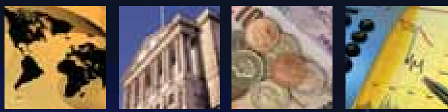
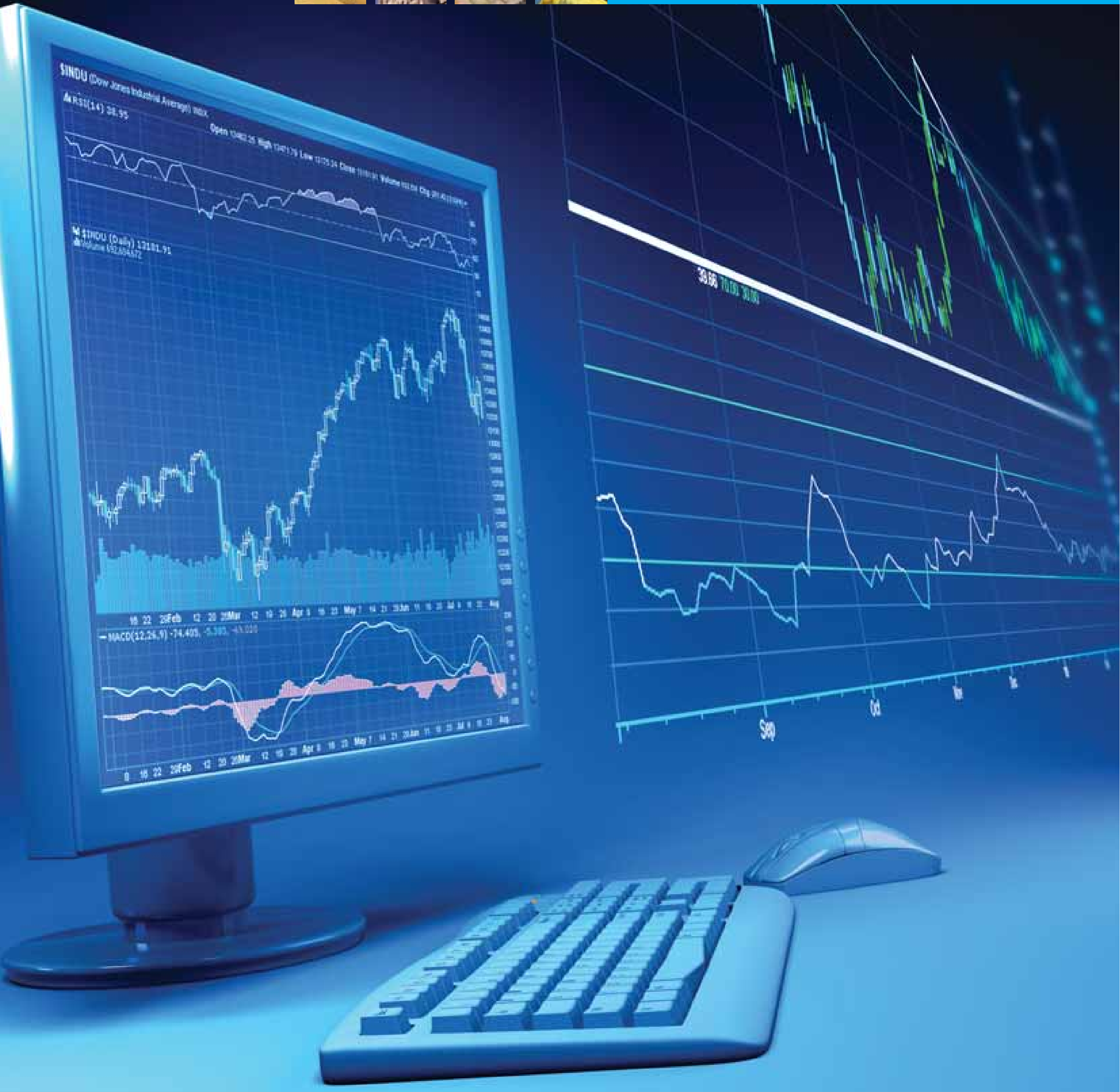
2008/09

Hampshire Pension Fund



Annual report and accounts



Hampshire
County Council

Hampshire Pension Fund Annual Report 2008/09

Contents

We hope you find this annual report informative and useful. There is a glossary of the terms used in the annual report at page 56.

If you have any comments on the annual report, please call 01962 847407, email budget@hants.gov.uk or write to the following address:

Pension Fund Annual Report
Corporate Finance Section
County Treasurer's Department
Hampshire County Council
The Castle
Winchester
SO23 8UB

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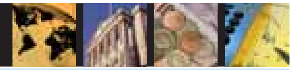
A larger-print version of this annual report is available from the above address and on Hantsweb.

Welcome to this Hampshire Pension Fund annual report for 2008/09.

Foreword



I was delighted when I was asked to chair the Pension Fund Panel in June 2009. I am very much aware of the responsibility, with my fellow Panel members, of looking after the pension interests of the Hampshire Pension Fund's 213 employers, 28,000 pensioners, 47,000 current contributors and 34,000 contributors who have left employment with Scheme employers but not yet retired.

I must pay tribute to the sterling work of my predecessor as Chairman, Councillor T K Thornber CBE, who has held the position for the last 10 years. Fortunately, Councillor Thornber will remain a member of the Panel and we will continue to have the benefit of his considerable experience and wisdom.

At the start of 2008/09, few would have predicted that the year would end with a dramatically different economic landscape. The removal of cheap credit and the global recession have resulted in a very difficult year for equity markets, with the FTSE All Share index for UK shares falling by 29.3% and the world index for shares globally falling by 19.8%. The financial turmoil has meant that the Hampshire Pension Fund fell in value by 19.7% during 2008/09. At 31 March 2009, the Fund's total assets were £2.4 billion.

In 2008/09, the global credit crisis effectively wiped out much of the rapid growth experienced in recent years. Nonetheless, the Pension Fund's market value this year still remains higher than four years ago. Moreover, world financial markets have been showing signs of recovery over recent months and the total value of the Fund had increased to £2.8 billion at 31 August 2009. This is a rise of £379 million (15.9%) over the five months since 31 March 2009.

The long-term objective is to achieve and maintain a funding level of 100% of liabilities to past and present contributors. Employers' and employees' contributions being paid into the Fund are expected to exceed the pension benefits payable over the next 10 years by around £65 million per year. We aim to continue to meet the cost of future benefit promises and gradually restore the funding level to 100%, while at the same time keeping employers' contribution rates as stable and affordable as possible.

There has recently been some ill-informed press comment about a 'black hole' in the Pension Fund. There is no black hole. The Pension Fund's assets and liabilities will be valued by the Fund's actuary on 31 March 2010 and the contributions required from employers will then be decided. The Government is also looking at ways in which the Pension Scheme can continue to be affordable, viable and fair. In the meantime, I can assure pensioners and contributors that their pensions are not at risk.

I hope you find the following report helpful. We will keep everyone informed of any developments.

Mark N. Kemp-Gee

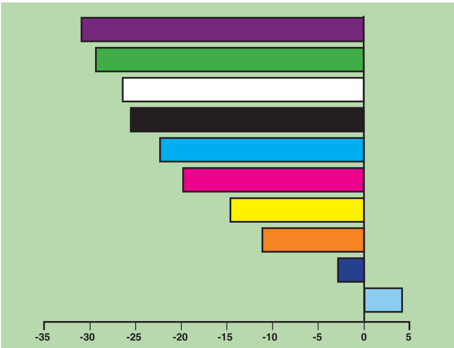
Councillor Mark Kemp-Gee
Chairman, Pension Fund Panel

Investment report

The credit crunch and the global recession have meant that 2008/09 has been a poor year for investors, with world stock markets falling after several years of sustained growth. Commercial property values in the UK have also fallen sharply since June 2007.

