

Pension Fund Accounts Fund Account	See note	2009/10 £'000	2010/11 £'000
<b>Dealings with members and employers</b>			
<b>Contributions</b>			
- from employers		165,970	174,551
- from members			
- normal		56,060	56,538
- additional voluntary		1,724	1,784
	6	<b>223,754</b>	<b>232,873</b>
<b>Transfers in from other pension funds</b>		<b>21,872</b>	<b>21,788</b>
<b>Benefits</b>			
Pensions		-124,207	-131,033
Commutation of pensions and lump-sum retirement benefits		-31,426	-46,347
Lump-sum death benefits		-4,168	-4,385
	6	<b>-159,801</b>	<b>-181,765</b>
<b>Payments to and on account of leavers</b>			
Transfers out to other pension funds		-18,302	-13,185
Refunds of contributions		-35	-57
State scheme premiums		7	18
<b>Administrative expenses</b>	7	<b>-2,220</b>	<b>-2,621</b>
<b>Net additions from dealings with members and employers</b>		<b>65,275</b>	<b>57,051</b>
<b>Returns on investments</b>			
<b>Investment income</b>			
Interest from fixed-interest bonds		5,210	6,038
Dividends from equities		49,733	54,168
Income from index-linked bonds		108	128
Income from pooled investment vehicles		1,283	905
Net rents from properties		9,110	10,624
Income from property unit trusts		1,237	1,842
Income from other alternative investments		928	2,223
Interest on cash deposits		1,637	1,620
Other		564	1,110
<b>Profit and losses on disposal of investments and changes in value of investments</b>			
Realised		-11,844	64,919
Unrealised		729,475	131,775
<b>Taxes on income</b>	8	<b>-1,504</b>	<b>-1,470</b>
<b>Investment management expenses</b>	7	<b>-9,777</b>	<b>-10,048</b>
<b>Net returns on investments</b>		<b>776,160</b>	<b>263,834</b>
<b>Net increase (decrease) in the net assets available for benefits during the year</b>		<b>841,435</b>	<b>320,885</b>
Add opening net assets of the Fund		2,396,100	3,237,535
<b>Closing net assets of the Fund</b>		<b>3,237,535</b>	<b>3,558,420</b>

<b>Net Assets Statement</b>		<b>1 April 2009</b>	<b>31 March 2010</b>	<b>31 March 2011</b>
	<b>See Note</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Investment assets</b>				
Fixed-interest bonds	16	109,947	149,844	164,229
Index-linked bonds	16	3,868	5,219	5,928
Equities	10,13,16	1,194,721	1,823,228	2,011,143
Pooled investment vehicles:				
– index-linked	11,16	616,714	680,988	727,018
– equities	11,16	23,545	33,380	37,434
Derivative contracts	15	0	131	2,983
Property	16	93,550	134,273	189,090
Property unit trusts	14,16	62,918	60,656	74,228
Other alternative investments	14,16	105,679	128,326	185,603
Fixed term cash deposits		55,220	98,098	50,465
<b>Investment liabilities</b>				
Derivative contracts	15	0	-105	-6,768
<b>Net investment assets</b>		<b>2,266,162</b>	<b>3,114,038</b>	<b>3,441,353</b>
<b>Current assets</b>				
Contributions due from employers	17	9,509	12,037	14,052
Cash balances		109,307	100,740	94,393
Other current assets	17	15,345	14,117	17,944
		134,161	126,894	126,389
<b>Current liabilities</b>				
Other current liabilities	17	-4,223	-3,397	-9,322
<b>Net current assets</b>		<b>129,938</b>	<b>123,497</b>	<b>117,067</b>
<b>Net assets of the Scheme available to fund benefits at the period end</b>		<b>2,396,100</b>	<b>3,237,535</b>	<b>3,558,420</b>

## **Notes to the Pension Fund Accounts**

### **1 Operations and management**

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Superannuation Act 1972. New regulations came into force on 1 April 2008 with the rules of the scheme split between two separate sets of regulation: the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and the Local Government Pension Scheme (Administration) Regulations 2008. These provide the statutory basis within which the Scheme operates. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme set up for the benefit of local government employees, the LGPS is in fact administered locally. The LGPS is open to all employees of Hampshire County Council, Portsmouth and Southampton City Councils and the 11 district councils in Hampshire, except teachers, for whom separate arrangements apply. It also covers 198 other scheduled and admission bodies.

In addition, the Scheme allows employees of private contractors to remain in the Scheme where they are providing a service or assets in connection with the functions of a Scheme employer, in accordance with the specific requirements of the LGPS Regulations.

Detailed Government regulations control rates of contribution and scales of benefits. Benefits are normally in the form of a lump sum and annual pension. In 2010/11, employees contributed £58.3 million and employers £174.5 million to the Fund. Contributions are calculated as a percentage of pensionable pay. Pension payments were £131.0m in 2010/11 and given that there were 32,824 pensions paid during the year, the average annual pension paid during 2010/11 was £3,992.

