	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Change In Market Value	Value at 31 March 2020
	£m	£m	£m	£m	£m
Equities	82.4	53.6	(94.3)	(7.9)	33.8
Government Bonds	28.9	74.1	(104.3)	2.0	0.7
Index-linked securities	391.2	404.5	(465.1)	9.3	339.9
Pooled investment vehicles	3,575.0	509.6	(419.6)	(137.6)	3,527.4
Properties	102.6	0.2	0.0	(3.2)	99.6
Derivatives contracts	(4.0)	122.0	(1.8)	(59.2)	57.0
Cash and currency & other investment balances	131.1	0.0	(42.6)	0.0	88.5
<b>Total</b>	<b>4,307.2</b>	<b>1,164.0</b>	<b>(1,127.7)</b>	<b>(196.6)</b>	<b>4,146.9</b>

	Value at 1 April 2018	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Change In Market Value	Value at 31 March 2019
	£m	£m	£m	£m	£m
Equities	80.3	57.4	(58.7)	3.4	82.4
Government Bonds	0.7	28.2	(0.0)	0.0	28.9
Index-linked securities	384.2	586.0	(602.4)	23.4	391.2
Pooled investment vehicles	3,332.0	631.9	(622.5)	233.6	3,575.0
Properties	102.1	0.0	(0.0)	0.5	102.6
Derivatives contracts	14.9	40.0	(0.0)	(58.9)	(4.0)
Cash and currency and other investment balances	160.7		(28.5)		131.1
<b>Total</b>	<b>4,074.9</b>	<b>1,343.5</b>	<b>(1,283.6)</b>	<b>202.0</b>	<b>4,307.2</b>

The change in the value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The Fund has the following investments which exceed 5% of the total net value of assets:

2018/19		2019/20
£m		£m
313.1	LGPS Central - Global Equity Active Multi Manager Fund	307.3
267.8	Legal and General North America Index Fund	231.3
264.3	Legal and General FTSE RAFI North America Fund	230.2
<b>845.2</b>	<b>Total</b>	<b>768.8</b>

Pension Fund Annual Report

2018/19 £m		2019/20 £m
	<b>Equities</b>	
21.5	UK quoted	14.4
1.3	UK unquoted	1.3
59.6	Overseas quoted	18.1
<b>82.4</b>		<b>33.8</b>
	<b>Government Bonds</b>	
0.7	UK Government Unquoted	0.0
5.8	UK Government Quoted	0.0
22.4	Overseas Quoted	0.0
<b>28.9</b>		<b>0.0</b>
	<b>Corporate Bonds</b>	
0.7	UK unquoted	0.7
<b>0.7</b>		<b>0.7</b>
	<b>Index Linked Securities</b>	
358.0	UK quoted	299.9
33.2	Overseas quoted	40.0
<b>391.2</b>		<b>339.9</b>
	<b>Pooled investment vehicles (unquoted)</b>	
283.0	Property funds	279.0
210.3	Private equity	248.5
520.7	Bond and debt funds	560.9
0.2	Hedge funds	0.2
1,909.4	Equity-based funds	1,694.0
15.4	Commodity-based funds	16.0
132.5	Timberland fund	143.9
129.4	Managed futures fund	145.9
147.7	Targeted return fund	151.8
226.4	Infrastructure fund	287.2
<b>3,575.0</b>		<b>3,527.4</b>
	<b>Properties</b>	
<b>102.6</b>	<b>UK (Note 14)</b>	<b>99.6</b>
<b>129.1</b>	<b>Cash and currency</b>	<b>86.5</b>
	<b>Derivatives contracts</b>	
47.1	Forward foreign exchange assets	53.7
1.4	Currency option assets	0.0
1.5	Other option assets	9.2
(54.0)	Forward foreign exchange liabilities	(5.9)
0.0	Currency option liabilities	0.0
<b>(4.0)</b>	<b>Sterling Denominated</b>	<b>57.0</b>
<b>2.0</b>	<b>Other Investment Balances</b>	<b>2.0</b>
<b>4,307.2</b>	<b>Total Investments</b>	<b>4,146.9</b>



At 31 March 2020 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £247.4m in private equity, £24.6m in illiquid corporate bonds and £143.9m in timberland.

