



**LPP**

Local Pensions Partnership  
Investments

## **LPPi MIFIDPRU Disclosures**

as at 31 March 2024

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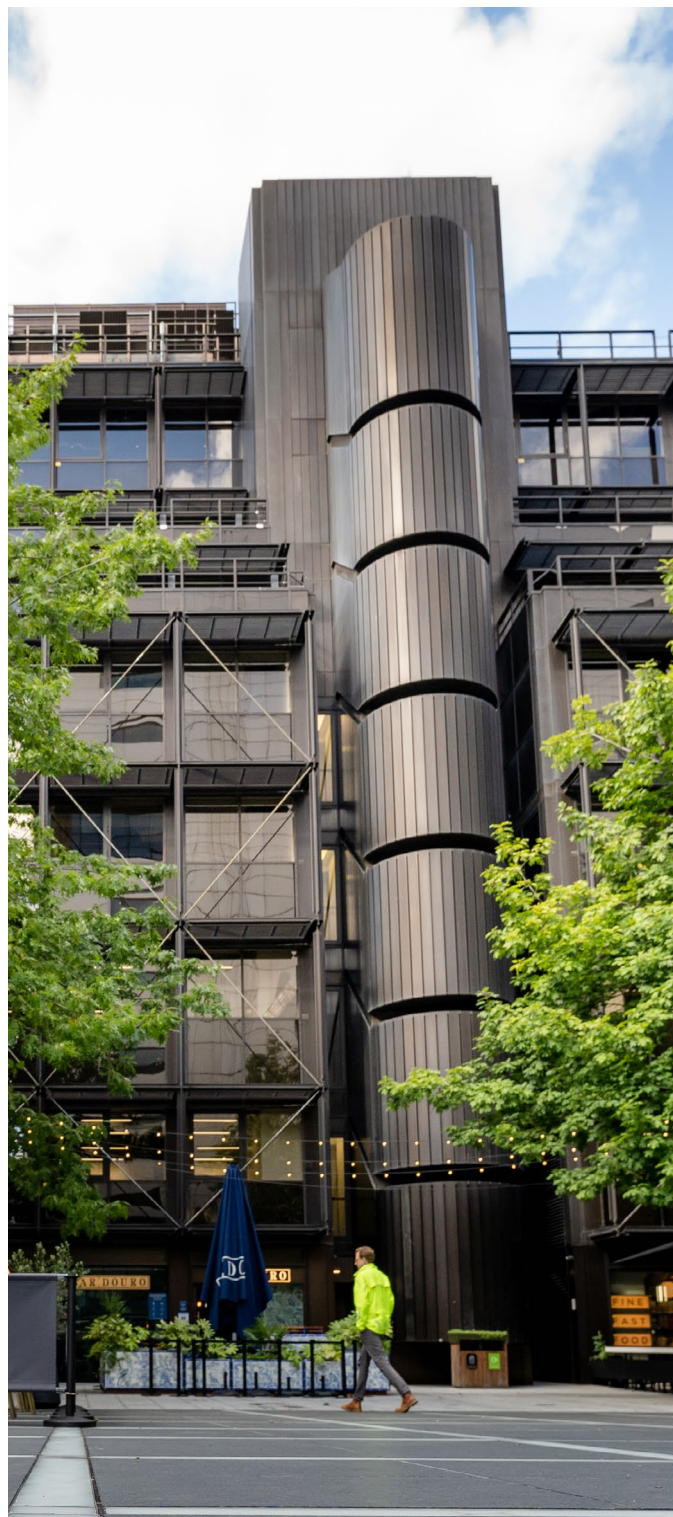
# 1. Introduction