A comprehensive review of the Fund's investment management arrangements in 2006/07 identified the need to diversify risks by increasing the number of specialist fund managers. The aim is to match liabilities by having an asset allocation designed to produce returns of 2.5% a year above a low-risk bond portfolio.

At the end of 2010/11, the investments were managed by the following companies:

	As a proportion of Fund's overall value
• Aberdeen Asset Management Limited	20.5%
• Newton Investment Management	12.1%
• Schroders Investment Management	11.8%
• Legal & General Investment Management	10.3%
• State Street Global Advisors	10.3%
• AllianceBernstein	8.5%
• GLG Partners	6.4%
• Western Asset Management	4.8%
• CB Richard Ellis Investors	5.8%
• Aberdeen Property Investors	1.5%

The Fund also employs Northern Trust as its global custodian and Aberdeen Asset Management as its adviser on alternative investments.

During 2010/11, the Pension Fund Panel consisted of nine councillors who directed the management of the Fund. Co-opted to the Panel was one representative of the two city unitary authorities (Portsmouth and Southampton), and one representative of the 11 district councils and other employers in Hampshire; both had full voting rights. Two representatives of the Fund's pensioners and contributors were co-opted to the Panel, also with full voting rights. There was also an independent adviser who attended Panel meetings. The Panel met the managers regularly to discuss performance and approve their management strategies. Members' attendance at the Panel's seven meetings in 2010/11 averaged 82%.

## **2 Accounting policies**

### *Accounting standards*

The accounts have been prepared as a going concern to meet the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. They are also required to meet the requirements of the Code of Practice on Local Authority Accounting in the UK 2010/11 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounts summarise the Fund's transactions and net assets. They do not take account of future liabilities to pay pensions and other benefits. See notes 3 and 4 for the Fund's actuarial position, which do take account of such liabilities.

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Previously the Statement of Accounts have been prepared

under the SORP 2009. There have been no material adjustments to the accounts resulting from this change.

#### *Basis of preparation*

Income and expenditure are generally credited and debited to the Fund Account when earned or incurred, not when received or paid (that is, on an accruals basis). However, transfer values paid and received have been included on a receipts-and-payments basis.

Additional voluntary contributions, which are separately invested, are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No. 3093).

#### *Investments*

Investments are shown in the accounts at their market value, which has been determined as follows:

- FTSE-100 and Reserve List stocks are valued using the Stock Exchange Trading Service (SETS) bid price
- other listed securities and securities on other domestic markets – bid price at the close of business on 31 March 2011
- unlisted securities and alternative investments – using latest dealings, professional valuations, asset values and other appropriate financial information
- investments held in overseas securities – bid price at the close of dealing on 31 March 2011 translated into sterling at the rate that day
- the UK property portfolio – open-market value at 31 March 2011 as estimated by the Fund's independent property valuer
- future contracts have been valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract. Amounts due from the broker represent the amounts outstanding in respect of the initial margin and any variation margin which is due to or from the broker
- forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at year end with an equal and opposite contract.

#### *Acquisition costs*

The cost of acquiring property and securities includes brokerage commission, legal fees and stamp duty.

### 3 Actuarial valuation

The Scheme Regulations require a full actuarial valuation every third year. This is to establish that the Hampshire Pension Fund can meet its liabilities to past and present contributors, and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed at 31 March 2010.

The valuation at 31 March 2010 showed that the value of the Fund's assets (£3,237.5m) was enough to cover 72% of the promised benefits earned to date (£4,493.6m) by the Fund's members (that is, a 72% funding level). This represents a decrease since the previous valuation at 31 March 2007 with the market value of the Fund's assets (£2,917.8m) at that date covering 77% of the Fund's liabilities (£3,808.8m). This was due to the deterioration in the economic environment which led to a lower return on Fund assets since 31 March 2007 than was anticipated, and an increase in the markets' view of Retail Price Index (RPI) inflation as measured by reference to the yields on government bonds, along with an allowance for an increase in life expectancy. These were only partially offset by the change in pension indexation from RPI to Consumer Price Index (CPI), and an increase in the assumed level of future returns on Fund assets.

The actuarial valuation has determined that the contribution rate for the scheduled bodies group of employers will remain unchanged at 19.1% for the next three years, and the employer contribution rate for the admission bodies group will increase in steps of 0.5% p.a. to 19.6% in 2011/12, 20.1% in 2012/13 and 20.6% in 2013/14.

The employers' contribution rates were calculated using the projected unit actuarial method, which is consistent with the aim of achieving the 100% funding level described above.