### 13. Derivatives

The Fund holds derivatives for a number of different reasons. Forward foreign exchange contracts are held to benefit from expected changes in the value of currencies relative to each other. Futures can be held to gain full economic exposure to markets without the requirement to make a full cash investment and can be held to ensure that the Fund's exposures are run efficiently. Options are generally used to express an investment view but can give a much higher economic exposure than is required to be paid for the options – they also ensure that the potential loss is limited to the amount paid for the option.

#### Forward Foreign Exchange Contracts

All forward foreign exchange contracts are classed as 'Over the Counter' and at the year end the net exposure to forward foreign exchange contracts can be summarised as follows:

2018/19 £m		2019/20 £m
(0.7)	Active currency positions (those whose purpose is solely to seek economic gain)	0.0
(6.2)	Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling)	47.8
<b>(6.9)</b>	<b>Total</b>	<b>47.8</b>

#### Options

All options held by the Fund were exchange traded. The value of these options and the assets to which they were exposed can be summarised as follows:

2018/19 £m		2019/20 £m
1.4	Currency-based	0.0
1.5	Equity rate-based	9.2
<b>2.8</b>	<b>Total</b>	<b>9.2</b>

### 14. Property Investments

31 March 2019 £m		31 March 2020 £m
72.9	Freehold	71.3
16.2	Long Leasehold (over 50 years unexpired)	15.9
13.5	Medium/Short Leasehold (under 50 years unexpired)	12.4
<b>102.6</b>	<b>Total</b>	<b>99.6</b>

All properties, with the exception of the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK at 31st March 2020. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All valuers are Members of the Royal Institute of Chartered Surveyors.

## 14A Property Holdings

31 March 2019 £m		31 March 2020 £m
102.1	<b>Opening Balance</b>	102.6
	Additions:	
0.0	<i>Purchases</i>	0.0
0.0	<i>Subsequent Expenditure</i>	0.2
0.0	Disposals	0.0
0.5	Net increase in market Value	(3.2)
<b>102.6</b>	<b>Total</b>	<b>99.6</b>

## 15. Current Assets and Liabilities

2018/19 £m		2019/20 £m
8.7	Contributions due from employers	9.9
1.2	Other Debtors	2.4
0.7	Due from Ministry of Justice	0.4
<b>10.6</b>	<b>Current assets</b>	<b>12.7</b>
(3.6)	Due to Leicestershire County Council	(3.1)
(1.2)	Fund Management Fees Outstanding	(1.1)
(1.0)	Other Creditors	(0.2)
<b>(5.8)</b>	<b>Current liabilities</b>	<b>(4.4)</b>
<b>4.8</b>	<b>Net current assets and liabilities</b>	<b>8.3</b>

Contributions due at the year end were received by the due date.

The amount due from the Ministry of Justice relates to the actuarially assessed deficit in respect of Magistrates' Court staff that were formerly in the LGPS. The amount is payable over 10 years at £365,000 per annum, and at 31<sup>st</sup> March 2020 there was one more payments

## 16. Analysis of Investments by Manager

The Fund employs external investment managers to manage all of its investments apart from an amount of cash and a farm property, which are managed by Leicestershire County Council. This structure ensures that the total Fund performance is not overly influenced by the performance of any one manager.

The market value of investments in the hands of each manager is shown in the table below:-