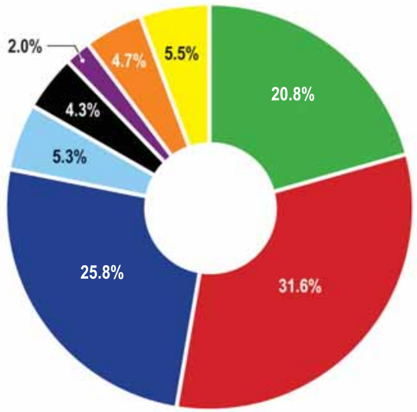
In contrast, bond markets have performed much better with the investors fleeing to safety in response to the global credit crisis. Indeed, global bonds achieved a positive return of 4.2% during a year of predominantly negative investment returns.

Market returns in 2008/09



	%
European shares	–30.8
UK shares	–29.3
Emerging Markets shares	–26.4
UK property	–25.5
Pacific Basin shares	–22.3
Global shares	–19.8
North American shares	–14.6
Japanese shares	–11.1
UK index-linked bonds	–2.8
Global bonds	4.2

Breakdown of the Hampshire Pension Fund's investments on 31 March 2009



UK shares	20.8%
Overseas shares	31.6%
UK index-linked bonds	25.8%
Global bonds	5.3%
UK property	4.3%
European property unit trusts	2.0%
Alternative investments	4.7%
Cash held pending investment	5.5%

The Fund's investment management arrangements were reorganised in January 2007 with the appointment of fund managers responsible for several specialist portfolios. This management structure is shown in the table opposite.

The Fund's investment management arrangements

	Portfolio size as proportion of total Fund value	Benchmark	Annual target performance gross/net of fees
	%		
Low-risk active UK equities			
Aberdeen Asset Management	8	FTSE All Share	+1.5% gross
Schroders Investment Management	12	FTSE All Share	+1.25% gross
High-performance UK equities			
GLG Partners (formerly SGAM)	9	LIBOR	+5% gross
High-performance global equities			
Aberdeen Asset Management	12	MSCI World	+3% gross
AllianceBernstein	12	MSCI World	+3.5% gross
Newton Investment Management	12	MSCI World	+3% gross
Active global bonds			
Western Asset Management	5	Barclays Capital Global Aggregate Bonds Index	+1.5% gross
Passive index-linked bonds			
Legal & General	10	FT British Government Over Five Years Index-Linked Gilts Index	
State Street Global Advisors	10	As above	
UK property			
CB Richard Ellis Investors	8	Retail Prices Index (RPI)	+4.5% net
European property			
Aberdeen Property Investors	2	Eurozone Harmonised Index of Consumer Prices (HICP)	+5% net
Total	**100**		

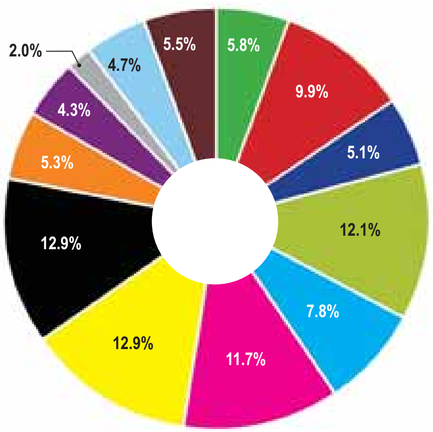
Investment report

All the portfolios are actively managed and aim to outperform an index, except for the two index-linked bond portfolios managed by Legal & General and State Street Global Advisors. These two portfolios are passively managed and targeted to match the relevant index.

All the managers have been appointed on five-year contracts that started on 1 January 2007, with an option to extend for up to a further five years subject to satisfactory performance.

The Pension Fund Panel has also decided to invest up to 10% of the total Fund's value in alternative investments over the long term – mainly private equity and hedge funds. Bramdean Asset Management are appointed as the Fund's alternative investments adviser.

The value of the investments held by each of the Fund's managers on 31 March 2009 is shown in the table opposite.



Manager	Value of investments on 31 March 2009 £ million	%
Aberdeen (UK equity portfolio)	139.6	5.8
Schroders (UK equity portfolio)	237.3	9.9
GLG (UK equity portfolio)	123.7	5.1
Aberdeen (global equity portfolio)	289.6	12.1
AllianceBernstein (global equity portfolio)	188.1	7.8
Newton (global equity portfolio)	280.2	11.7
Legal & General (index-linked bond portfolio)	308.6	12.9
State Street (index-linked bond portfolio)	308.7	12.9
Western (global bond portfolio)	126.6	5.3
CB Richard Ellis (UK property)	103.3	4.3
Aberdeen (European property)	47.5	2.0
Alternative investments	112.3	4.7
Held centrally (for pension payments, investment, etc)	130.6	5.5
Total	**2,396.1**	**100.0**

Performance of the managers

The return for 2008/09 gives the second full-year results for the investment managers following their appointment in January 2007. Most managers have found the market conditions very difficult for their investment strategies during the credit crisis. All the managers have been set targets for three- to five-year periods, so it is too early to drawn firm conclusions about their performance. The Fund changed its fund management strategy by appointing managers who have different investment styles, expecting that this will provide better returns overall in the longer term.

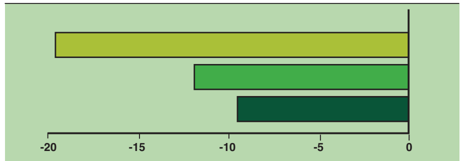
Given the severity of last year's financial turmoil, the Pension Fund Panel would expect negative returns from the majority of its individual managers in falling markets. However, it will continue to monitor the investment managers' performances against their targets closely on a rolling three-year basis.

The Fund in total

The credit crunch and global recession have meant that the Hampshire Pension Fund had a negative year in 2008/09 with a total return of –19.7%. This compares with a weighted benchmark return of –11.9%. The fund managers are set targets to outperform their benchmark indices. The weighted return of these targets for 2008/09 was –9.5%. However, an overall reduction of 29.3% in the FTSE All Share Index shows the benefit of a greater diversification in the Fund's investment portfolio. Over the three years to March 2009, the Fund fell by 5.7% a year which includes last year's fall of 19.7%.

Total investment returns for the Fund
12 months to 31 March 2009

	%
Total Fund return	– 19.7
Weighted benchmark indices	– 11.9
Weighted benchmarks plus targets	– 9.5

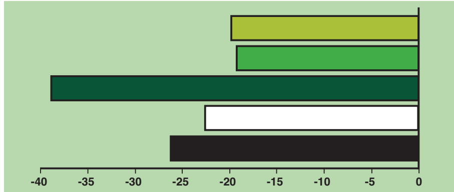


Global equities

One of the Fund's three global equity managers, Aberdeen, managed to outperform the Morgan Stanley Capital International (MSCI) Index benchmark. The other two, Newton and particularly AllianceBernstein, underperformed against this MSCI benchmark during 2008/09, but both Aberdeen and Newton have beaten the benchmark since January 2007. However, AllianceBernstein adopt a style of investing that should be well placed to recover when stock markets begin to recognise the value of shares that are currently out of favour.

Global equities
12 months to 31 March 2009

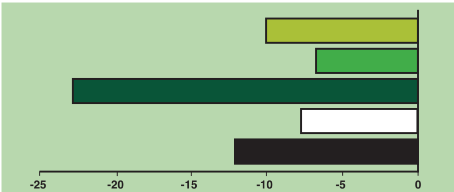
	%
Benchmark – MSCI Index	– 19.8
Aberdeen	– 19.2
AllianceBernstein	– 38.7
Newton	– 22.5
Three managers combined	– 26.2



The performance results of the Fund's global equity managers against the MSCI Index benchmark following their appointments in January 2007 are shown below.