The main actuarial assumptions used for the March 2010 actuarial valuation were as follows:

#### Discount rate for periods

In service	
Scheduled bodies	6.80% a year
Admission bodies	6.25% a year
After leaving service	
Scheduled bodies	6.80% a year
Admission bodies	4.75% a year
Long dated fixed interest gilts	4.50% a year
Long dated index linked gilts	0.70% a year
Rate of price inflation (RPI)	3.80% a year

Rate of price inflation (CPI)	3.30% a year
Rate of general pay increases	5.30% a year
Rate of increase to pensions in payment	3.30% a year
Valuation of assets	market value

A 65 year old male pensioner in normal health is now assumed on average to live to 88.7 (rather than 86.2 at the previous valuation). And a 65 year old female pensioner in normal health is assumed on average to live to 89.7 (rather than 88.3).

The next actuarial valuation of the Fund is due to take place at 31 March 2013.

#### **4 Actuarial present value of promised retirement benefits**

This note has been compiled from material contained within a report prepared by the Fund's Actuary, Aon Hewitt, to provide information required by the Fund to assist in meeting its disclosure requirements under the Code of Practice on Local Authority Accounting in the UK 2010/11 (the 'Code of Practice').

##### *Background*

The results of the calculations provided in this note constitute a valuation exercise in accordance with the principles of International Accounting Standard (IAS) 19. The accounting reference date (ARD) to which this note relates is 31 March 2010.

The Code of Practice indicates that the Fund accounts for the year ending 31 March 2011 should disclose the actuarial present value of the promised retirement benefits as set out in IAS26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS19 rather than on the funding assumptions.

It must not be assumed that figures produced for the purposes of IAS19 (IAS26), which are presented in this note, have any relevance beyond the scope of the International Financial Reporting Standards requirements.

##### *Recent changes to pension increases*

The Code requires that the Administering Authority should disclose the effect of any changes to the Fund during the accounting period.

In his budget on 22 June 2010, the Chancellor announced the following:

"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."

The change to CPI would appear to fall within the requirement of the Code of Practice and CIPFA have subsequently confirmed that an appropriate disclosure should be made that describes the change and assesses the financial impact.

The Actuary has interpreted the Chancellor's announcement as meaning that, with effect from 1 April 2011, increases to local government pensions in payment and deferred pensions, in respect of both past and future accrual, will be linked to annual increases in CPI, rather than RPI.

Since over the long term CPI increases are expected to be lower than RPI increases, this gives rise to a reduction in the actuarial present value of the promised retirement benefits.

For the purposes of this exercise, the Actuary has assumed that the switch to CPI indexation occurred on 31 March 2010 on the basis that this simplification will not introduce any material inaccuracy.

### *Methodology*

Value of the assets - IAS19 requires that assets be valued at 'fair value' which is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. For the purposes of this exercise the Actuary has taken the asset values directly from the Fund's audited annual accounts as at 31 March 2010 and 31 March 2007.

Treatment of risk benefits - to value the risk benefits the Actuary has valued service-related benefits based on service completed to the date of calculations only.

Expenses - scheme administration expenses are not provided for in the net present value of actuarial liabilities.

### *Volatility of results*

Results under the IAS26 reporting standard can change dramatically depending on market conditions. The liabilities are linked to yields on high quality corporate bonds whereas the majority of the assets of the Fund are invested in equities. Changing markets in conjunction with discount rate volatility will lead to volatility in the funded status of the Fund.

### **Information required for IAS26**

IAS26 requires the actuarial present value of the promised retirement benefits to be disclosed, which is the IAS26 terminology for what IAS19 refers to as the 'defined benefit obligation'.

The information set out below relates to actuarial present value of the promised retirement benefits in the Fund which is part of the LGPS. The Fund provides defined benefits, based on members' final pensionable pay.

The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS19 assumptions.

	Value as at 31 March 2007 £m	Value as at 31 March 2010 £m
Fair value of net assets	2,917.4	3,237.5
Actuarial present value of the promised retirement benefits	4,468.2	5,827.4
Surplus / (deficit) in the Fund as measured for IAS26 purposes	(1,550.8)	(2,589.9)

For comparative purposes, the actuarial valuation figures are presented as follows:

	Value as at 31 March 2007 £m	Value as at 31 March 2010 £m
Fair value of net assets	2,917.8 *	3,237.5
Actuarial present value of the promised retirement benefits	3,808.8	4,493.6
Surplus / (deficit) in the Fund	(891.0)	(1,256.1)

*\* The Actuary has adjusted the assets by an additional £0.4m in respect of special contributions due to be paid after the Valuation Date for early retirements before the age of 60 that occurred before the Valuation Date.*

The actuarial present value of the promised benefits at 31 March 2010 differs according to the type of valuation that is being carried out. These accounts show valuations prepared for both statutory accounting and funding purposes.

Statutory accounting valuations are prepared in accordance with the requirements of IAS26 and must follow heavily prescribed rules regarding the financial assumptions chosen to calculate the value of the liabilities. In particular, the discount rate must be determined with reference to market yields on high quality corporate bonds at the accounting reference date, consistent with the currency and estimated term of the post-employment benefit obligations.

