Pillar 3 disclosure dated 22 December 2021

1. Background

LPFI Limited (**LPFI**) is authorised and regulated by the Financial Conduct Authority (**FCA**). As such, it is subject to regulatory capital requirements and certain disclosure requirements. The purpose of this document is to set out the Pillar 3 disclosures of LPFI.

LPFI is categorised as a 'BIPRU firm' for prudential purposes. This Pillar 3 disclosure is produced in accordance with the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), specifically BIPRU 11.3.3R.

The disclosures will be published on LPFI's website. The disclosures will be reviewed at least annually and, if appropriate, more frequently. Disclosures will be published as soon as is practicable after LPFI's Internal Capital Adequacy Assessment Process (**ICAAP**) is finalised and the publication of LPFI's annual accounts. LPFI's most recent ICAAP relates to the period ending 31 March 2021. The ICAAP was prepared on the basis of the information in the audited accounts as at 31 March 2020 and subsequent financial statements to 31 March 2021 and includes financial projections for a 3 year period from that later date. LPFI's ICAAP calculations of capital resources were reviewed for the period ending 31 October 2021.

LPFI will be subject to the new Investment Firm Prudential Regime (**IFPR**) from 1 January 2022. The Management Board does not anticipate a meaningful change to the firm's capital requirement, 'own funds' or prudential consolidation analysis arising from the new rules, but is preparing to realign its processes to have an Internal Capital and Risk Assessment (**ICARA**) in place as a development from its existing ICAAP and otherwise to comply with IFPR. LPFI anticipates that it will initially be categorised as a 'small and non-interconnected investment firm' (**SNI**) but may transition to being a Non-SNI at some point during 2022.

2. Pillar 3 Disclosure Policy

LPFI is supportive of the overarching objectives of Pillar 3 disclosures, which are to promote market discipline and improve comparability and consistency of these disclosures. As a complement to supervisory efforts, these objectives help to encourage firms to assess risk, maintain capital and develop and maintain sound risk management systems and practices. LPFI has therefore sought to develop a formal Pillar 3 Disclosure procedure which covers all applicable disclosure requirements.

3. Scope of business

LPFI is incorporated in the UK and has its registered address in the UK. The principal activities of LPFI are the provision of investment advisory, arranging and investment management services.

LPFI was established to support the operation and development of LPF's in-house investment programme and its collaboration with other likeminded pension funds. LPFI has three 'Core Strategies', being:

- A strategic investment advisory platform for wider collaboration and greater future alignment of investment portfolios of likeminded LGPS funds (**Strategic Advisory Platform**).
- A 'Club Deal' platform for collaboration on private market investments (including in the infrastructure, private debt and indirect property sectors) with LGPS funds and other institutional investors (**Private Markets Platform**).
- A public markets portfolio management platform providing certain LGPS funds with access to LPF's internally managed equity and bond portfolios (**Public Markets Platform**).

These are supplemented by investment monitoring and *ad hoc* investment advisory services in relation to client portfolios.

4. Governance and risk management

LPFI's general risk management objective is to develop governance structures and systems and controls to identify and quantify its risk exposures, and then manage and mitigate risk to a level that will minimise the allocation of Pillar 2 capital whilst delivering services to its clients within acceptable risk tolerances.

The LPFI board is the governing body of LPFI (**Managing Board**). The Managing Board is responsible for risk management, as well as forming its own opinion on the effectiveness of the risk management framework and processes established at LPFI.

The Managing Board sets the risk strategy and relevant policies. The Managing Board decides LPFI's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Managing Board ensures that LPFI has implemented an effective, ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed.

The Managing Board of LPFI reviews and endorses the risk management objectives on an annual basis.

Risk categories

The Managing Board has identified that credit, market, operational, business and liquidity risks are the main areas of risk to which LPFI is exposed.