Global equities
1 January 2007 to 31 March 2009 (27 months)

	%
Benchmark – MSCI Index	– 10.1
Aberdeen	– 6.8
AllianceBernstein	– 23.0
Newton	– 7.8
Three managers combined	– 12.2



Investment report

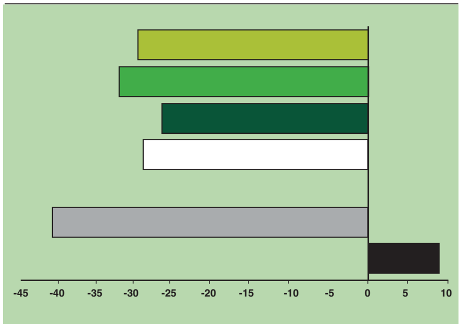
UK equities

The UK stock market fell by 29.3% during 2008/09 as measured by the FTSE All Share Index, so all three of the Fund's UK equity managers posted negative returns. However, Schroders had a successful year and outperformed the FTSE All Share benchmark by 1.9%. Aberdeen and particularly GLG (formerly SGAM) had disappointing results for 2008/09.

GLG manage a portfolio targeting high performance returns. Although their short-term performance has been very disappointing so far, their investment strategy has a sound long-term record and they expect the portfolio to recover during the three- to five-year period over which they will be assessed.

UK equities
12 months to 31 March 2009

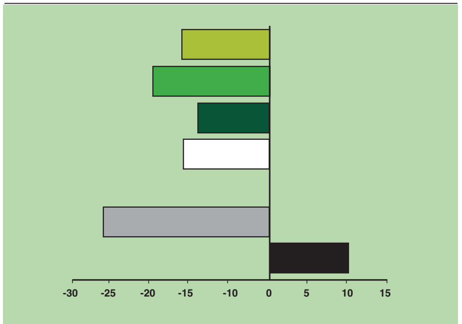
	%
FTSE All Share Index	–29.3
Aberdeen	–32.0
Schroders	–27.4
Two managers combined	–29.2
GLG	–41.3
LIBOR + 5%	8.9



The performance results of the Fund's UK equity managers against the FTSE All Share Index benchmark following their appointments in January 2007 are shown below.

UK equities
1 January 2007 to 31 March 2009 (27 months)

	%
FTSE All Share Index	–16.3
Aberdeen	–19.1
Schroders	–14.3
Two managers combined	–16.2
GLG	–27.5
LIBOR + 5%	10.1



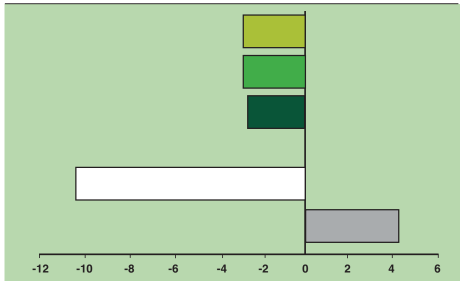
Bonds

Legal & General and State Street manage portfolios of UK index-linked bonds on a passive basis. Both managers have successfully delivered returns in line with their target index.

The Fund's global bonds manager, Western, found the events of late 2008 after the collapse of Lehman Brothers to be particularly difficult. Western have fallen well below their benchmark index. However, they believe that their portfolio represents good value and that it is well positioned to recover.

Bonds
12 months to 31 March 2009

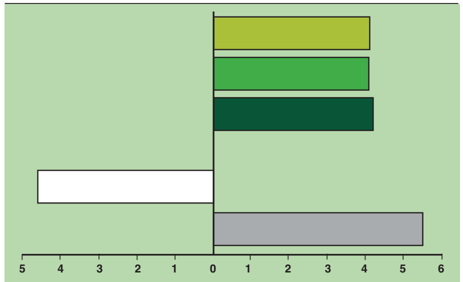
	%
FT UK Index – Linked Bonds	–2.8
Legal & General	–2.8
State Street	–2.6
Western	–10.4
Barclays Capital Bond Index	4.2



The performance results of the Fund's UK bond managers against the FT UK Index-Linked Bonds benchmark and global bond manager against the Barclays Capital Bond Index benchmark respectively following their appointments in January 2007 are shown opposite.

Bonds
1 January 2007 to 31 March 2009 (27 months)

	%
FT UK Index – Linked Bonds	4.1
Legal & General	4.1
State Street	4.2
Western	–4.6
Barclays Capital Bond Index	5.5



Property

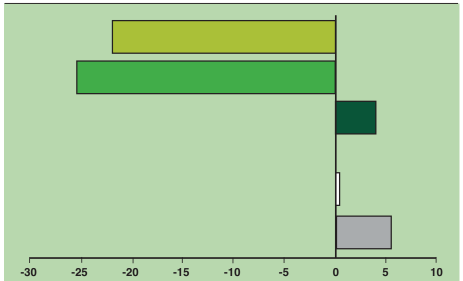
The UK property market fell by 25.5% during 2008/09 as measured by the Investment Property Databank (IPD) benchmark. However, the Fund's UK property portfolio managed by CB Richard Ellis Investors outperformed this benchmark by 3.5% in the year.

In 2008/09, the falls in European property market values were broadly similar to those experienced in the UK. Aberdeen Property Investors' European property portfolio fell by 22.8% net of fees in terms of its euro denomination. However, the Fund's investments are accounted for in sterling and these European indirect property investments showed a nil return when translated into sterling. The reason for this was a sharp appreciation of the euro against sterling during 2008/09.

Investment report

Property
12 months to 31 March 2009

	%
CB Richard Ellis – UK property	–22.0
IPD Benchmark	–25.5
RPI plus 4.5%	4.1
Aberdeen – European property	0.0
Eurozone HICP plus 5%	5.6

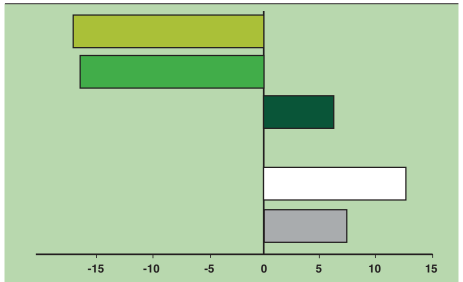


CB Richard Ellis Investors' target is to achieve a total real return of 4.5% per year net of inflation as measured by the Retail Price Index (RPI) and fees, averaged over the long run. The sharp downturn in UK commercial property prices since the summer of 2007 has meant that CB Richard Ellis Investors have underperformed so far against their RPI target.

Aberdeen Property Investors' target is to achieve a total real return net of fees of 5.0% per year above inflation as measured by the Eurozone Harmonised Index of Consumer Prices (HICP), averaged over three-year rolling periods. Aberdeen Property Investors outperformed against their target by an annualised 5.7% to 31 March 2009 when expressed in sterling terms.

Property
1 January 2007 to 31 March 2009 (27 months)

	%
CB Richard Ellis – UK property	–16.7
IPD Benchmark	–16.1
RPI plus 4.5%	6.4
Aberdeen – European property	12.7
Eurozone HICP plus 5%	7.0



Business plan

The Government's 10 principles for the management of final salary schemes requires funds to draw up a forward-looking business plan, including a training plan for the trustees and officers involved in their management and administration.

The Hampshire Pension Fund's business plan includes a commitment to review and revise the plan annually, and to evaluate performance against the action plan. The Panel last reviewed the plan in November 2008, and a copy of the plan is included at page 31.

The business plan approved in November 2007 included several actions for completion by March 2009. Progress during 2008/09 against these action points is summarised below.