**Pension Fund Annual Report**

At 31 March 2019			At 31 March 2020	
£m	%		£m	%
<b><i>Investments managed by LGPS central Pool</i></b>				
Global equities multi-manager fund:				
117.7	2.7	<i>Harris</i>	98.8	2.4
103.5	2.4	<i>Schroders</i>	101.2	2.4
112.0	2.6	<i>Union</i>	107.3	2.6
Emerging market equities multi-manager fund:				
0.0	0.0	<i>BMO</i>	48.6	1.2
0.0	0.0	<i>UBS</i>	49.9	1.2
0.0	0.0	<i>Vontobel</i>	53.7	1.3
0.0	0.0	LGPS Central PE Primary Partnership 2018 LP	0.8	0.0
<b>333.2</b>	<b>7.7</b>	<b>Sub Total</b>	<b>460.3</b>	<b>11.1</b>
<b><i>Investments Managed outside of pool</i></b>				
1,375.6	31.9	Legal & General	1,219.8	29.4
438.6	10.2	Kames Capital	421.9	10.2
245.4	5.7	Partners Group	277.5	6.7
196.0	4.6	Adams Street Partners	225.0	5.4
202.3	4.7	LaSalle	201.8	4.9
254.2	5.9	Ruffer LLP	166.8	4.0
147.7	3.4	Pictet Asset Management	151.8	3.7
129.4	3.0	Aspect Capital	145.9	3.5
132.5	3.1	Stafford Timberland	143.9	3.5
129.9	3.0	Colliers Capital UK	126.0	3.0
120.4	2.8	JP Morgan Asset Management	118.5	2.9
73.9	1.7	IFM Investors (UK) Ltd	103.6	2.5
110.7	2.6	Ashmore	94.5	2.3
76.0	1.8	M&G	88.1	2.1
45.9	1.1	Kravis Kohlberg Roberts & Co	75.7	1.8
48.9	1.1	Cristofferson, Robb & Co	49.8	1.2
36.6	0.9	Internally Managed	37.3	0.9
13.0	0.3	Aberdeen Standard Life	21.6	0.5
13.6	0.3	Infracapital	15.8	0.4
1.2	0.0	Catapult Venture Managers	1.1	0.0
0.3	0.0	EnTrustPermal	0.2	0.0
181.9	4.2	Macquarie Investments	0.0	0.0
<b>3,974.0</b>	<b>92.3</b>	<b>Sub Total</b>	<b>3,686.6</b>	<b>88.9</b>
<b>4,307.2</b>	<b>100.0</b>	<b>Grand Total</b>	<b>4,146.9</b>	<b>100.0</b>

## **17. Custody of Assets**

All the Fund's directly held assets are held by external custodians and are therefore not at risk from the financial failure of any of the Fund's investment managers. Most of the pooled investment funds are registered with administrators that are independent of the investment manager.

## **18. Operation and Management of fund**

Details of how the Fund is administered and managed are included in the Pension Fund Annual Report.

## **19. Employing bodies and fund members**

A full list of all bodies that have active members within the Fund is included in the in the Pensions fund annual report available from the fund website.

## **20. Valuation of financial instruments carried at fair value**

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

### *Level 1*

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprised quoted equities, quoted fixed interest securities, quoted index-linked securities and pooled investment vehicles where the underlying assets fall into one of these categories.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### *Level 2*

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

### *Level 3*

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, hedge funds and infrastructure, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Leicestershire County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The values of the investment in hedge funds and infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which fair value is observable.

Pension Fund Annual Report

Values at 31 <sup>st</sup> March 2020	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets at fair value	2,458.2	0.0	1,694.6	4,152.8
Financial liabilities at fair value	(5.9)	(0.0)	0.0	(5.9)
<b>Net financial assets</b>	<b>2,452.3</b>	<b>0.0</b>	<b>1,694.6</b>	<b>4,146.9</b>

Values at 31 <sup>st</sup> March 2019	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets at fair value	2,994.0	0.0	1,367.2	4,361.2
Financial liabilities at fair value	(54.0)	0.0	0.0	(54.0)
<b>Net financial assets</b>	<b>2,940.0</b>	<b>0.0</b>	<b>1,367.2</b>	<b>4,307.2</b>

## 21. Classification of Financial Instruments

2018/19 £m			2019/20 £m		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
<b>Financial Assets</b>					
82.4	0.0	0.0	33.8	0.0	0.0
28.9	0.0	0.0	0.7	0.0	0.0
391.2	0.0	0.0	339.9	0.0	0.0
3,575.0	0.0	0.0	3,527.4	0.0	0.0
49.9	0.0	0.0	53.7	0.0	0.0
0.0	129.1	0.0	0.0	86.5	0.0
0.0	1.6	0.0	0.0	0.7	0.0
0.0	0.7	0.0	0.0	0.8	0.0
<b>4,127.4</b>	<b>131.4</b>	<b>0.0</b>	<b>3,955.5</b>	<b>88.0</b>	<b>0.0</b>
<b>Financial Liabilities</b>					
(53.9)	0.0	0.0	(5.9)	0.0	0.0
<b>0.0</b>	<b>0.0</b>	<b>(5.3)</b>	<b>0.0</b>	<b>0.0</b>	<b>(4.4)</b>
<b>4,073.5</b>	<b>131.4</b>	<b>(5.3)</b>	<b>3,949.6</b>	<b>88.0</b>	<b>(4.4)</b>