In contrast, the funding valuation, required every three years by the LGPS Regulations, is performed for a completely different purpose and therefore requires a set of financial assumptions that is consistent with that purpose. In high level terms, the purpose of the funding valuation is to establish a funding strategy for each employer that balances affordability with regulatory requirements such as solvency and the need to achieve as nearly a constant contribution rate as possible.

To achieve this, the Fund Actuary uses the discount rate as the primary tool to control the degree of risk that is built into the Fund's funding strategy. Adjusting the discount rate in this fashion, enables the funding objectives to be achieved within quantifiable risk parameters agreed between the Fund Actuary and the Administering Authority. More detail on this approach can be found in the Fund's Funding Strategy Statement (FSS).

The principal reason why IAS26 valuations cannot be used for funding purposes is that the heavily prescribed nature of the financial basis would provide no means by which the regulatory solvency and contribution smoothing requirements could be achieved in practice.

Further minor differences may be observed in certain elements of the financial bases due to technical reasons stemming from timing and availability of data at the time of preparation. However, these are not regarded as being material. One difference to note, however, is that the statutory accounting valuation makes allowance for an inflation risk premium of 0.25% whereas the statutory funding valuation does not. Again, this is due to the different purposes of the valuation - an inflation risk premium is not used in the funding valuation because it would invalidate the technical methodology that is used to quantify the risk in the agreed funding strategy.

### *Financial assumptions*

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS26 took place at 31 March 2010. The principal financial assumptions used by the Fund's Actuary were:

	31 March 2007 (% p.a.)	31 March 2010 (% p.a.)
Discount rate	5.30	5.50
RPI Inflation	3.20	3.65
CPI Inflation	N/A	2.75
Rate of increase to pensions in payment	3.20	3.65
Rate of increase to deferred pensions	3.20	3.65
Rate of general increase in salaries	4.70	5.15

### *Changes in benefits during the accounting period*

As set out earlier, the Actuary believes the switch to using CPI for pension increases falls within the requirement of the Code of Practice.

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits. This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits.

The Actuary has estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value of the promised retirement benefits would have reduced by £671.1m, i.e., the actuarial present value of promised retirement benefits would have been £5,156.3m instead of £5,827.4m.

## **5 Nature and extent of risks and how the Pension Fund manages those risks**

The Pension Fund's activities expose it to a variety of financial risks:

*Credit risk* – the possibility that other parties might fail to pay amounts due to the Pension Fund

*Liquidity risk* – the possibility that the Pension Fund might not have funds available to meet its commitments to make payments

*Market risk* – the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.

*Credit risk*

The Pension Fund is exposed to credit risk through stock lending, derivative contracts and its daily treasury activities.

The stock-lending programme is administered by the Fund's custodian, Northern Trust, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for stock on loan is 105%, unless the borrowed stock and collateral are denominated in the same currency, then a collateral level of 102% will apply. This level is assessed daily to ensure it takes account of market movements. In accordance with investment regulations, stock lending is restricted to no more than 25% of the total market value of the stock held within the Fund at any time.

Responsibility for managing the financial risks associated with derivative contracts rests with the appointed investment fund managers, whose performance is regularly monitored and reviewed.

The Pension Fund's bank account is held at NatWest, which holds a AA long term credit rating (or equivalent) across three rating agencies and it maintains its status as a well capitalised financial institution. The Fund's cash balance is lent to borrowers in accordance with its Annual Investment Strategy. There are rigorous procedures in place to ensure the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty.

*Liquidity risk*

The Pension Fund holds a working cash balance in its bank account to pay pensions and other benefits. Cash is also required if the UK property manager CBRE Investors purchases additional properties and to finance drawdowns by the indirect property and alternative investment funds. The Fund currently enjoys a positive cash flow, with contributions being paid into the Fund exceeding the pension benefits paid out by in the region of £60 million a year. This cash flow surplus is invested for future pension payments.

*Market risk*

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken external advice as necessary. The management of the assets is split between a number of investment fund managers with different performance targets and investment strategies.

Each manager is expected to maintain a diversified portfolio within their allocation. Risk associated with the strategy and investment return are regularly monitored and reviewed.

The interest rate risk is the risk to which the Pension Fund is exposed to changes in interest rates and mainly relates to holdings in bonds. This risk is managed by Legal & General, State Street and Western, who are the Fund's appointed bond portfolio investment managers.

The Pension Fund is exposed to currency risk, for those investments denominated in non sterling currencies, as a result of possible fluctuations in foreign currency exchange rates. So far as its equity investments are concerned, these risks are mitigated to some extent by the global nature of their underlying businesses. Furthermore, investment fund managers may take account of currency risk in their investment decisions. The Fund also manages the currency risk in its US dollar denominated hedge fund portfolio by passively hedging the US dollar exposure to eliminate the effect of currency movements.

The price risk is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Prescribed statutory limits are also in place to avoid concentration of risk in specific areas.