Planned action	Deadline	Progress
Respond as necessary to Government consultation papers on the new-look Local Government Pension Scheme being planned for implementation from April 2008	Ongoing in the lead-in to April 2008	New scheme implemented as planned
Amend and re-publish the Fund's Governance Policy Statement, if necessary, and publish a Governance Compliance Statement once the Government has confirmed its best-practice principles for such statements – by 1 March 2008. The Government subsequently deferred the deadline for publication until 1 November 2008	November 2008	Incorporated into the Hampshire Pension Fund annual report and accounts 2007/08, which was published in September 2008
Consider and, if appropriate, agree alternative investments as recommended by the Fund's advisers	Ongoing	Now reached 10% of the portfolio at £250 million and further investments suspended until a further review in November 2009
Monitor the performance of the Fund's investment managers	Ongoing	Performance is monitored on a monthly basis and reviewed by the Pension Fund Panel in May and November each year
Review the Fund's Statement of Investment Principles	Annually in November	Agreed by the Pension Fund Panel in November 2008
Review this business plan and review progress against the action plan	Annually in November	Agreed by the Pension Fund Panel in November 2008
Review management fees and transaction costs	Annually in November	Reported to the Pension Fund Panel in November 2008
Keep Pension Fund Panel members' training needs under review	Ongoing	Opportunities for training seminars etc regularly made available to Pension Fund Panel members
Prepare for the next actuarial review of the Fund as at 31 March 2010	Ongoing	During 2008/9

Actions to March 2010

The business plan approved by the Pension Fund Panel in November 2008 included the following action plan:

- Monitor the performance of the Fund's investment managers.
- Consider and, if appropriate, agree alternative investments as recommended by the Fund's advisers, after review in May 2009.
- Publish a pension administration strategy, following consultation with the other employing authorities.
- Complete the following annual reviews – deadline November 2009:
  - the Fund's Statement of Investment Principles
  - the Fund's Funding Strategy Statement
  - the Governance Compliance Statement (if necessary)
  - this business plan, including reviewing progress against the action plan
  - the Fund's management fees and transaction costs.
- Keep Panel members' training needs under review.
- Prepare for the next actuarial review of the Fund as at 31 March 2010.

Membership report

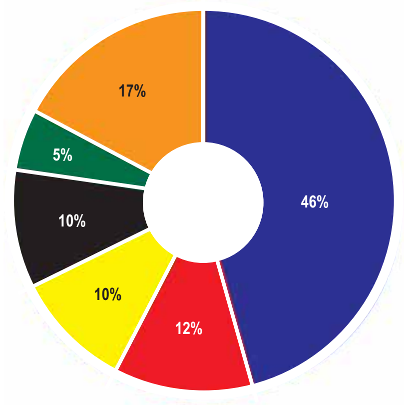
Who belongs to the Hampshire Pension Fund?

The prime purpose of the Hampshire Pension Fund is to provide pensions for employees of the County Council, the unitary authorities of Southampton and Portsmouth, and the 11 district councils in the Hampshire county area. These are 'scheduled bodies', which means their employees have a statutory right to be in the Scheme. Other scheduled bodies include Hampshire Police Authority, Hampshire Fire and Rescue Authority, the University of Portsmouth, Southampton Solent University and other colleges that were formerly part of the County Council, and those town and parish councils that have opted to join the Fund. In total, there are 148 scheduled bodies.

There are also 59 'admitted bodies' with 508 staff. These are voluntary organisations that have been accepted into the Scheme by the County Council, under its discretionary power to admit such organisations. Employees of contractors for jobs transferred from scheduled bodies since March 2002 can also be accepted into the Scheme. There are currently six of these 'transferee admitted bodies' with 543 staff.

Teachers, police officers and firefighters have separate non-funded pension arrangements. All other employees of the Fund's employers can pay into the Fund. Most new employees join automatically but can choose to opt out and make their own private pension arrangements if they wish. Local authorities can let their elected members opt in, up to age 75.

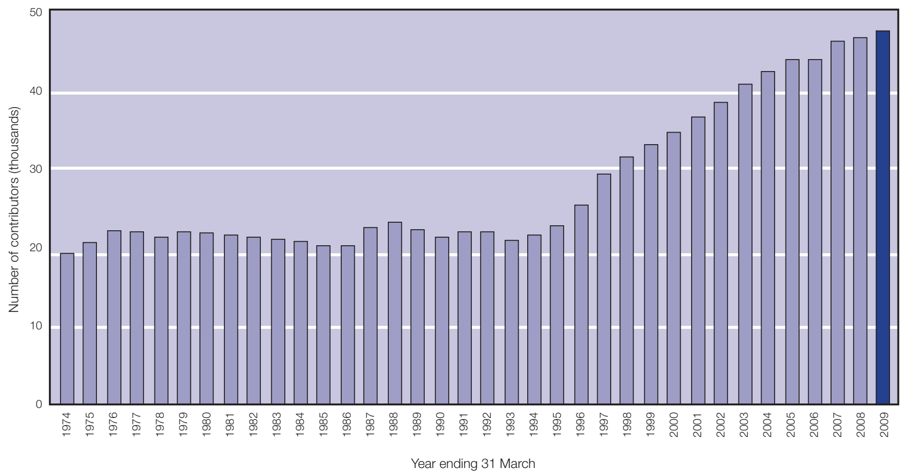
On 31 March 2009 there were 28,378 pensioners, 33,549 deferred pensioners, and 47,469 contributors.



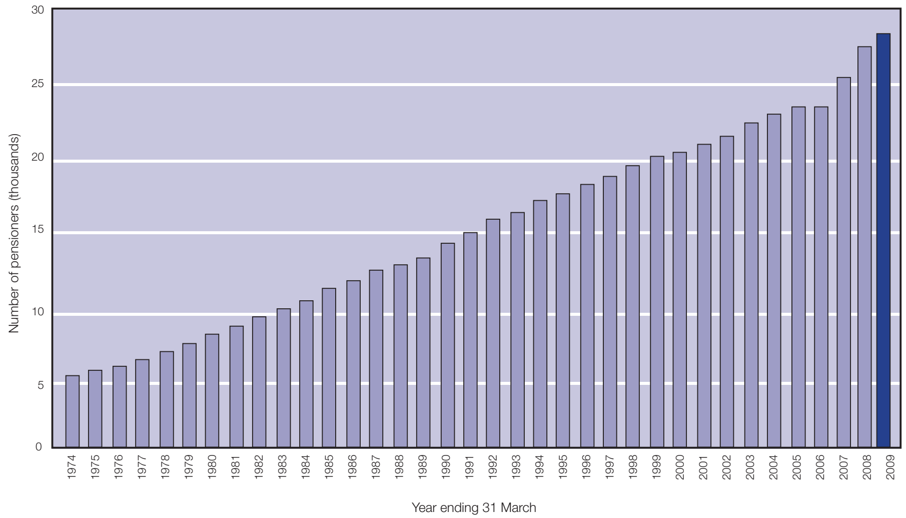
	Number of contributors	%
Hampshire County Council	21,885	46
Southampton City Council	5,457	12
Portsmouth City Council	4,816	10
District councils	4,680	10
Hampshire Police Authority	2,545	5
Other organisations	8,086	17
Totals	**47,469**	**100**

A full listing of contributing employers to the Hampshire Pension Fund is available on the following website: www.hants.gov.uk/finance/pensions

The number of contributors, which includes part-time staff, has risen steadily over recent years.



The number of pensioners to the Fund has continued to increase over time.



Membership report

What does membership cost and what are the benefits?

The Scheme is contracted out of the state second pension (S2P), and contributing employees and employers pay reduced national insurance. The Scheme operates tiered employee contribution rates. Employees pay a rising percentage dependent on their pay band. The rates that apply from 1 April 2009 are set out in the following table:

£0 – £12,600	5.5%
£12,600.01 – £14,700	5.8%
£14,700.01 – £18,900	5.9%
£18,900.01 – £31,500	6.5%
£31,500.01 – £42,000	6.8%
£42,000.01 – £78,700	7.2%
£78,700.01 or more	7.5%

In 2008/09, the employers' contribution into the Fund was equivalent to 18.1% of pensionable pay. Every three years the Fund's actuary, Hewitt Associates Limited, looks at the Fund's investments, future contributions from employees and commitments, to decide on the future level of employers' contributions. This is known as an actuarial valuation. An actuarial valuation of the Fund at 31 March 2007 was undertaken and published in March 2008. The actuarial position of the Fund is explained in more detail on page 17.