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

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

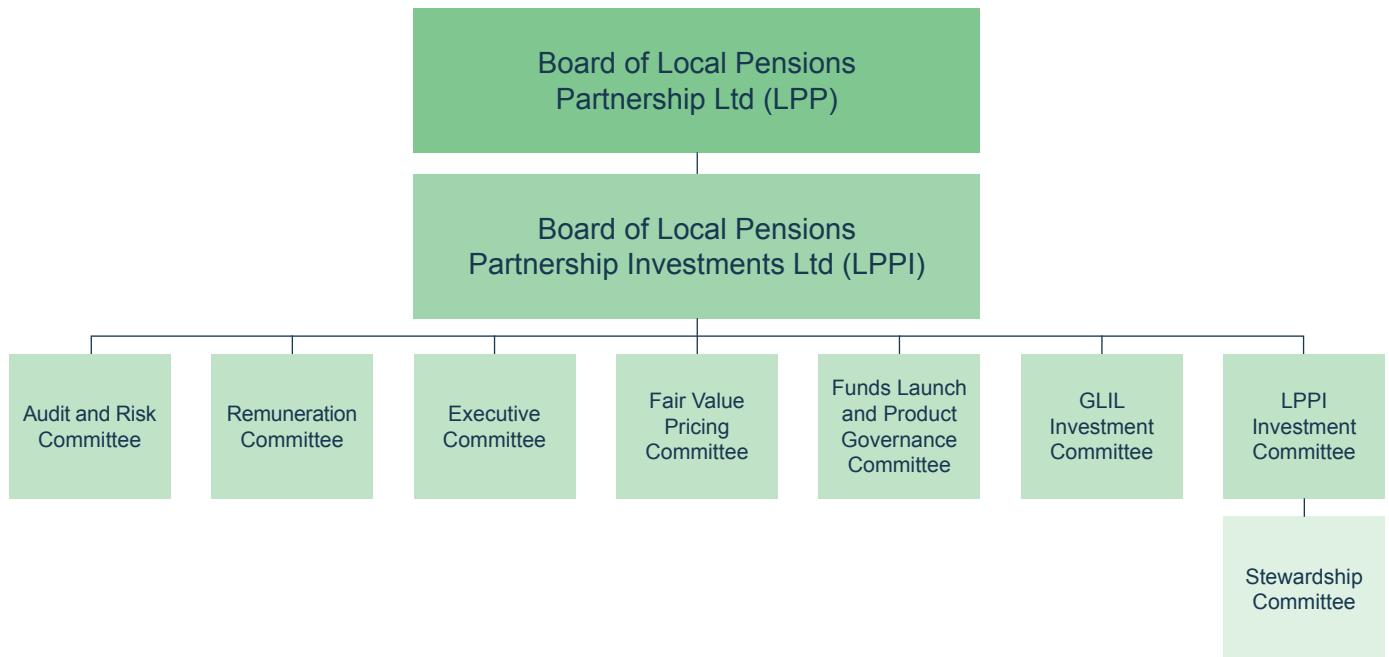
These disclosures have been made in accordance with the rules and requirements of MIFIDPRU 8 as applicable to non-SNI firms and include disclosures on an individual basis about LPPI's risk management, governance arrangements, own funds and own funds requirements, and remuneration policy.

These disclosures are produced on an annual basis and are prepared for the financial position as at 31 March 2024. The disclosures are not required to be subject to an independent external audit.



## 2. Governance

The diagram below shows the governance structure in place at LPPI as at 31 March 2024.



### LPPI Board

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

### Remuneration Committee

The purpose of the Remuneration Committee, comprising of NEDs, is to assist the Board in ensuring LPPI's remuneration policies and practices are in line with regulatory requirements and promote sound risk management and financial stability. This Committee meets at least twice a year.

### Audit and Risk Committee

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

### Executive Committee

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

### **Fair Value Pricing Committee**

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

### **Funds Launch and Product Governance Committee**

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

### **GLIL Investment Committee**

The GLIL Investment Committee acts under delegated authority from the Board and is responsible for investment proposals for GLIL Infrastructure and forms a key part of LPPI's role as AIFM over GLIL. The GLIL Investment Committee meets eleven times a year with additional ad hoc meetings as required.

### **LPPI Investment Committee**

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

### **Stewardship Committee**

The Stewardship Committee operates at an executive level under delegation from the LPPI Investment Committee. Primarily, its role is to maintain corporate oversight of LPPI's status in relation to the UK Stewardship Code. It also, under delegation from the Board, oversees the production of LPPI's Annual Report on Stewardship and Responsible Investment. The Stewardship Committee meets three times a year with additional ad hoc meetings as required.

### **Scheme of Delegated Authorities**

LPPI operates under a Board-approved Scheme of Delegated Authorities with an accompanying policy. The Scheme of Delegated Authorities is divided into three sections: financial; non-financial; and investments. It cross-refers to a number of LPPI linked policies and documents such as various terms of reference, the LPP Group Shareholders Agreement, LPPI's policy framework and certain policies.