The value of debtors and creditors reported in the Notes to the Statement of Accounts are solely those amounts meeting the definition of a financial instrument. The balances of debtors and

creditors reported in the balance sheet and Notes include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors. The following gains and losses are recognised in the Fund Account:

2018/19 £m		2019/20 £m
	<b>Financial Assets</b>	
231.5	Fair value through profit and loss	(241.4)
	<b>Financial Liabilities</b>	
(58.9)	Fair value through profit and loss	48.0
<b>172.6</b>	<b>Total</b>	<b>(193.4)</b>

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements. The fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## 22. External Audit Fee

2018/19 £		2019/20 £
21,280	Payable in respect of external audit	25,530
<b>21,280</b>	<b>Total</b>	<b>25,530</b>

## 23. Nature and Extent of Risks Arising from Financial Instruments

### *Risk and risk management*

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's required cash flows. These investment risks are managed as part of the overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with Leicestershire County Council's Local Pension Committee (formerly called the Pension Fund Management Board).

### a) **Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, Leicestershire County Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks via an annual strategy review which ensures that market risk remains within acceptable levels. On occasion equity futures contracts and exchange traded option contracts on individual securities may be used to manage market risk on investments, and in exceptional circumstances over-the-counter derivative contracts may be used to manage specific aspects of market risk.

**Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such investments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. For all investments held by the Fund, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund’s investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure that it is within the limits specified in the Fund’s investment strategy.

**Other price risk – sensitivity analysis**

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund’s investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2019/20 reporting period:

<b>Asset type</b>	<b>Potential market movements (+/-)</b>
Overseas government bonds	8%
Global credit	10%
Global government index-linked bonds	8%
UK equities	16%
Overseas equities	19%
UK property	15%
Private equity	28%
Infrastructure	14%
Commodities	14%
Hedge funds and targeted return funds	12%
Timberland	16%
Cash	1%

The potential price changes disclosed above are broadly consistent with one-standard deviation movement in the value of assets. The sensitivities are consistent with the assumptions contained in the annual strategy review and the analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund’s investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown in the second table):

**Pension Fund Annual Report**

Asset Type	Value at 31 <sup>st</sup> March 2020	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	15.7	16	18.2	13.2
Overseas equities	18.1	19	21.5	14.7
UK Corporate Bonds	0.7	10	0.8	0.6
Global index-linked bonds	339.9	8	367.1	312.7
Pooled property funds	279.0	15	320.9	237.2
Pooled private equity funds	248.5	28	318.1	178.9
Pooled bond and debt funds	560.9	10	617.0	504.8
Pooled hedge funds	0.2	12	0.2	0.2
Pooled equity funds	1,694.0	19	2,015.9	1,372.1
Pooled commodity funds	16.0	14	18.2	13.8
Pooled targeted return funds	151.8	12	170.0	133.6
Pooled timberland fund	143.9	16	166.9	120.9
Pooled managed futures fund	145.9	12	163.4	128.4
Pooled infrastructure fund	287.2	14	327.4	247.0
UK property	99.6	15	114.5	84.7
Cash and currency	86.5	1	87.4	85.6
Options, futures, other investment balances, current assets and current liabilities	59.0	1	59.6	58.4
<b>Total assets available to pay benefits</b>	<b>4,146.9</b>		<b>4,787.1</b>	<b>3,506.8</b>