Employers' rates for the three years from 1 April 2008 – resulting from the 2007 valuation – are set out in the table below:

Year	% of pensionable pay
2008/09	18.1%
2009/10	18.6%
2010/11	19.1%

Benefits

The normal retirement age for all members is age 65. At retirement, members will receive:

- a pension of 1/80th of their final year's pay for each year of membership until 31 March 2008, and
- a lump sum of 3/80ths of their final year's pay for each year of membership until 31 March 2008, and
- a pension of 1/60th of their final year's pay for each year of membership after 1 April 2008.

In addition to the lump sum for membership before 1 April 2008, members can give up part of their pension in exchange for a lump sum and will receive £12 for every £1 of pension given up. However, the total lump sum cannot be more than 25% of the fund value of the pension.

For information, the Pensions Advisory Service (TPAS) values retirement benefits in defined benefit schemes, such as the Hampshire Scheme, at £20 for each £1 of pension, irrespective of the individual's age. For all pensions already in payment, the value will be £25 for each £1 of pension.

At 31 March 2009, 120 (or 0.1%) of the total 109,396 members in the Scheme had earned pension rights valued in excess of £1 million.

The average annual pension paid in 2008/09 was £3,727.

Additional voluntary contributions

Scheme members can pay additional voluntary contributions (AVCs) if they wish to supplement their pension or get an extra tax-free retirement lump sum. The Fund's current main 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.

Retirement age

Normal retirement age under the Scheme is 65, but members can choose to retire from age 60 and receive their benefits immediately, although these may be reduced for early payment.

Members can also retire below age 60 but this is only possible with their employer's permission, or if they are made redundant or retired in the interests of efficiency.

From 1 April 2010, the earliest age that members can retire, with their employer's permission and with immediate payment of their pension benefits, is age 55 for all members. Members who joined the Scheme before 1 April 2008 can retire between age 50 and 55 before 1 April 2010, with their employer's permission.

A total of 1,546 Scheme members retired during 2008/09, with an average retirement age of 61.4. Of this number, a total of 170 (or 11%) took some form of early retirement mainly due to redundancy, ill health, or on compassionate grounds.

Administration performance

In 2006, Pensions Services undertook an extensive operational review, drawing on best practice from both the public and private sectors. As a result:

- a First Level Support Team was created to be a single point of contact for all telephone enquires on 01962 845588. It receives around 20,000 calls a year and has a target of answering 80% of them, without having to transfer the caller. Currently this is achieved for over 95% of calls.
- a single email inbox was created, which now receives over 5,000 emails a year. The target is to ensure comprehensive replies are sent in over 90% of cases within 48 hours. This is currently being exceeded.
- a dedicated Service Development Team was created to support our 213 Scheme employers and better communicate with our members.

To ensure a consistent service is provided for all our members and employers, the basis of our performance measurement was changed. It is now in line with all the regulatory requirements, as well as the sector's best practice. Targets have been set for 2009/10 and these will be closely monitored each month.

Financial performance

The money paid into the Fund during 2008/09 by contributors was £64.8 million more than the amount paid out to pensioners. In other words, there was a positive cash flow. This net inflow of cash exceeded the 'Net additions from dealings with members and employers' budget for 2008/09 of £61.0 million, by 6.2%.

Complaints and appeals

Full procedures are in place to deal with complaints and appeals on Fund matters.

In 2008/09, one complaint was received from among the Fund's 47,469 contributors, nine from 28,378 pensioners and two from 33,549 deferred members. Two complaints were accepted as valid and procedures have been changed where necessary to prevent a recurrence.

The County Council decided two appeals as an administering authority in 2008/09. One was upheld and the other was not accepted.

Statement by the Fund's actuary

Introduction

The Scheme Regulations require a full actuarial valuation every third year. The purpose of this is to establish that the Hampshire Pension Fund is able to 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 as at 31 March 2007, in accordance with regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

Actuarial position

1 Rates of contribution paid by participating employers during 2008/09 were based on the actuarial valuation carried out as at 31 March 2007.

2 The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation, with the market value of the Fund's assets at that date (of £2,917.4 million) covering 77% of the promised benefits allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher-than-expected investment returns on the Fund's assets, along with additional employers' contributions. These were partially offset by the impact of changes in the actuarial assumptions used to reflect higher price-inflation expectations and better life expectancy.

3 The valuation also showed that the required level of contributions to be paid to the Fund by participating employers (in aggregate) with effect from 1 April 2008 was as set out opposite:

- 14.5% of pensionable pay to meet the promised benefits arising in respect of service after the valuation date

plus

- 5.4% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years from 1 April 2008

less

- 0.7% of pensionable pay in respect of assumed additional investment returns over the period to 1 April 2011.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The 'Rule of 85' retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.

- Changes were made consistent with the Finance Act 2004.

- A new Scheme has been put in place, which came into effect as at 1 April 2008. All existing members transferred to the new Scheme as at that date.

The cost of future benefit promises had increased compared with the costs identified in the previous valuation. This was due to the combined impact of benefit changes, changes in economic conditions and better life expectancy.

4 The employers participating in the Fund are split into a few groups for funding purposes. Employers within each group pay the same rate of contribution. The rates of contribution payable by each participating employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 28 March 2008, which is appended to our report of the same date on the actuarial valuation.

If the assumptions are borne out in practice, the rate of contribution for each employer would increase as at 1 April 2011 due to the ending of the allowance for assumed additional short-term investment returns. It would then continue at the resultant level for the balance of the recovery period used for that employer, before reverting to the relevant long-term rate. In practice, the contribution rates will be reviewed at the next actuarial valuation, which is due to be carried out as at 31 March 2010.

5 The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.

6 The main actuarial assumptions were as follows:

Discount rate for periods		
In service		
	Admitted bodies	6.20% a year
	Scheduled bodies	6.20% a year
Left service		
	Admitted bodies	5.20% a year
	Scheduled bodies	6.20% a year
Short-term investment returns until 1 April 2011		
	Equity/property assets	7.05% a year
	Other investments	5.20% a year
Rate of general pay increases		4.70% a year
Rate of increase to pensions in payment		3.20% a year
Valuation of assets		market value

7 This statement has been prepared by the actuary to the Fund, Hewitt Associates Limited, for inclusion in the accounts of Hampshire County Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report, which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, Hampshire County Council, in respect of this statement.

Hewitt Associates Limited *1 June 2009*

What the accounts show

The accounts show that the Fund was worth £2.396 billion at 31 March 2009. This was a decrease of £0.552 billion compared with the previous year.

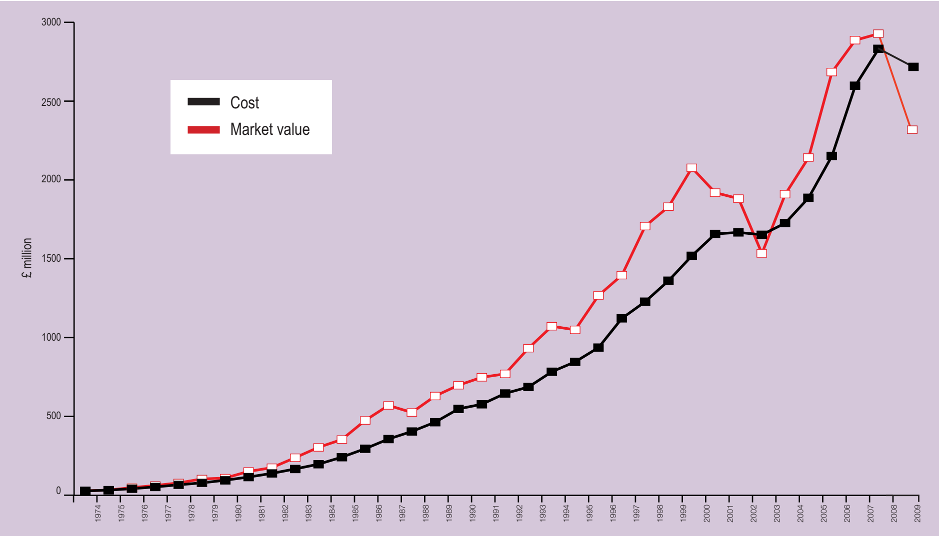
Employees' contributions totalled £54.5 million, a 14.3% increase over 2007/08. The average employee contribution rate increased from 6.0% to 6.5%, following the introduction of tiered employee contribution rates from April 2008. The average number of contributors in the Fund increased from 46,220 to 47,469 during 2008/09.