### **Other executive committees / fora**

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

## 2.1 Segregation of duties

The Board requires LPPI to operate a three lines of defence risk management model. This helps ensure that risk management is embedded in the day-to-day management and decision-making processes and provides organisational separation of the controls operated by the first line, and independent oversight by the second line and third line functions respectively.

The roles of the three lines of defence outlined below each contribute to embedded risk management. Role profiles, objectives and, where appropriate, delegated authority letters must be in place to ensure that each employee's risk management responsibilities are clear.

### 1st line – Business operating areas

Manage risks daily and safeguard the implementation and effectiveness of controls

### 2nd line – Risk and Compliance

Steer, monitor, challenge and support the management of risk

### 3rd line – Internal and External Audit

Provide independent assurance regarding governance, risk management and internal controls

## Business operating areas

The first line of defence covers business operating areas that are involved in the day-to-day management and decision-making processes. All areas that are not considered second and third line are included in this category. These areas are responsible for:

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

## Risk and Compliance

The second line of defence consists of the Risk and Compliance functions.

The Risk function is independent of the first line of defence and reports into the Chief Risk Officer (CRO), who in turn reports into the Chief Executive Officer. The CRO has a dotted reporting line to the Chairperson of the Audit and Risk Committee. The Risk function is responsible for:

- Developing the risk frameworks with the Board and its Committees within which the strategy is delivered
- Providing information, insight, advice, support, and independent views to decision-making
- Identifying the significant current and future risks that LPPI faces by pursuing its business plan
- Advising the Board on forward-looking assessment of threats and opportunities
- Monitoring compliance with the LPPI Risk Policies approved by the Board
- Establishing formal processes to manage risks in the context of overall risk appetite
- Assessing the capital and liquidity requirements and surpluses against risk exposure
- Helping to ensure a robust risk governance structure and risk culture is maintained

The Compliance function is also independent of the first line of defence and reports into the Chief Legal and Compliance Officer, who in turn reports into the Chief Executive Officer. The Compliance function is responsible for assessing, advising, monitoring and reporting on LPPI's compliance and regulatory risk.

## Internal and External Audit

The Internal Audit function provides independent assurance on the overall systems of internal control, and an independent view of the associated culture towards the operation of the control environment. The Internal Audit function is currently outsourced. The Internal Audit function reports each quarter to the Audit and Risk Committee and follows an annual plan of reviews.

The External Audit function audits LPPI and its funds and provide independent assurance on financial controls and the completeness, accuracy and validity of financial information.



## 2.2 Conflict of interest

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

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

Conflicts of interest are managed as outlined below:

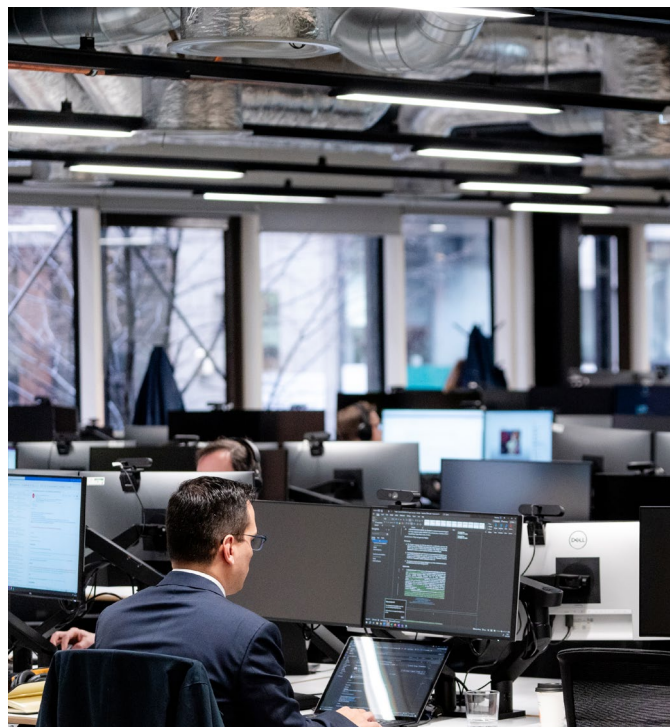
- Maintenance by Compliance of a register of potential or actual conflicts of interest
- Board members and senior managers (Senior Managers and Certification Regime - SMCR) have a responsibility to notify the Chairman and CEO of any changes in circumstances, business interest or activities that may represent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

## 2.3 Directorships

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

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

The table below sets out the number of directorships (executive and non-executive) held by each member of the Board (as at 31 March 2024).