An additional area of risk is the outsourcing of services to third party service organisations. The main service area that the Pension Fund outsources is its custody arrangements with Northern Trust. The Fund's custodian is responsible for the safe-keeping of the Fund's assets, settling transactions and collecting income. In addition, they provide a range of support services including stock lending and investment accounting. Northern Trust are a global industry leader, and provide the custodian service to one-third of English local government pension fund administering authorities.

## 6 Contributions and benefits

The figures in the Fund Account are broken down in the following table:

	2009/10 £'000	2010/11 £'000
<b>Contributions receivable</b>		
Administering authority	86,931	92,111
Scheduled bodies	127,930	132,498
Admission bodies	8,893	8,264
<b>Total</b>	<b>223,754</b>	<b>232,873</b>
<b>Benefits payable</b>		
Administering authority	60,153	69,693
Scheduled bodies	93,602	105,787
Admission bodies	6,046	6,285
<b>Total</b>	<b>159,801</b>	<b>181,765</b>

On 31 March 2011 there were 48,251 contributors in the Fund, a decrease from 49,006 at 31 March 2010. These have been analysed by employer as follows:

	Number of contributors	
	31 March 2010	31 March 2011
Hampshire County Council	22,884	22,345
Southampton City Council	5,610	5,630
Portsmouth City Council	4,951	5,018
District councils	4,548	4,343
Hampshire Constabulary	2,626	2,414
Other organisations	8,387	8,501
<b>Total</b>	<b>49,006</b>	<b>48,251</b>

The average contribution rate for employees in the Fund was 6.4% of their pensionable pay, which is broadly unchanged from the previous year. A pay freeze was implemented by the local authority employers in the Fund in 2010/11.

The aggregate employer contribution rate paid to the Fund rose to 19.1% in 2010/11 up from the previous year's 18.6%, which was the third of the planned annual step increases in employer rates from the 2007 valuation.

As at 31 March 2011, 30,152 people were receiving pensions from the Fund compared with 29,245 at 31 March 2010. No increase was applied to pensions in April 2010, due to negative annual inflation at September 2009 on which the pensions increase is based.

## 7 Administrative and investment management expenses

Regulations permit Hampshire County Council to charge administration costs to the Fund. A proportion of relevant County Council costs have been charged to the Fund on the basis of actual time spent on pension scheme administration, and investment-related business and in safeguarding Fund assets. The fees of the Fund's external investment managers reflect the agreements contained in their respective mandates. Fees are linked to the market value of the Fund's investment, and therefore may increase or reduce as the value of these investments change.

The figures in the Fund Account are broken down in the following table:

	2009/10 £'000	2010/11 £'000
<b>Administrative expenses</b>		
Pension administration costs and other overheads	2,109	2,415
Office and other administrative expenses	111	206
<b>Total</b>	<b>2,220</b>	<b>2,621</b>
<b>Investment management expenses</b>		
Investment management expenses	7,306	8,032
Property managers' expenses	1,514	1,219
Custodian's fees	339	349
Actuary's and other fees	618	448
<b>Total</b>	<b>9,777</b>	<b>10,048</b>

## 8 Taxes on income

The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to certain UK income tax on investment income or to capital gains tax on the proceeds of investments sold.

The Fund's administering authority Hampshire County Council is reimbursed VAT by HM Revenue & Customs (HMRC) and the accounts are shown exclusive of VAT.

Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted, as in the United States, Australia, Norway, and the Netherlands.

## 9 Investment returns

The summary investment returns achieved on the Fund are provided in the following table:

	2009/10	2010/11
	%	%
Annual return	32.3	8.2
Rolling 3-year average return	1.7	4.7

## 10 Ten largest equity holdings

The ten largest equity (company share) holdings by market value were as follows:

	31 March 2010		31 March 2011
	£'000		£'000
Vodafone	58,995	Vodafone	59,846
Royal Dutch Shell	44,923	Royal Dutch Shell	48,842
Rio Tinto	44,784	Rio Tinto	46,475
GlaxoSmithKline	36,352	British American Tobacco	43,371
HSBC	35,619	BG Group	38,869
British American Tobacco	35,531	Standard Chartered	36,783
BP	33,898	HSBC	36,447
Standard Chartered	32,880	Centrica	34,786
BG Group	26,631	BHP Billiton	33,234
Centrica	25,693	BP	30,867

## 11 Pooled investment vehicle holdings

Pooled investment vehicle holdings comprised the following:

	<b>31 March 2010 £'000</b>	<b>31 March 2011 £'000</b>
<b>Index-linked</b>		
SSGA Over 5-year index-linked gilts	340,723	363,695
Legal & General Over 5-year index-linked gilts	340,265	363,323
<b>Total</b>	<b>680,988</b>	<b>727,018</b>
<b>Equities</b>		
Schroder Institutional UK Smaller Companies	7,687	10,850
Aberdeen UK Emerging Companies	8,157	10,311
Schroder Recovery A	6,839	7,290
Aberdeen UK Mid-Cap Companies	7,431	4,957
BNY Mellon Fund Manager Newton Discovery	3,266	4,026
<b>Total</b>	<b>33,380</b>	<b>37,434</b>