Asset Type	Value at 31 <sup>st</sup> March 2019	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	24.5	16	28.4	20.6
Overseas equities	55.8	19	66.4	45.2
UK Corporate Bonds	0.7	10	0.8	0.6
Global Government Bonds	28.2	8	30.5	25.9
Global index-linked bonds	391.2	8	422.5	359.9
Pooled property funds	283.0	15	325.5	240.6
Pooled private equity funds	210.3	28	269.2	151.4
Pooled bond and debt funds	520.7	10	572.8	468.6
Pooled hedge funds	0.2	12	0.2	0.2
Pooled equity funds	1907.1	19	2,269.4	1,544.8
Pooled commodity funds	19.8	14	22.6	17.0
Pooled targeted return funds	147.7	12	165.4	130.0
Pooled timberland fund	132.5	16	153.7	111.3
Pooled managed futures fund	129.4	12	145.0	113.9
Pooled infrastructure fund	226.4	14	258.1	194.7
UK property	102.6	15	118.0	87.2
Cash and currency	129.1	1	130.4	127.8
Options, futures, other investment balances, current assets and current liabilities	2.8	1	2.8	2.8
<b>Total assets available to pay benefits</b>	<b>4,312.0</b>		<b>4,981.7</b>	<b>3,642.5</b>



**Interest rate risk**

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

The Fund is not highly exposed to interest rate risk, but monitoring is carried out to ensure that the exposure is close to the agreed asset allocation benchmark.

The Fund's direct exposure to interest rate movements as at 31st March 2020 and 31st March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

As at 31 <sup>st</sup> March 2019 £m	Asset type	As at 31 <sup>st</sup> March 2020 £m
129.1	Cash and Currency	86.5
420.1	Fixed interest securities	339.9
<b>549.2</b>	<b>Total</b>	<b>426.4</b>

**Interest rate risk sensitivity analysis**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets to pay benefits, A 1% movement in interest rates (100 BPS) is consistent with the level of sensitivity expected within the Fund's asset allocation strategy and the Fund's investment advisors expect that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Asset type	Carrying amount as at 31 <sup>st</sup> March 2020 £m	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
		£m	£m
Cash and Currency	86.5	0.9	(0.9)
Fixed interest securities	339.9	3.4	(3.4)
<b>Total</b>	<b>426.4</b>	<b>4.3</b>	<b>(4.3)</b>

Asset type	Carrying amount as at 31 <sup>st</sup> March 2019 £m	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
		£m	£m
Cash and Currency	129.1	1.3	(1.3)
Fixed interest securities	420.1	4.2	(4.2)
<b>Total</b>	<b>549.2</b>	<b>5.5</b>	<b>(5.5)</b>

**Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk in financial instruments that are denominated in any other currency other than sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

The Fund's currency rate risk is actively managed and the neutral position is to hedge 50% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged as at 31st March 2020 and as at the previous period end:

Asset value as at 31 <sup>st</sup> March 2019 £m	Currency exposure – asset type	Asset value as at 31 <sup>st</sup> March 2020 £m
82.4	Overseas equities	18.1
22.4	Overseas government bonds	0.0
33.2	Overseas government index-linked bonds	40.0
209	Private equity pooled funds	247.4
0.4	Pooled hedge Funds	0.2
40.4	Pooled Bond and Debt Fund	49.8
1,577.6	Overseas and Global equity-based pooled funds	1,409.6
19.8	Commodity-based pooled funds	16.0
226.4	Infrastructure pooled funds	287.2
132.5	Timberland pooled fund	143.9
110.7	Emerging Market Debt pooled fund	94.5
<b>2,454.8</b>	<b>Total overseas assets</b>	<b>2,306.7</b>

**Currency risk – sensitivity analysis**

Following analysis of historical data in consultation with the Fund's investment advisors, it is considered that the likely volatility associated with foreign exchange rate movements is 13% (as measured by one standard deviation).

A 13% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of the long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Current exposure – asset type	Asset value as at 31 <sup>st</sup> March 2020	Change to net assets available to pay benefits	
	£m	13% £m	-13% £m
Overseas equities	18.1	20.5	15.7
Overseas government bonds	0.0	0.0	0.0
Overseas government index-linked bonds	40.0	45.2	34.8
Private equity pooled funds	247.4	279.6	215.2
Pooled hedge funds	0.2	0.2	0.2
Pooled Bond and Debt Fund	49.8	56.3	43.3
Overseas equity-based pooled funds	1,409.6	1,592.8	1,226.4
Commodity-based pooled funds	16.0	18.1	13.9
Infrastructure pooled funds	287.2	324.5	249.9
Timberland pooled fund	143.9	162.6	125.2
Emerging Market Debt pooled fund	94.5	106.8	82.2
<b>Total change in assets available</b>	<b>2,306.7</b>	<b>2,606.6</b>	<b>2,006.8</b>

At 31st March 2019 the Fund had an active currency manager with a portfolio based on a notional value of £340m, and this was the maximum exposure that they were allowed to have. In order to achieve gains within their portfolios the manager utilised forward foreign exchange contracts and currency options as a result the fund was exposed to currency risk through this portfolio. This mandate was terminated in February 2020 and as at 31 March 2020 the fund was no longer exposed to this risk.