Name of director	Executive directorships	Non-executive directorships
Margaret Ammon	Legal & General (Unit Trust Managers) Limited	None
Malcolm Cooper	None	<ul style="list-style-type: none"> <li>• Southern Water Services Limited</li> <li>• MORhomes plc</li> <li>• Morgan Sindall plc</li> <li>• Custodian Property Income REIT</li> <li>• ACT (Administration) Limited</li> </ul>
Louise Jack	None	None
Sarah Laessig	None	<ul style="list-style-type: none"> <li>• United Trust Bank Limited</li> <li>• JP Morgan Global Growth &amp; Income plc</li> </ul>
Jon Little	Alderwood Partners LLP	None
Tom Richardson	None	None
Chris Rule	None	None
Richard Tomlinson	None	None
Martin Tully	<ul style="list-style-type: none"> <li>• BT Pension Scheme Management Limited</li> <li>• Park End Advisory Limited</li> </ul>	None

## 2.4 Diversity

The Board comprises four executive directors, four non-executive directors and a non-executive Chair, with gender diversity fairly balanced across the non-executive population.

Creating a diverse and inclusive workplace sits at the heart of LPPI's Business Plan. A set of objectives have been agreed by the Board and progress is monitored via the Chief People and Culture Officer's regular board update, which is a standing agenda item.

Strengthening female representation at senior levels remains an ongoing core focus, actions include the Women in Leadership programme launch as well as driving recruitment agencies to deliver diverse candidate pools for all roles.

Turning to ethnic diversity, LPPI participated for a third year in the 10,000 Black Interns programme\*, taking three interns during the summer of 2023. Creating a diverse talent pipeline at entry role level will be a key strategy to delivering a diverse senior management pipeline for the future.



\* The foundation is the 10,000 Interns, with 2 programmes, 10,000 Black Interns and the 10,000 Able Interns.

# 3. Risk management

## 3.1 Risk management framework

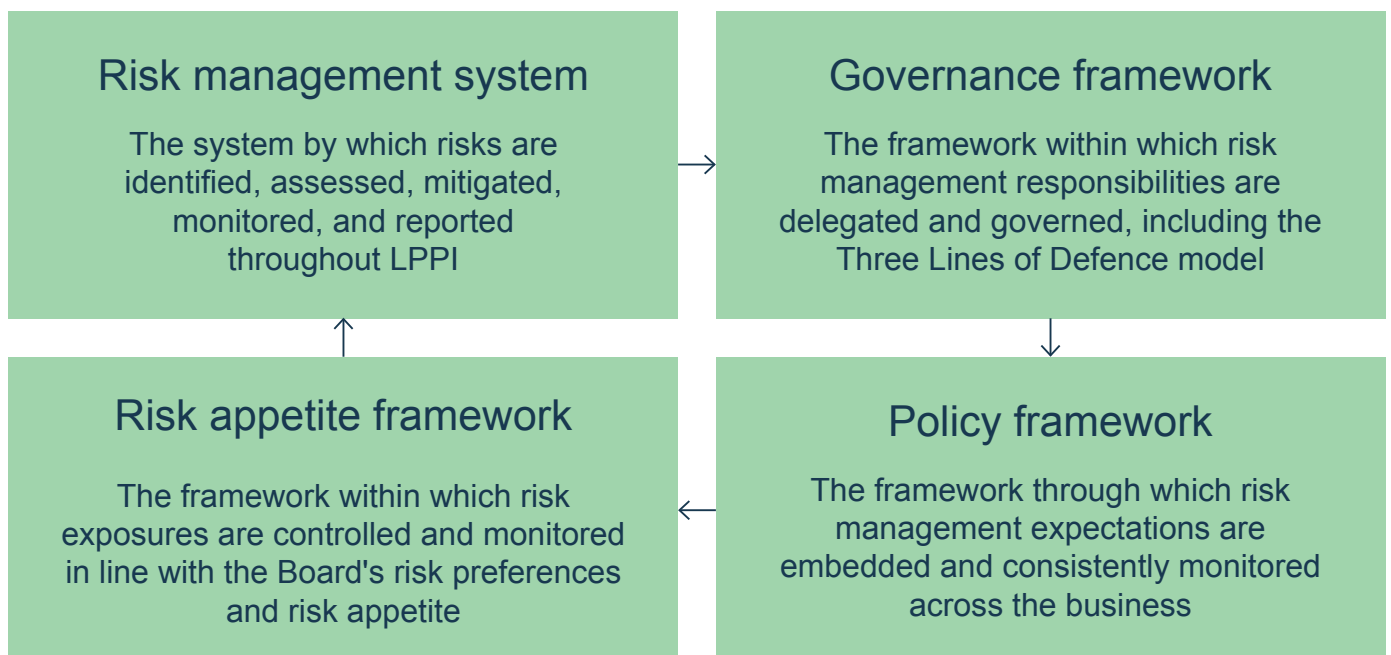
The LPPI Risk Policies, supported by the Risk Appetite and Tolerances Schedule (“RATS”), provide a framework for managing risk within appetite and form an integral part of management and board processes, including decision-making processes, and is embedded in the formulation of the business strategy,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