Employers' contributions at £152.3 million were 6.6% higher, reflecting both a pay award of 2.75% for all contributors from 1 April 2008 and the 2.3% increase in employer contribution rates from 17.7% to 18.1% of pensionable pay. This was the first of the annual step increases in employer rates from the 2007 valuation.

Pensions paid totalled £113.8 million, a rise of 8.7% compared with the previous year. Pensions were subject to an annual inflation rise of 3.9% in April 2008. The number of pensions in payment rose by 3.0% and these new pensions were of a higher value. Lump sums paid rose by 7.4% from £29.8 million to £32.0 million. Changes in regulations effective from April 2006 allow members to commute part of their annual pension to increase their tax-free lump sum. Most of this increase arose from an increase in the amount of pension being given up in exchange for additional lump sum. As a result of the commutation, about £0.5 million a year less will be paid in ongoing pension payments.

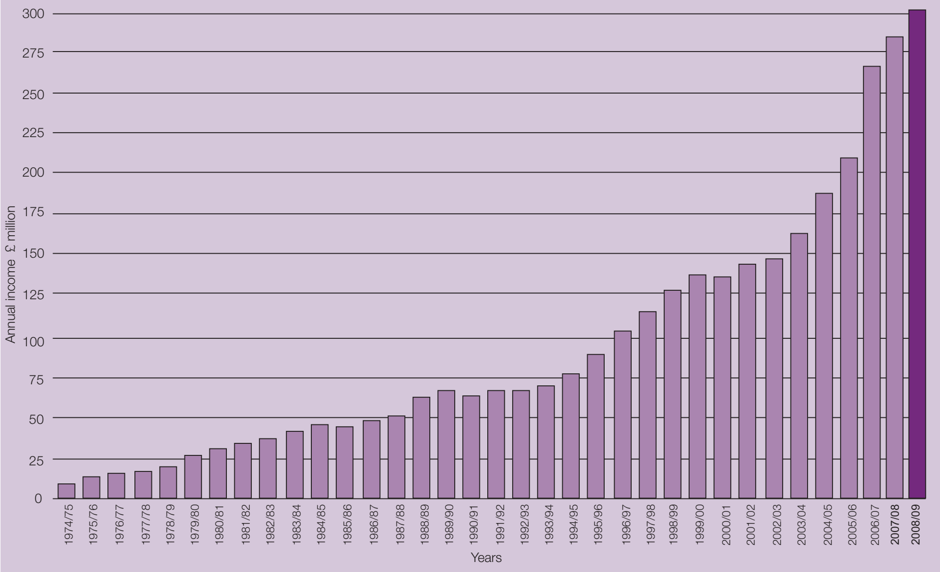
How the Fund has grown

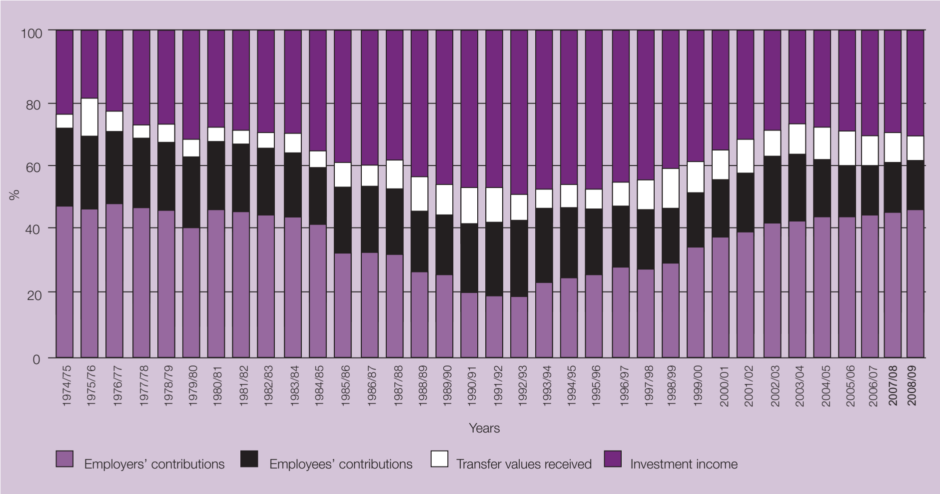
The value of the Fund fell sharply during 2008/09, reflecting the impact of the global credit crisis, as the diagram below shows. Nonetheless, the Pension Fund's market value this year still remains higher than four years ago. Moreover, world financial markets have been showing signs of recovery over recent months and the total value of the Fund had increased to £2.8 billion at 31 August 2009. This is a rise of £379 million (15.9%) over the five months since 31 March 2009.



Annual income

The Fund's income has continued to increase, as the diagrams below show.





Financial statements

Fund account	See note	2007/08 as stated £'000	2007/08 as adjusted * £'000	2008/09 £'000
Dealings with members and employers				
Contributions				
– from employers				
– normal	4	136,433	99,434	118,586
– augmentation	4	6,464	6,464	4,313
– deficit funding	4	n/a	36,999	29,442
– from members				
– normal	4	46,281	46,281	52,931
– additional voluntary	4	1,441	1,441	1,584
Transfers in				
Individual transfers in from other schemes		16,907	16,907	13,328
Benefits				
Pensions	4	-104,739	-104,739	-113,835
Commutation of pensions and lump-sum retirement benefits	4	-28,098	-28,098	-29,516
Lump-sum death benefits	4	-1,681	-1,681	-2,510
Payments to and on account of leavers				
Group transfers out to other schemes		-960	-960	0
Individual transfers out to other schemes		-13,111	-13,111	-7,475
Refunds of contributions		-53	-53	-35
State scheme premiums		4	4	7
Administrative expenses	5	-1,877	-1,877	-1,971
Net additions from dealings with members and employers		**57,011**	**57,011**	**64,849**
Returns on investments				
Investment income				
Interest from fixed-interest securities		4,622	4,622	5,471
Dividends from equities		57,837	57,837	61,702
Income from index-linked securities		49	49	55
Income from pooled investment vehicles		1,352	1,352	1,067
Net rents from properties		6,347	6,347	8,181
Income from property unit trusts		782	782	1,242
Income from other alternative investments		28	28	108
Interest on cash deposits		12,133	12,133	6,472
Other		589	589	663
Change in market value of investments				
Realised		99,767	99,767	-269,756
Unrealised		-192,634	-196,529	-418,574
Taxation	6	-3,931	-3,931	-4,844
Investment management expenses	5	-9,490	-9,490	-8,516
Net returns on investments		**-22,549**	**-26,444**	**-616,729**
Net increase (decrease) in the Fund during the year		**34,462**	**30,567**	**-551,880**
Add opening net assets of the Fund		**2,917,413**	**2,917,413**	**2,947,980**
Closing net assets of the Fund		**2,951,875**	**2,947,980**	**2,396,100**