- **Credit Risk**: As a BIPRU firm, LPFI neither holds client money or assets nor lends money. Its exposure to Credit Risk is the risk that its fees cannot be timeously collected from clients and the exposure to banks where revenue is deposited. LPFI's Credit Risk Appetite is therefore low as it holds all cash with banks assigned high credit ratings and has an expectation that its clients pay any fees promptly and within the period set out in the contractual terms and conditions for the services. LPFI's exposure has various mitigating controls in place which are considered in the quantification of its Pillar 2 capital assessment.

- **Market Risk:** LPFI monitors market risk in so far as it impacts on its ability to deliver investment services to its client, its performance in delivering those investment services and the potential risk of failing to deliver adequate services due to a market downturn or macroeconomic factors. LPFI does not otherwise hold any assets exposed to market risk.

- **Operational Risk**: LPFI's Senior Leadership team (SLT) conducts a formal assessment of the Operational Risk to which LPFI is exposed on an ongoing basis, with the Managing Board formally considering the position at least quarterly. Risk management remains a key function of LPFI's business in respect of the portfolios it manages. Matters arising from reviews are considered with mitigating or remedial action being taken where appropriate.

- **Business Risk**: As a BIPRU firm, LPFI also assesses its Business Risks and has set out appropriate actions to manage them. LPFI has modelled the effect of severe market downturn on its capital planning forecasts as well as set out actions to ensure it has adequate regulatory capital.

- **Liquidity Risk**: LPFI always maintains a surplus of liquid resources sufficient to meet any immediate requirements it could prudently foresee. LPFI receives regular cash flows from client service fees throughout the year that are sufficient to meet its operational requirements. It also has in place a working capital facility with LPF to address any unforeseen shortfalls. LPFI is subject to the FCA's Liquidity Rules at BIPRU 12. It therefore has in place adequate systems and controls around liquidity, which include the management of liquidity risk via scenario and stress testing of its cash flow forecast and the establishment of management actions and contingency funding plans.

5. Capital Resources

The relevant calculations of regulatory capital held as at 31 October 2021 are shown in the table below:

Capital item	(£)
Tier 1 capital (Note - no innovative tier one capital	821,000
Tier 2 capital	0
Deductions (material interim losses, intangible assets, material holdings)	0
Total capital resources	**821,000**

Compliance with BIPRU and Pillar 2 regulatory requirements

LPFI is categorised as a BIPRU firm. In accordance with GENPRU 2.1.4.5R (Calculation of variable capital requirement for a BIPRU firm), LPFI's Pillar 1 capital resources requirement is determined as the higher of (i) the sum of the credit and market risk capital requirements and (ii) the fixed overhead requirement. LPFI's Pillar 1 capital requirement is the fixed overhead requirement, £541,000.

LPFI's capital resources of £821,000 are adequate for its size and the complexity of its business, compared to its minimum capital requirement of £541,000 (fixed overhead requirement) under Pillar 1.

As required according to GENPRU 1.2 and the Pillar 2 rule, LPFI maintains an ICAAP to establish whether it is required to hold any additional capital to cover any risks LPFI is exposed to which are not fully captured under the Pillar 1 requirements.

LPFI's Pillar 2 capital requirement was assessed as part of the ICAAP for the period ending 31 March 2021. The current Pillar 2 requirement was determined as being £238,000.

As a result, LPFI's ICAAP capital requirement for the period ending 31 March 2021 was determined as being £779,000.

LPFI's capital requirement as at 31 March 2021 and capital adequacy as at 31 October 2021 are shown in the table below:

	Pillar 1	**Pillar 2**
	£000'S	**£000'S**
Base Capital Requirement (EUR 50,000)	43	
Credit Risk	54	
Market Risk	0	
Fixed Overhead requirement ("FOR")	541	
Pillar 1 - higher of (CR+MR) and FOR	**541**	
Pillar 2 Credit Risk		12
Pillar 2 Market Risk		24

Pillar 2 Operational Risk	[redacted]	104
Pillar 2 Business Risk	[redacted]	76
Pillar 2 Liquidity Risk	[redacted]	12
Pillar 2 Wind-down stress test adjustment	[redacted]	10[1]
Pillar 2	[redacted]	238
ICAAP Capital Requirement (P1+P2)	541	**779**
Regulatory capital as at 31 October 2021	821	821
Surplus as at 31 October 2021	280	42

Note the above figures are rounded.