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

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

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

The enterprise risk system is outlined in the following diagram:



### 3.2 Business strategy and risk appetite statements

The Board controls and monitors risk through the application of a risk governance framework, and through setting risk appetite and limits across a number of strategic objectives and critical success factors, and through control of the risk profile. The exposure against the RATS, which includes appetite and limits for own funds and liquid assets, is monitored regularly and is reported to the Audit and Risk Committee and the Board quarterly.

Exposure to principal risks is measured and managed as part of the Internal Capital Adequacy and Risk Assessment (ICARA) process which is at the core of the LPPI risk management framework and embedded into key decision making.

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

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

- Considering severe but plausible stressors as part of capital and liquidity planning, supported by credible recovery actions.

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

### 3.3 Identification, assessment and management of risks

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

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

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

### 3.4 Own funds requirements – MIFIDPRU 4

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

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

- The Permanent Minimum Requirement is based on the investment services or activities that LPPI has permission from the FCA to carry on and amounts to £75k
- The Fixed Overheads Requirement is a measure applied in the regulation to cover the potential harm from wind-down and relates to a proportion of LPPI’s expenses. The Fixed Overheads Requirement amounts to £6.6m

- K-Factor Requirement are parameters prescribed by the FCA which are used to determine an amount of own funds that should be held against risks resulting from the ongoing activities of investment firms. The K-Factors for LPPI amount to £4.3m and are based on average assets under management (K-AUM) and client orders received and handled (K-COH) as at 31 March 2024

#### Breakdown of K-Factor Requirements

The sum of K-AUM, K-CMH, K-ASA	£4,316,085
The sum of K-COH, K-DTF	£0
The sum of K-NPR, K-CMG, K-TCD, K-CON	£0

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

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



### 3.5 Concentration risk – MIFIDPRU 5

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

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

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

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

### 3.6 Liquid assets – MIFIDPRU 6

Under MIFIDPRU 6, firms must hold a minimum level of core liquid assets known as the Basic Liquid Assets Requirement which is to ensure that firms always have a minimum stock of liquid assets to fund the initial stages of their wind-down process. The parameters are prescribed by the FCA and for LPPI this amounts to £2.2m at 31 March 2024.

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

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

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

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

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

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

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

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

LPPI considers the following principal risks within its ICARA process:

- **Market Risk:** The risk of volatility in LPPI's income and/or balance sheet as a result of changes in values of market prices. The exposure to market risk arises from investments managed on behalf of clients, and assets held on the corporate balance sheet.
- **Counterparty Default Risk:** The risk that a party may fail to fulfil its obligations. The exposure to counterparty default risk arises within the funds managed by LPPI due to adverse performance that reduces the investment fee income to LPPI; and on the corporate balance sheet, where LPPI holds cash with banks and other third parties, whose default could give rise to a direct loss to the balance sheet.

- **Liquidity Risk:** The risk that assets on the balance sheet are invested in such a way that LPPI is unable to meet its obligations in a timely manner without incurring excessive cost. It includes the risk that LPPI has insufficient liquid assets to remain viable over the economic cycle, with the ability to address any potential material harm that may result from its ongoing activities, and so that it can wind down its regulated activities in an orderly manner without causing harm to clients and counterparties, and the market within which it operates.
- **Concentration Risk:** The risk of material loss resulting from the adverse movement in value, or failure of a risk exposure. This concentration risk may arise in one of the funds resulting in a loss in fee income from the associated adverse impact on performance, or on the corporate balance sheet.
- **Pension Obligation:** The risk of a decrease in pension scheme funding position on an accounting basis, which adversely impacts LPPI's balance sheet and in turn capital adequacy.