## 12 Concentration of investments

Whilst no individual investment exceeded 5% of the total value of the Fund's net assets, the following single investments are in excess of 5% of any class or type of security:

	31 March 2010		31 March 2011	
	£'000	%	£'000	%
<b>Fixed-interest bonds</b>				
Germany 3.75% GTD 01/04/2020	-	-	16,550	10.1%
US Treasury NTS 1% due 31/12/2011	-	-	12,483	7.6%
US Treasury DTD 15/11/2009 3.375%	13,963	9.3%	8,293	5.0%
US Treasury NTS 15/05/2016 5.125%	10,026	6.7%	-	-
US Treasury NTS 31/10/2013 2.75%	9,761	6.5%	-	-
<b>Pooled investment vehicles</b>				
SSGA	340,723	47.7%	363,695	47.6%
Legal & General	340,265	47.6%	363,323	47.5%
<b>Property</b>				
Retail Warehouse 1	16,200	8.3%	22,650	8.6%
Retail Warehouse 2	11,500	5.9%	-	-
Retail Warehouse 3	9,900	5.1%	-	-
IRUS European Retail Property Fund	12,502	6.4%	-	-
<b>Other alternative investments</b>				
Oaktree OCM Opportunities	15,181	11.8%	13,773	7.4%
Governance for Owners	10,314	8.0%	12,207	6.6%
HG Renewable Power Partners	8,227	6.4%	-	-
<b>Fixed term cash deposits</b>				
NatWest Bank	10,159	10.4%	5,029	10.0%
Barclays Bank	15,112	15.4%	15,114	29.9%
Lloyds TSB Bank	20,065	20.4%	20,231	40.1%
Leeds Building Society	7,508	7.7%	-	-
Nationwide Building Society	35,139	35.8%	10,081	20.0%
Bank of Scotland	10,115	10.3%	-	-

### 13 Analysis of UK equity investments by industrial sector

	31 March 2010 £'000	31 March 2011 £'000
Financials ( <i>banks, insurance, real estate, investment trusts</i> )	183,270	180,012
Basic materials ( <i>chemicals, mining, forestry</i> )	106,036	140,844
Oil and gas	113,950	132,638
Consumer goods ( <i>vehicles, household goods</i> )	96,199	116,916
Consumer services ( <i>general retailers, leisure, media</i> )	106,258	108,894
Industrials ( <i>aerospace, defence, electronics, engineering</i> )	85,046	88,670
Telecommunications ( <i>fixed line and mobile</i> )	70,654	74,997
Health care ( <i>health care, pharmaceuticals</i> )	59,878	57,192
Utilities ( <i>electricity, gas, water suppliers</i> )	33,024	42,158
Technology ( <i>computer hardware and software</i> )	31,357	24,957
<b>Total</b>	<b>885,672</b>	<b>967,278</b>

### 14 Unlisted investments

All investments held by the Fund were listed on recognised stock exchanges, except the following:

	31 March 2010 £'000	31 March 2011 £'000
Indirect European property	43,788	56,797
Indirect UK property	16,868	17,431
<b>Sub-total</b>	<b>60,656</b>	<b>74,228</b>
Private equity funds	68,910	92,558
Hedge funds	7,160	35,256
Renewable energy	8,227	8,770
Other alternative investments	44,029	49,019
<b>Sub-total</b>	<b>128,326</b>	<b>185,603</b>
<b>Total</b>	<b>188,982</b>	<b>259,831</b>

At 31 March 2011, these unlisted investment holdings represented 7.3% of the value of the Fund (5.8% at 31 March 2010).

Given that unlisted investments are not traded on recognised stock exchanges, they may take longer to convert into cash than listed investments.

## 15 Derivative contracts

At 31 March 2011, the Fund had derivative contracts in place with a net liabilities market value of £3.785 million (£0.026 million net assets market value at 31 March 2010).

	31 March 2010			31 March 2011		
	Assets £'000	Liabilities £'000	Net £'000	Assets £'000	Liabilities £'000	Net £'000
UK fixed income futures	0	-68	-68	0	0	0
Overseas fixed income futures	120	-37	83	185	-200	-15
Overseas fixed income margined options	0	0	0	14	-1	13
UK cash margined options	0	0	0	0	-5	-5
UK cash futures	0	0	0	0	-23	-23
<b>Sub-total Futures</b>	<b>120</b>	<b>-105</b>	<b>15</b>	<b>199</b>	<b>-229</b>	<b>-30</b>
Overseas cash options	0	0	0	137	-205	-68
Overseas fixed income options	11	0	11	0	-260	-260
<b>Sub-total Options</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>137</b>	<b>-465</b>	<b>-328</b>
Forward foreign exchange	0	0	0	2,647	-6,074	-3,427
<b>Sub-total Forward foreign exchange</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,647</b>	<b>-6,074</b>	<b>-3,427</b>
<b>Total</b>	<b>131</b>	<b>-105</b>	<b>26</b>	<b>2,983</b>	<b>-6,768</b>	<b>-3,785</b>

All of the above derivative future and option contracts are exchange traded, in other words, none are 'over the counter' (OTC). The forward foreign exchange contracts are all OTC contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

The economic exposure represents the notional value of securities purchased under derivatives futures contracts and therefore the value is subject to market movements.