Net asset statement	See note	31 March 2008 as stated £'000	31 March 2008 as adjusted * £'000	31 March 2009 £'000
Investments at market value				
Fixed-interest securities	13	138,463	138,275	109,947
Index-linked securities	13	1,002	1,001	3,868
Equities	8,11,13	1,699,486	1,696,404	1,194,721
Pooled investment vehicles:				
– index-linked	9,13	634,592	634,272	616,714
– equities	9,13	41,222	41,042	23,545
Property	13	117,050	117,050	93,550
Property unit trusts	13	67,749	67,749	62,918
Other alternative investments	13	52,153	52,029	105,679
Cash deposits	13	176,348	176,348	164,527
Total invested		**2,928,065**	**2,924,170**	**2,375,469**
Net current assets and liabilities				
Contributions due from employers		10,865	10,865	9,509
Other current assets		16,172	16,172	15,345
Current liabilities		-3,227	-3,227	-4,223
Net assets – balance of Fund		**2,951,875**	**2,947,980**	**2,396,100**
Reconciliation of net movement of assets of the Fund				
Opening net assets		2,917,413	2,917,413	2,947,980
Net income available for investment:				
– net additions from dealings with members		57,011	57,011	64,849
– investment income less expenses		70,318	70,318	71,601
Revenue surplus		**127,329**	**127,329**	**136,450**
Change in market value of investments		-92,867	-96,762	-688,330
Closing net assets		**2,951,875**	**2,947,980**	**2,396,100**

* In accordance with the Code of Practice, from 2008/09 the normal employers' contributions that relate to deficit funding must be separately identified in the Fund account, and investments must be valued at their fair value in the net asset statement. Where there is an active market, the bid price is usually the appropriate quoted market price. The 2007/08 figures have been adjusted in order to provide comparative figures on the same basis as 2008/09.

Financial statements

Notes to the Pension Fund Accounts

1 Operations and management

The Hampshire Pension Fund covers 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 199 other scheduled, admitted and transferee admitted bodies.

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 2008/09, employees contributed £54.5 million and employers £152.3 million to the Fund. Contributions are calculated as a percentage of pensionable pay. As at 31 March 2009, 28,378 people were receiving pensions from the Fund.

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 2008/09, the investments were managed by companies based in London:

	As a proportion of Fund's overall value
- Aberdeen Asset Management Limited	17.9%
- State Street Global Advisors	12.9%
- Legal & General Investment Management	12.9%
- Newton Investment Management	11.7%
- Schroder Investment Management	9.9%
- AllianceBernstein	7.8%
- Western Asset Management	5.3%
- GLG Partners	5.1%
- CB Richard Ellis Investors	4.3%
- Aberdeen Property Investors	2.0%

The Fund also employs the services of Northern Trust as its global custodian and Bramdean Asset Management as its adviser on alternative investments.

The Pension Fund Panel directs the management of the Fund. This consists of nine county councillors. Co-opted to the Panel are also 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 have full voting rights. Two representatives of the Fund's pensioners and contributors are co-opted to the Panel, also with full voting rights. There is also an independent adviser who attends Panel meetings. The Panel meets the managers regularly to discuss performance and approve their management strategies. Member attendance at the Pension Fund Panel's six meetings held during 2008/09 averaged 78%.

2 Accounting policies

Accounting standards

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2008 issued by the Chartered Institute of Public Finance and Accountancy. The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits. See note 3 for the actuarial position of the Fund, which does take account of such liabilities.

In accordance with the 2008 Pension Statement of Recommended Practice (SORP), the 2007/08 investment figures have been restated at their fair value which has been taken as the bid price where there is an active market.

This accounting change has reduced the reported market value of investments by £3.9 million, which in the context of the Fund's total assets at 31 March 2008 of £2.948 billion (as adjusted) is not significant.

Basis of preparation

Income and expenditure are generally credited and debited to the revenue 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 as recommended in the pension Statement of Recommended Practice (SORP). Additional voluntary contributions, which are separately invested, are not included in the Pension Fund Accounts in accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No. 1831).

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 2009
- 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 2009 translated into sterling at the rate that day
- the UK property portfolio – open-market value at 31 March 2009 as estimated by the Fund's property advisers.

Acquisition costs

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

3 Actuarial position

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 2007.

The valuation at 31 March 2007 showed that the Fund's financial position had improved since the previous valuation at 31 March 2004 in relation to benefits promised for service before the valuation date. This was mainly as a result of higher-than-expected investment returns and additional employers' contributions. The value of the Fund's assets was enough to cover 77% of the promised benefits earned to date by the Fund's members (that is, a 77% funding level). The cost of future benefit promises had increased compared with the costs identified in the previous calculation. This was due to the combined impact of benefit changes, changed economic conditions and better life expectancy.

The actuary calculated that a phased increase in the employers' contribution rates would be necessary to meet the Fund's long-term liabilities. The rate was 17.7% of pensionable pay in 2007/08, and 18.1% in 2008/09, rising to 18.6% in 2009/10 and 19.1% in 2010/11.

Financial statements

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 2007 actuarial valuation were as follows:

Discount rate for periods	
In service	
Admitted bodies	6.20% a year
Scheduled bodies	6.20% a year
Left service	
Admitted bodies	5.20% a year
Scheduled bodies	6.20% a year
Short-term investment returns until 1 April 2011	
Equity/property assets	7.05% a year
Other investments	5.20% a year
Rate of general pay increases	4.70% a year
Rate of increase to pensions in payment	3.20% a year
Valuation of assets	market value

The next actuarial valuation of the Fund is due to take place at 31 March 2010.

4 Contributions and benefits

The figures in the revenue account are broken down in the following table:

	2007/08 £'000	2008/09 £'000
Contributions receivable		
Administering authority	69,856	78,728
Scheduled bodies	114,067	120,243
Admitted bodies	6,696	7,885
Total	**190,619**	**206,856**
Benefits payable		
Administering authority	50,618	55,835
Scheduled bodies	79,432	85,089
Admitted bodies	4,468	4,937
Total	**134,518**	**145,861**

The funding objective is to achieve and maintain a funding level of 100% of liabilities. For this reason, a certain proportion of employer contributions received will be used to reduce an existing deficit. The 2007 actuarial valuation stated that the deficit could be eliminated by improving the funding of the scheme for a period of 25 years from 1 April 2008. In accordance with the 2008 Pension Statement of Recommended Practice (SORP), the normal employers' contributions that relate to this deficit funding have been separately identified in 2008/09, and the 2007/08 normal employers' contribution figure has been similarly split for comparative purposes.

5 Administrative and investment management expenses

The figures in the revenue accounts are broken down in the following table:

	2007/08 £'000	2008/09 £'000
Administrative expenses		
Pension administration costs and other overheads	1,717	1,797
Office and other administrative expenses	160	174
Total	**1,877**	**1,971**
Investment management expenses		
Investment management expenses	7,761	6,654
Property managers' expenses	1,059	996
Actuary's, custodian's and other fees	670	866
Total	**9,490**	**8,516**

6 Taxation

The Fund is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted, as in the United States, Australia, Norway, and the Netherlands.

7 Investment returns

The return on the Fund in 2008/09 was -19.7%.

In the three years to 31 March 2009, a return of -5.7% a year was achieved.

8 Ten largest equity holdings

At 31 March 2009 the 10 largest equity (company share) holdings by market value were as follows:

	£'000
Vodafone plc	40,680
Royal Dutch Shell plc	29,487
BP plc	28,855
GlaxoSmithKline plc	24,559
BG Group plc	21,866
British American Tobacco plc	20,332
Standard Chartered plc	18,060
Centrica plc	15,977
AstraZeneca plc	15,891
Rio Tinto plc	15,398

9 Pooled investment vehicle holdings

At 31 March 2009, pooled investment vehicle holdings comprised the following:

	£'000
Index-linked	
SSGA Over 5-year index-linked gilts	308,685
Legal & General Over 5-year index-linked gilts	308,029
Total	**616,714**
UK equities	
Aberdeen UK Emerging Companies	7,275
Aberdeen UK Mid-Cap Companies	5,463
Schroder Institutional UK Smaller Companies	4,960
Schroder Recovery A	4,067
Mellon Fund Manager Newton Discovery	1,780
Total	**23,545**

Financial statements

10 Concentration of investments

During the year, no individual investment exceeded 5% of the total value of net assets of the Fund.