A new pension fund admission agreement commenced on 1 April 2024 between LPPI and LPFA that agreed new terms in relation to the LPPI-LPFA defined benefit scheme. Under this new fixed rate contribution agreement LPPI agrees to pay a fixed rate contribution to LPFA and will no longer account for the pension scheme as a defined benefit scheme under FRS102, but rather a defined contribution scheme. Therefore, there will be no defined benefit asset or liability on the statement of financial position from 1 April 2024.

- **Operational Risk:** The risk of loss arising from inadequate or failed internal processes, from personnel or systems, or from external events.
- **Business Risk:** The risk arising from exposure to factors or events connected with our business which, if allowed to crystallise, could materially reduce revenue, or increase expenses.

## 4. Own funds

### 4.1 Composition of regulatory own funds

Own funds are determined in a manner defined within the FCA's regulations. As at 31 March 2024, LPPI held own funds of £24.1m. All own funds are held within common equity tier 1 capital and comprise share capital, share premium, and retained earnings. Share capital consists of fully paid ordinary shares of £1 each.

On 20 December 2022, 3,000,000 ordinary shares were issued at par for £3.0m. Each share has full rights in the company with respect to voting, dividends and distributions.

The disclosures presented below are made in line with the template requirement set out in MIFIDPRU 8.4 and MIFIDPRU 8 Annex 1.

Item	Amount (GBP thousands)	Source based on reference numbers/ letters of the balance sheet in the audited financial statements
<b>1 Own funds</b>	<b>24,063</b>	2+25
<b>2 Tier 1 capital</b>	<b>24,063</b>	3+20
<b>3 Common equity Tier 1 capital</b>	<b>24,063</b>	4+5+6+7+8+9+10+11+19
4 Fully paid-up capital instruments	3,000	Share capital
5 Share premium	10,000	Share premium
6 Profit and loss account	14,878	Profit and loss account
7 Accumulated other comprehensive income	-	
8 Other reserves	-	
9 Adjustments to CET1 due to prudential filters	-	
10 Other funds	-	
11 (-) Total deductions from common equity Tier 1	(1,035)	1+6
19 CET1: Other capital elements, deductions, and adjustments <sup>1</sup>	(2,780)	
<b>20 Additional Tier 1 capital</b>	<b>-</b>	21+22+23+24
21 Fully paid up, directly issued capital instruments	-	
22 Share premium	-	
23 (-) Total deductions from additional Tier 1	-	
24 Additional Tier 1: Other capital elements, deductions, and adjustments	-	
<b>25 Tier 2 capital</b>	<b>-</b>	26+27+28+29
26 Fully paid up, directly issued capital instruments	-	
27 Share premium	-	
28 (-) Total deductions from Tier 2	-	
29 Tier 2: Other capital elements, deductions, and adjustments	-	

<sup>1</sup> Adjustments include a modification to MIFIDPRU 3.3.1 as allowed by the FCA. Under MIFIDPRU regulation, current year profits are not eligible for inclusion in capital resources until audited and so are excluded from the regulatory position as at 31 March 2024.

## 4.2 Reconciliation of regulatory own funds to balance sheet

The table below reconciles LPPI's regulatory own funds to the statement of financial position (balance sheet) as at 31 March 2024:

	a) Balance sheet as in published/audited financial statements	b) Under regulatory scope of consolidation	c) Cross-reference to template OF1
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>			
1	Intangible assets	841	11
2	Tangible assets	161	
3	Investments	-	
4	Debtors	5,598	
5	Cash at bank and in hand	28,982	
6	Deferred Taxation	194	11
<b>xxx</b>	<b>Total assets</b>	<b>35,776</b>	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements</b>			
1	Creditors: amounts falling due within one year	6,923	
2	Provisions for other liabilities	51	
3	Creditors: amounts falling due after more than one year	924	
4	Post-employment benefits	-	
<b>xxx</b>	<b>Total liabilities</b>	<b>7,898</b>	
<b>Shareholders' equity</b>			
1	Share capital	3,000	4
2	Share premium	10,000	5
3	Profit and loss account	14,878	6
<b>xxx</b>	<b>Total shareholders' equity</b>	<b>27,878</b>	

## 5. Remuneration policy and practices

The Executive Committee is responsible for developing and managing LPPI's business in accordance with the strategic business and operational plans. This includes developing a Remuneration Policy and framework for all employees, including Executive Directors and Code Staff, which is agreed with the Remuneration Committee (under delegation from the Board), the LPP Group Board and LPP Group Shareholders.