There is a surplus of regulatory capital above the capital resource requirement deemed necessary to cover the risks identified.

The ICAAP is monitored and reviewed on an ongoing basis by the Managing Board to ensure that all changes to LPFI's risk profile are continuously assessed. LPFI reviews its capital resources and own funds requirements on a regular basis and updates the ICAAP at least on an annual basis in accordance with FCA guidance. LPFI's capital adequacy position is monitored and reported to the FCA on a six-monthly basis.

6. **Remuneration code disclosure**

Decision making process

The board of the LPF group's staff servicing vehicle (LPFE Limited) acts as the Remuneration Committee for LPFI. It oversees the establishment and implementation of a Remuneration Policy for all employees.

LPF endeavours to reward its people fairly and appropriately for their contribution towards the success of the pension fund and the level of service and performance delivered to its members, employers and LPFI's clients (being LPF's collaborative partner funds) (together, the **Stakeholders**). The Remuneration Policy is designed to be consistent with and to promote sound and effective risk management. In that regard, the Remuneration Policy aligns to the group's strategy, values, risk profile and the long-term interests of its Stakeholders.

LPFI is subject to the FCA's BIPRU Remuneration Code, therefore specific sections of the Remuneration Policy relate to those individuals whose activities could have a material impact on the risk profile of LPFI. Currently, that includes the Senior Leadership Team and portfolio managers.

The LPFE Board reviews performance and approves remuneration arrangements as set out within its Terms of Reference. It has direct responsibility for determining the remuneration of all Code Staff, having regard to input from Senior Leadership Team for the portfolio managers.

The LPFE Board includes one member of the group's executive, three Stakeholder members and two independent non-executive directors. Its effectiveness is reviewed periodically as part of the group's wider governance review programme. That is to ensure that the governance around the group's performance and remuneration processes continues to be proportionate and aligned to the scale of its business and strategies.

Link between remuneration and performance

The approach to remuneration is intended to:

[1] **Note:** 20% of total estimated wind-down costs.

- Maintain a competitive package that will attract, motivate and retain the skills, knowledge, experience, talent and high performing individuals required to deliver in the sectors within which the group operates.
- Align the interests of employees with those of the Stakeholders, namely to be a leader in pension services and to deliver sustainable pensions and long-term Stakeholder satisfaction in a competitive people market.
- Avoid excessive or inappropriate risk taking.
- Provide transparency and fairness of pay throughout the organisation.
- Ensure value for money in terms of both the overall workforce pay bill and the quality of service provided to its Stakeholders.
- Adopt a 'pay for performance' approach, ensuring individual remuneration is set against goals that are aligned to the group's strategy. That will involve setting goals that are sufficiently stretching but which do not encourage inappropriate behaviours or risk taking and align to the group's long-term horizons.
- Develop and sustain a high performance and Stakeholder orientated culture.
- Recognise the staff at all levels for their area of specialism and personal contribution towards achievement of the organisation's goals.

The remuneration of LPFI's Code Staff is designed to support a culture where individuals are rewarded for the delivery of sustained performance, risk management and targeted performance in line with the group's strategic objectives. Performance will include a range of financial and non-financial factors to encourage long-term sustained delivery for Stakeholders. Those employees holding regulatory and/or senior management control functions will have their remuneration assessed based on the responsibilities relating to their functions and independent of the business area they oversee.

Aggregate remuneration for Code Staff

The FCA rules require certain firms to disclose aggregate information on remuneration in respect of its Code Staff broken down by business area, senior management and other Code Staff, including 'risk takers'.

LPFI is under the quantitative threshold of £50 billion total assets and so does not require to make any Pillar 3 remuneration disclosures in relation to Code Staff.