#### b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although one manager (Kames

Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in an Aberdeen Standard Life Money Market Fund.

The Fund believes it has managed its exposure to credit risk and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2020 was £85.6m (31st March 2019: £129.1m).

### **c) Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. All of the Fund's cash holdings are available for immediate access, although on some occasions this will involve withdrawing cash balances from the portfolios of investment managers.

The Fund is allowed to borrow to meet short-term cash flow requirements, although this is an option that is only likely to be used in exceptional circumstances.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31st March 2020 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £1,059.7m, which represented 25.5% of total Fund assets. (31st March 2019: £954.9m, which represented 22.1% of total Fund assets).

The Fund remains cash flow positive for non-investment related items so there is no requirement to produce detailed cash flow forecasts. All investment related cash flows are known about sufficiently far in advance that they can be covered by taking action in a manner that is both cost-effective and in line with the Fund's investment strategy.

All financial liabilities at 31st March 2020 are due within one year.

#### *Refinancing risk*

The key risk is that the Fund will be forced to sell a significant proportion of its financial instruments at a time of unfavourable interest rates, but this appears a highly unlikely scenario. The Fund's investment strategy and the structure of its portfolios have sufficient flexibility to ensure that any required sales are considered to be the ones that are in the best financial interests of the Fund at that time. There are no financial instruments that have a refinancing risk as part of the Fund's treasury management and investment strategies.

#### *Securities Lending*

The Fund ceased to take part in securities lending activities towards the end of the 2017/18 financial year and there was no stock on loan at 31 March 2020

#### *Reputational Risk*

The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance ensures that reputational risk is kept to a minimum.

## 24. Related Party Transactions

Leicestershire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Leicestershire and is one of the major employers within the scheme. Information regarding key management personnel is provided within the main accounts of Leicestershire County Council. Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Leicestershire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.

LGPS Central Ltd has been established to manage, on a pooled basis, investment assets of nine Local Government Pension Schemes across the Midlands. It is jointly owned in equal amounts by the eight Administering Authorities participating in the Pool. £1.3m is invested in the share capital and £0.7m in a corporate bond with LGPS Central Ltd.

During 2019/20 a total of £0.7m was payable to LGPS Central Ltd for governance, operator and product development fees. Of these £0.2m was a creditor balance at the year end. As at 31 March 2020, £460.3m of LCC LGPS investments were managed by LGPS Central Ltd.

## 25. Contingent Liabilities and Contractual Commitments

When a member has left the Pension Fund before accruing sufficient service to qualify for a benefit from the scheme, they may choose either a refund of contributions or a transfer value to another pension fund. There are a significant number of these leavers who have not taken either of these options and as their ultimate choice is unknown, it is not possible to reliably estimate a liability. The impact of these 'frozen refunds' has, however, been considered in the calculation of the actuarial liabilities of the fund.

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £2.0m, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

At 31<sup>st</sup> March 2020, the Fund had the following contractual commitments:-

	31-Mar-19 £m	31-Mar-20 £m
Aberdeen Standard Life Capital SOF III Fund	21.1	13.9
Adams Street Partners	143.2	150.3
Catapult Venture Managers	0.5	0.5
IFM Global Infrastructure Fund	23.0	0.0
Infracapital Greenfield Partners I Fund	19.3	15.3
Kames Active Value Property Unit Trust II	12.5	0.0
KKR Global Infrastructure	36.7	27.1
LGPS Central PE Primary Partnership 2018 LP	0.0	9.0
M & G Debt Opportunities Fund IV	28.7	0.0
Partners Multi Asset Credit V S.C.A., SICAV-RAIF	0.0	25.0
Stafford International Timberland Funds VII & VIII	8.5	1.7
Stafford International Timberland VI Fund	1.5	0.0
<b>Total</b>	<b>295.0</b>	<b>242.8</b>

## 25A Key Management Personnel

Key management personnel are members of the pension fund committee and the Director of Corporate Resources. It has not been possible to apportion, on a reasonable basis, the costs and benefits of key management personnel between the Council and the Fund. However, Members' Allowances and Officers' Remuneration are disclosed in Notes 33 and 34 of the County Councils accounts.