Type of future	Expiration (end date)	Economic exposure Value £'000	Market value £'000
Overseas fixed income futures	June 2011	-9,748	-15
Overseas fixed income margined options	May 2011	-10	13
UK cash margined options	March 2012	0	-5
UK cash futures	March 2012	54,913	-23
<b>Total</b>		<b>45,155</b>	<b>-30</b>

At 31 March 2011, the Fund had forward foreign currency contracts in place with a net unrealised loss of £3.427 million.

Currency		Notional Amount (Local currency)		Asset	Liability
Bought	Sold	Bought £'000	Sold £'000	£'000	£'000
GBP	EUR	101,115	-105,544		-4,429
GBP	JPY	15,931	-15,793	138	
GBP	OTHER	29,377	-30,088		-711
GBP	USD	116,418	-117,251		-833
JPY	GBP	1,361	-1,365		-4
USD	EUR	1,700	-1,752		-52
USD	GBP	21,679	-21,532	147	
USD	JPY	3,773	-3,618	155	
USD	OTHER	3,400	-3,445		-45
EUR	GBP	34,478	-32,964	1,514	
EUR	USD	1,726	-1,712	14	
OTHER	EUR	1,763	-1,745	18	
OTHER	GBP	14,073	-13,644	429	
OTHER	USD	7,419	-7,187	232	
<b>TOTAL</b>		<b>354,213</b>	<b>-357,640</b>	<b>2,647</b>	<b>-6,074</b>

The Fund's objective is to manage risk, interest rate and foreign exchange exposure in the portfolio by entering into derivative contracts similar to assets that are already held in the portfolio without disturbing the underlying assets.

Individual investment fund managers may use derivatives if permitted by their Investment Management Agreements in the efficient management of portfolios.

## 16 Investment transactions

	Market value at 1 April 2010	Purchases	Sales	Change in value	Market value at 31 March 2011
	£'000	£'000	£'000	£'000	£'000
UK fixed-interest bonds (public sector)	266	8,177	0	-301	8,142
UK fixed-interest bonds (other)	10,898	2,885	-1,710	-146	11,927
Overseas fixed-interest bonds (public sector)	75,696	166,964	-148,459	-1,380	92,821
Overseas fixed-interest bonds (other)	62,984	10,938	-22,004	-579	51,339
<b>Fixed-interest sub-total</b>	<b>149,844</b>	<b>188,964</b>	<b>-172,173</b>	<b>-2,406</b>	<b>164,229</b>
<b>Overseas index-linked bonds (public sector)</b>	<b>5,219</b>	<b>1,685</b>	<b>-593</b>	<b>-383</b>	<b>5,928</b>
UK equities	885,672	192,645	-179,623	68,584	967,278
North America equities	364,547	213,294	-203,031	36,052	410,862
Japan equities	94,357	48,981	-37,631	874	106,581
Europe equities	298,351	96,529	-108,935	-668	285,277
Other overseas equities	180,301	91,440	-45,242	14,646	241,145
<b>Equities sub-total</b>	<b>1,823,228</b>	<b>642,889</b>	<b>-574,462</b>	<b>119,488</b>	<b>2,011,143</b>
<b>Pooled investment vehicles:</b>					
- index-linked	680,988	0	0	46,030	727,018
- equities	33,380	4,390	-6,946	6,610	37,434
<b>Property</b>	<b>134,273</b>	<b>51,109</b>	<b>-7,462</b>	<b>11,170</b>	<b>189,090</b>
<b>Property unit trusts</b>	<b>60,656</b>	<b>10,150</b>	<b>-26</b>	<b>3,448</b>	<b>74,228</b>
<b>Other alternative investments</b>	<b>128,326</b>	<b>82,855</b>	<b>-33,190</b>	<b>7,612</b>	<b>185,603</b>
<b>Cash movements allowing for currency hedging</b>	<b>98,124</b>	<b>58,199</b>	<b>-114,768</b>	<b>5,125</b>	<b>46,680</b>
<b>Total</b>	<b>3,114,038</b>	<b>1,040,241</b>	<b>-909,620</b>	<b>196,694</b>	<b>3,441,353</b>

## 17 Debtors and Creditors

Debtors include contributions due from employers and dividends receivable, while Creditors include unpaid fees and pension benefits.