The LPP Board takes full account of the Group's strategic objectives in setting remuneration policy and is mindful of its duties to its shareholders. Some matters are reserved to the shareholders. The Remuneration Committee is formed of three non-executive directors, one of whom chairs the Committee, appointed to the Committee by the Board. It seeks to preserve shareholder value by ensuring that remuneration matters are governed by a fit for purpose Remuneration Policy. Specifically, the Committee approves the remuneration of Executive Directors, other than the CEO's remuneration which it recommends for approval by the LPP Group Board. The Committee also agrees the proportion of the accrued bonus pool to be made available for distribution based on key performance indicators. The CEO proposes the bonus pool level to the Committee and this proposal is subject to independent review by the CRO. The Committee receives an overview of how the actual variable pay awards have been made, with particular attention to those senior employees covered by the Code.

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

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

### 5.1 Design characteristics of the remuneration framework

#### Fixed pay

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

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

#### Variable pay

All employees have the opportunity to be considered for variable pay in the form of cash awards and with effect from April 2023 all employees sit within a single bonus scheme, the Role Specific Scheme. The wording of employment contracts is clear that any actual award is entirely discretionary and dependant on a number of factors including firm and individual performance and individual conduct. There are no other variable pay arrangements available to employees, therefore LPPI has taken reasonable steps to ensure that those under the Remuneration Code (Material Risk Takers) do not use personal hedging strategies or remuneration and liability related contracts of insurance to undermine the FCA's remuneration rules.

The prevailing LPP Group Remuneration policy permits actual variable pay awards of between 0% and 100%, wholly dependent on under/over performance and ensuring the fixed and variable components of total remuneration are appropriately balanced.

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

The Remuneration Committee has delegated powers to approve the total annual payments made under any approved performance-related scheme (within budget). There is scope for the CEO to recommend a reduction of up to 20% of the accrued bonus pool for actual distribution. The Remuneration Committee approves the recommendations for onward submission to the Board for approval. The Committee does not have the authority to increase the bonus pool value.

The CRO provides the Committee with an independent assessment of the CEOs variable pay recommendations, from a risk perspective.

### **Objective setting and assessment of actual performance**

At the start of each performance year, around April/May, the business priorities for the coming year are communicated by the CEO, including Key Performance Indicators that will be used to measure actual business performance.

Executive Committee members then lead conversations with their respective teams to agree the team priorities for the year and these are cascaded into individual objectives. Typically, individuals agree around 5 or 6 objectives and progress against them is then discussed regularly.

LPPI uses a two-part ratings scale which separately considers performance against agreed objectives and behaviours/conduct. Both elements can contribute towards an upward or downward revision in the actual bonus allocation, with zero bonus being one potential outcome. The separate conduct rating directly aligns with the FCA's objective of promoting good conduct across financial services and is an important part of year end performance review discussions.

The process for individual performance review as follows:

- Employee prepares a self-assessment with a proposed rating
- Manager reviews the self-assessment and has a one-to-one discussion to compare with own view and ask questions/seek clarifications
- Manager submits a proposed rating (covering both performance and conduct) to the People and Culture team
- Moderation process reviews the ratings spread across the firm to ensure both good differentiation of performance and that LPPI is fairly and consistently rewarding high performance. There are four steps 1) review by manager's manager 2) review by head of function 3) review by Executive Committee 4) final review by CEO. A summary of the outcomes is shared with the Remuneration Committee at its April meeting.
- CEO rating and award is subject to LPP Group Board approval and other LPPI Executive Director ratings and awards are approved by the Remuneration Committee, under delegation from the Board.