## 26. Additional Voluntary Contributions (AVC's)

The Fund has an arrangement with Prudential whereby additional contributions can be paid to them for investment, with the intention that the accumulated value will be used to purchase additional retirement benefits. AVCs are not included in the Pension Fund Accounts in accordance with Regulation 4(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

During 2019/20, £1.7m (2018/19 £1.8m) in contributions were paid to Prudential. At the year end the capital value of all AVC's was £17.7m, (31/03/19, £14.0m).

## 27. Policy Statements

The Fund has a number of policy statements that are available on request from the Technical Accounting Team, Strategic Finance, Leicestershire County Council, County Hall, Glenfield, Leicester. LE3 8RB (email [technical.accountingteam@leics.gov.uk](mailto:technical.accountingteam@leics.gov.uk)). They have not been reproduced within the Accounts as in combination they are sizeable, and it is not considered that they would add any significant value to most users of the accounts. The Statements are:

**Statement of Investment Principles (SIPs)**

**Communications Policy Statement**

**Funding Strategy Statement (FSS)**

## 28. Compliance Statement

### *Income and other taxes*

The Fund has been able to gain either total or partial relief from local taxation on the Fund's investment income from eligible countries. The Fund is exempt from UK Capital Gains and Corporation tax.

### *Self-investment*

There has been no material employer related investment in 2019/20 (or 2018/19). There were occasions on which contributions were paid over by the employer later than the statutory date, and these instances are technically classed as self-investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

### *Calculation of transfer values*

There are no discretionary benefits included in the calculation of transfer values.

### *Pension Increase*

All pension increases are made in accordance with the Pensions Increase (Review) Order 1997.

### *Changes to LGPS*

All changes to LGPS are made via the issue of Statutory Instruments by Central Government.

## Leicestershire County Council Pension Fund (“the Fund”) Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 17 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target over 17 years.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £4,312 million, were sufficient to meet 89% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £537 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers’ contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund’s funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 formal valuation report.

**Method**

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

**Assumptions**

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.8%
Salary increase assumption	2.8%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.5 years	23.8 years
Future Pensioners*	22.2 years	25.2 years

\*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

**Experience over the period since 31 March 2019**

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Tom Hoare FFA

10 June 2020

For and on behalf of Hymans Robertson LLP



## Pension Fund Accounts Reporting Requirement

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Leicestershire County Council Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

### Present value of promised retirement benefits

Year ended	31 March 2020	31 March 2019
Active members (£m)	2,719	3,789
Deferred members (£m)	1,288	1,414
Pensioners (£m)	2,184	1,827
<b>Total (£m)</b>	<b>6,191</b>	<b>7,030</b>

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2020 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £702m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £205m.

### Financial assumptions

Year ended (% p.a.)	31 March 2020	31 March 2019
Pension Increase Rate	1.9%	2.5%
Salary Increase Rate	2.4%	3.5%
Discount Rate	2.3%	2.4%

### Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing at recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.5 years	23.8 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	22.2 years	25.2 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

### Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	562
0.5% p.a. increase in the Salary Increase Rate	1%	65
0.5% p.a. decrease in the Real Discount Rate	10%	632

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

### Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-  
 Anne Cranston AFA  
 10 June 2020  
 For and on behalf of Hymans Robertson LLP

## Statement of Responsibilities for Leicestershire County Council Pension Fund

### THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

- Make arrangements for the proper administration of the financial affairs of its Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts

The Director of Corporate Resources is responsible for the preparation of the Authority's Pension Fund Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Director of Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.
- Kept proper accounting records which were up to date,
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.
- Assessed the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Used the going concern basis of accounting on the assumption that the functions of the Pension Fund will continue in operational existence for the foreseeable future; and
- Maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the Leicestershire County Council Pension Fund as at 31 March 2020 and its income and expenditure for the year ended the same date.