	31 March 2010 £'000	31 March 2011 £'000
<b>Debtors</b>		
- Central government bodies	214	369
- Other local authorities	9,651	14,516
- NHS bodies	0	7
- Public corporations and trading funds	2,557	2,213
- Bodies external to general government	13,732	14,891
<b>Total</b>	<b>26,154</b>	<b>31,996</b>
<b>Creditors</b>		
- Central government bodies	19	48
- Other local authorities	0	81
- NHS bodies	8	0
- Bodies external to general government	3,370	9,193
<b>Total</b>	<b>3,397</b>	<b>9,322</b>

## 18 Financial instrument disclosures

The Net Assets of the Fund disclosed in the Net Assets Statement are made up of the following categories of financial instruments:

	Long-Term		Current	
	31/03/2010	31/03/2011	31/03/2010	31/03/2011
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
Loans and receivables	0	0	124,252	82,461
Cash	0	0	100,740	94,393
Available-for-sale financial assets	1,192,686	1,383,530	0	0
Financial assets at fair value through profit and loss	0	0	1,823,359	2,014,126
<b>Total financial assets</b>	<b>1,192,686</b>	<b>1,383,530</b>	<b>2,048,351</b>	<b>2,190,980</b>
<b>Financial liabilities</b>				
Payables	0	0	3,397	9,322
Financial liabilities at fair value through profit and loss	0	0	105	6,768
<b>Total financial liabilities</b>	<b>0</b>	<b>0</b>	<b>3,502</b>	<b>16,090</b>

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

## 19 Contingent liabilities

The Fund had no contingent liabilities on 31 March 2011.

## 20 Investment commitments

The Fund had the following investment commitments at 31 March 2011:

	<b>Committed</b>	<b>Invested at</b>
		<b>31 March</b>
		<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Private equity funds	120,985	69,242
Indirect European property	60,233	47,534
Renewable energy	12,282	11,035
Other alternative investments	57,742	32,697
<b>Total</b>	<b>251,242</b>	<b>160,508</b>

## 21 Related-party transactions

The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees, those of other local authorities in the county area and 198 other scheduled and admission bodies (191 in 2009/10).

Whilst the Pension Fund previously invested its surplus cash balances jointly with the County Council, the introduction of a separate bank account for the Pension Fund since October 2010 has enabled its cash balances to be separately invested. As a result, there is no longer any temporary lending to the County Council.

Transactions with these related parties are shown below:

	<b>2009/10</b>	<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
<b>Hampshire County Council</b>		
Interest received	-356	-201
Temporary lending 31 March	50,767	0
Administration charge	2,109	2,415

## 22 Property

All the Fund's directly owned property is held as freehold. In March each year the directly held properties in the UK property portfolio are

independently valued. Properties held in the UK property portfolio are generally subject to leases with upward-only rent reviews every five years.

### 23 Stock lending

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 allow the Fund to lend stock provided that the total value of the stock to be transferred does not exceed 25% of the total market value of the stock held within the Fund at any time.

The Fund lends stock to third parties under a stock-lending agreement with its custodian, Northern Trust. The total amount of stock on loan at the year-end was £90.778 million, and this value is included in the Net Assets Statement to reflect the Fund's continuing economic interest in the stock on loan. The table below summarises the value of stock lent out by the Fund:

	<b>31 March 2010 £'000</b>	<b>31 March 2011 £'000</b>
Equities – UK	37,820	36,424
Equities – overseas	45,840	35,365
Fixed interest – UK	675	787
Fixed interest – overseas	10,036	18,202
<b>Total</b>	<b>94,371</b>	<b>90,778</b>

As security for the stock on loan, the Fund received collateral at 31 March 2011 valued at £97.864 million. This represented 107.8% of the value of stock on loan and comprised 85% government fixed-interest bonds and 15% equities.

The income received from stock-lending activities was £0.805 million net of administrative fees for the year ending 31 March 2011 and is included in the 'Investment income' figure in the Pension Fund Account. This represents a significantly higher income figure than the £0.060 million net of administrative fees generated in 2009/10, and reflects the fact that the Fund's stock-lending activities were suspended immediately following the collapse of Lehman Brothers in September 2008 and only resumed in December 2009 when it was clearer that the risk of losses from stock lending were not significant.

### 24 Additional voluntary contributions

The Fund's current main additional voluntary contribution (AVC) provider is Zurich. AVCs can also be paid to Equitable Life, but only if they are invested in its building society fund or for an additional death-in-service

grant. The AVCs are invested separately from the Fund's main assets and used to buy extra pension benefits on retirement. Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Zurich and Equitable Life for the year to 31 March 2011 is shown below. (This summary has not been audited. The Fund relies on individual contributors checking that deductions made on their behalf are accurately reflected in the statements the AVC providers issue.)

	<b>Zurich</b>	<b>Equitable</b>	
	<b>£'000</b>	<b>Life</b>	<b>Total</b>
		<b>£'000</b>	<b>£'000</b>
Contributions received in year	1,662	27	1,689
Market value at 31 March 2010	8,083	1,538	9,621
Market value at 31 March 2011	8,409	1,543	9,952