### Deferral mechanisms within variable pay framework

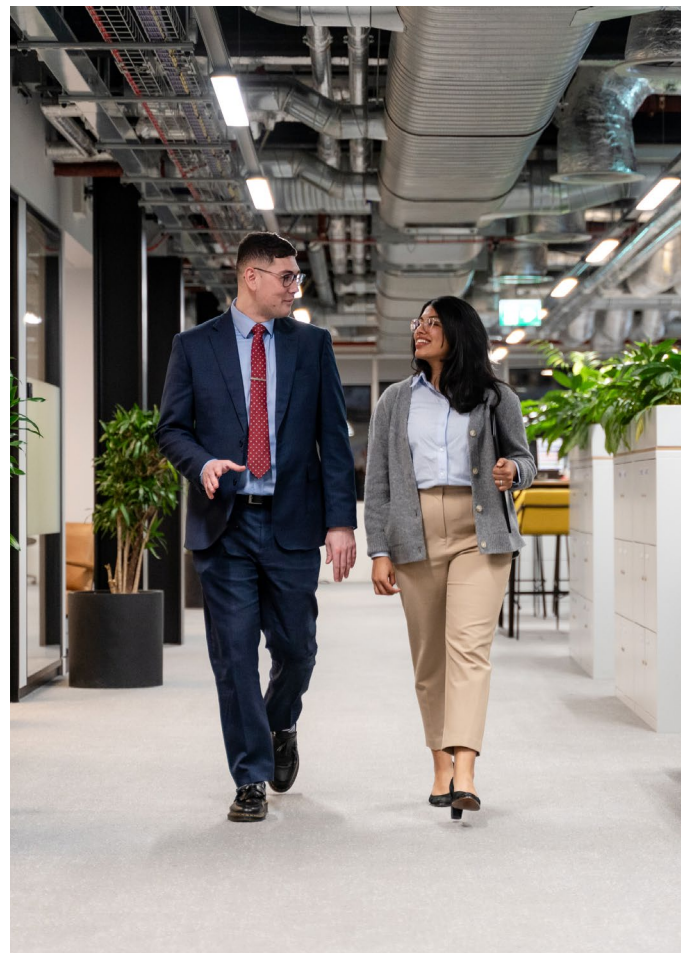
Within the schemes there are two types of deferral that may be applied to the actual award, and these are described in the Remuneration Policy. For those individuals falling within the scope of the Remuneration Code (as described in the FCA Handbook SYSC 19B, LPPI has no requirement to defer under SYSC19G but applies the principles of SYSC19B as the more stringent requirement) there are specific conditions set by the FCA where bonuses may need to be deferred. The current requirements are that bonuses will need to be partially deferred where 1) total compensation exceeds £500k and/or 2) the bonus awarded equates to more than 33% of total compensation. Total compensation for the purposes of this calculation will be based on the standard definition of fixed and variable pay related to a specific role and will not include, for example, any other legal obligation to make payments arising after the date that LPPI adopted the relevant remuneration policy.

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

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

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

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



## 5.2 Disclosures relating to material risk takers

For the purposes of this disclosure, the population has been aligned with the relevant categories of the Senior Manager and Certified Persons populations as defined by the Senior Manager and Certification Regime. Total remuneration for the year to end of March 2024 was as shown in the table below.

The number of individuals in the table below include leavers throughout the year.

Of the below, £699,540 of variable pay was deferred for a period of 1 to 3 years under either the internal LPPI deferral rules or the FCA deferral rules. This impacted 23 individuals.

Deferrals from the 2021/22 and also the 2022/23 performance years were paid in April 2024 totalling £335,734 for 11 individuals in addition to the amounts below.

The total amount of severance payments made during the 2023/24 performance year was £99,770 paid to 2 individuals of which included 1 senior manager (£71,961).

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

	Fixed pay	Variable pay	Number of individuals
Senior management	£1,484,659	£781,183	7
Other material risk takers	£4,321,597	£1,782,038	35
Other staff	£8,008,709	£1,595,758	107
<b>Total</b>	<b>£13,814,965</b>	<b>£4,158,979</b>	<b>149</b>



## 6. Appendix A: K-Factor definitions

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

Local Pensions Partnership Investments  
1 Finsbury Avenue  
London  
EC2M 2PF

lppi.co.uk  
info@lppi.co.uk

**LPP**  
Local Pensions Partnership  
Investments

Company registration no: 09835244  
Incorporated in England and Wales and trading as LPPI

Authorised and regulated by the Financial Conduct Authority  
Reference number: 724653

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