**C TAMBINI**  
**DIRECTOR OF CORPORATE RESOURCES**  
**21 DECEMBER 2020**

## Independent auditor's report to the members of Leicestershire County Council on the pension fund financial statements of Leicestershire County Council Pension Fund

### Opinion

We have audited the financial statements of Leicestershire County Council Pension Fund (the 'pension fund') administered by Leicestershire County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

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

### The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Corporate Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

### 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 Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Corporate Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Director of Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that

the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

### **Emphasis of Matter - effects of Covid-19 on the valuation of property investments**

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

### **Other information**

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

### **Responsibilities of the Authority, the Director of Corporate Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities on pages 119 to 120 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Resources. The Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*J Gregory*

John Gregory, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

**21 December 2020**



voting staff representatives. The ten voting members are appointed using the due political process or, in the case of the two universities, by joint arrangement. There will be at least one staff representative position available annually and a vote will be held to fill any vacancies at the Annual Meeting of the Fund.

3.2 The LPB is made up of six voting members – three employer representatives (two elected Members of Leicestershire County Council and one elected Member from Leicester City Council) and three employee representatives. There will be at least one employee representative position available annually, as well as for a reserve employee representative, and a vote will be held to fill any vacancies at the Annual Meeting of the Fund.

**4.0 STAKEHOLDER ENGAGEMENT**

4.1 An Annual Meeting of the Pension Fund is held annually, to which all employee members and other interested parties are welcome. The purpose of the meeting is to present the Annual Report of the Fund and to report on current issues, as well as to elect employee representatives for any vacant positions on the LPC and the LPB.

4.2 A number of other initiatives to involve stakeholders also take place, including:

- Presentations by the Fund/Actuary to employing bodies;
- Pensions roadshows at various venues;
- The Annual Report and Account of the Pension Fund;
- Other communications to members.

**5.0 REVIEW AND COMPLIANCE WITH BEST PRACTICE**

5.1 This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Pension Fund.

5.2 The regulations require a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. This guidance contains a number of best practice principles and these are shown below with the assessment of compliance.

<b>Principle</b>	<b>Compliance/Comments</b>
Structure	
The strategic management of fund assets clearly rests with the main committee established by the appointing council.	<b>Fully compliant</b>
That representatives of participating LGPS employers, admitted bodies and scheme members are members of the committee.	<b>Fully compliant</b>
That where a secondary committee has been established, the structure ensures effective communication across both levels.	<b>Fully Compliant</b>



That where a secondary committee has been established, at least one seat on the main committee is allocated for a member of the secondary committee	Investment Subcommittee will be full LPC members, so <b>Fully Compliant</b>
<b>Representation</b>	
That all key stakeholders are afforded the opportunity to be represented within the main committee structure (including employing authorities, scheme members, independent professional observers and expert advisors)	<b>Fully Compliant</b>
That where lay members sit on a main committee, they are treated equally and are given full opportunity to contribute to decision making, with or without voting rights	<b>Fully Compliant</b>
<b>Selection and Role of Lay Members</b>	
That committee members are fully aware of their status, role and function they are required to perform.	<b>Fully Compliant</b>
<b>Voting</b>	
The policy of the administering authority on voting rights is clear and transparent, including the justification for not extended voting rights to certain groups	<b>Fully Compliant</b>
<b>Training/Facility Time/Expenses</b>	
That the policy applies equally to all members of committees	<b>Fully Compliant</b>
<b>Meetings (frequency/quorum)</b>	
That the main committee meet at least quarterly	<b>Fully Compliant</b>
That secondary committees meet at least twice a year and the meetings are synchronised with the main committee	The Investment Subcommittee meets regularly, so <b>Fully Compliant</b>
If lay members are not included in formal governance arrangements, a forum is available outside of these arrangements by which their interests can be represented	Lay members are included on main committee, so <b>Not Relevant</b>
<b>Access</b>	
That, subject to any rules in the Council's constitution, all members have equal access to committee papers, documents and advice that falls to be considered by the main committee	<b>Fully Compliant</b>

Scope	
That administering authorities have taken steps to bring wider scheme issues within the scope of the governance arrangements	<b>Fully Compliant</b>
Publicity	
That the administering authority have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements	<b>Fully Compliant.</b> A copy of this statement has been sent to all employing authorities.