11 Analysis of UK equity investments by industrial sector

	£'000
Oil and gas	82,763
Basic materials (chemicals, mining, forestry)	47,142
Industrials (aerospace, defence, electronics, engineering)	52,030
Consumer goods (vehicles, household goods)	50,359
Health care (health care, pharmaceuticals)	46,513
Consumer services (general retailers, leisure, media)	76,586
Telecommunications (fixed line and mobile)	54,228
Utilities (electricity, gas, water suppliers)	23,918
Financials (banks, insurance, real estate, investment trusts)	102,625
Technology (computer hardware and software)	16,011
Total	**552,175**

12 Unlisted investments

All investments held by the Fund at 31 March 2009 were listed on recognised stock exchanges, except the following:

	£'000
Indirect European property	50,137
Private equities	52,679
Hedge funds	20,066
Indirect UK property	12,781
Renewable energy	4,402
Other alternative investments	28,532
Total	**168,597**

These holdings represent 7.0% of the value of the Fund.

13 Investment transactions

See table opposite.

14 Contingent liabilities

The Fund had no contingent liabilities on 31 March 2009.

15 Capital commitments

The Fund had the following capital commitments at 31 March 2009:

	Committed £'000	Invested at 31 March 2009 £'000
Private equities	102,612	39,171
Indirect European property	51,908	29,020
Renewable energy	9,880	4,688
Other alternative investments	57,940	22,778
Total	**222,340**	**95,657**

13 Investment transactions

	Market value at 1 April 2008 £'000	Purchases £'000	Sales £'000	Change in value £'000	Market value at 31 March 2009 £'000
UK fixed-interest bonds	12,156	1,889	-4,254	298	10,089
Overseas fixed-interest bonds	126,119	189,686	-224,785	8,838	99,858
Overseas index-linked bonds	1,001	2,445	0	422	3,868
UK equities	822,883	221,553	-190,669	-301,592	552,175
North America equities	257,631	197,627	-166,135	-58,680	230,443
Japan equities	95,497	51,764	-51,266	-27,596	68,399
Europe equities	314,976	127,381	-103,045	-107,250	232,062
Other overseas equities	205,417	65,419	-104,605	-54,589	111,642
Pooled investment vehicles:					
- index-linked	634,272	0	0	-17,558	616,714
- equities	41,042	21,205	-24,452	-14,250	23,545
Property	117,050	13,115	0	-36,615	93,550
Property unit trusts	67,749	14,179	0	-19,010	62,918
Other alternative investments	52,029	70,305	0	-16,655	105,679
Cash movements allowing for currency hedging	176,348	245,889	-213,617	-44,093	164,527
Total	**2,924,170**	**1,222,457**	**-1,082,828**	**-688,330**	**2,375,469**

In addition to the above value of the Fund's total investment assets of £2.375 billion as at 31 March 2009, there were derivative contracts with an unrealised fair value of £0.413 million.

Financial statements

16 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 199 other scheduled, admitted and transferee admitted bodies (191 in 2007/08).

The Pension Fund pools its surplus cash balances with the County Council's to gain the benefits of scale. Interest was paid to the Pension Fund in 2008/09 at the average monthly seven-day rate.

Transactions with these related parties are shown below.

	2007/08 £'000	2008/09 £'000
Hampshire County Council		
Interest received	-2,973	-1,836
Temporary lending 31 March	52,440	70,939
Administration charge	1,792	1,873

17 Property

All the Fund's directly owned property is held as freehold. In December each year the directly held properties in the UK property portfolio are independently valued by Colliers CRE, Chartered Surveyors. All properties held in the UK property portfolio are subject to leases with upward-only rent reviews every five years.

18 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 2009 is shown below. (This summary has not been subject to audit and the Fund relies on the individual contributors to check that deductions made on their behalf are accurately reflected in the statements provided by the AVC providers.)

	Zurich £'000	Equitable Life £'000	Total £'000
Contributions received in year	1,591	41	1,632
Market value at 31 March 2008	6,375	2,249	8,624
Market value at 31 March 2009	6,535	1,577	8,112

Statement of responsibilities for the Hampshire Pension Fund Accounts

Fund's responsibilities

The Fund is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The County Treasurer of Hampshire County Council fulfils that responsibility
- to manage its affairs so as to secure economic, efficient and effective use of resources and safeguard its assets
- to approve the Hampshire Pension Fund's statement of accounts.

County Treasurer's responsibilities

The County Treasurer is responsible for preparing the Hampshire Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2008 ('the Code of Practice').

In preparing this statement of accounts, the County Treasurer has:

- selected suitable accounting policies
- applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The County Treasurer has also:

- kept proper accounting records, which are up-to-date
- taken reasonable steps to prevent fraud and other irregularities.

County Treasurer's statement

I certify that the statement of accounts as set out on pages 21 to 29 presents fairly the financial position of the Hampshire Pension Fund as at 31 March 2009 and its income and expenditure for the year ended 31 March 2009.

J C Pittam BSc CPFA
County Treasurer

Audit

In accordance with international auditing standards, the auditor reports to those charged with governance before issuing an audit opinion. The Hampshire Pension Fund accounts form part of the statutory accounts of the County Council. An opinion of the County Council's accounts, including the accounts of the Hampshire Pension Fund, will be issued after the County Council's Audit Committee has considered the auditor's report on 23 September 2009.

Business Plan

Mission and objectives

The County Council, as administering authority for the Hampshire Pension Fund, has delegated responsibility for managing the Fund's investments to the Pension Fund Panel through its Audit Committee. The Panel consists of nine county councillors, a member to represent the unitary city councils of Portsmouth and Southampton, a member to represent the 11 district councils, and two representatives of the Fund's pensioners and contributors. All Panel members have voting rights. There is also an independent adviser to the Panel, Mr Harvey Cole, who attends all Panel meetings.

The Panel's mission is to provide an efficient and effective pension scheme for all employees and pensioners of all eligible employers in Hampshire, in accordance with the requirements of the legislation for the Local Government Pension Scheme (LGPS).

The Panel's objectives

- To achieve a 100% funding level over the long term, which means that all current and future fund liabilities can be met.
- To maintain a stable employers' contribution rate in the long term.
- To respond promptly to legislative changes affecting the LGPS and pension provision generally.
- To comment fully on consultation papers dealing with pension matters in the interests of the Fund's participating employers and members within the deadlines set.
- To make sure that the Fund follows best practice as recommended by the Government, the Local Government Pensions Committee (LGPC), the National Association of Pension Funds (NAPF) and other organisations specialising in pensions.
- To keep abreast of all developments affecting the LGPS by undertaking training and/or taking advice from external fund managers, external consultants and County Council officers as appropriate.
- To make arrangements for keeping the Fund's participating employers and members fully informed about matters affecting them.

The funding level and employers' contribution rate

The Panel seeks to achieve a 100% funding level and stable contribution rate by:

- drafting and maintaining a Funding Strategy Statement, in partnership with the Fund's actuary and participating employers. This sets out the background and parameters to be used by the actuary when carrying out actuarial valuations, and the duties of the County Council as administering authority and the Fund's other employers
- commissioning a full actuarial valuation of the Fund every three years as required by law to determine employers' contribution levels. The actuary completed a valuation of the Fund at 31 March 2007 during 2007/08 – the next actuarial valuation of the Fund is due to take place as at 31 March 2010
- arranging interim actuarial valuations if developments mean that the funding level can be expected to have changed
- commissioning an asset/liability study following valuations or as necessary to help determine the best asset allocation needed to meet the Fund's liabilities
- seeking tenders for actuarial and consultancy services – the current actuary is Hewitt Associates Limited, who were re-appointed for a five-year period with an option to extend for up to a further five years, after a tender process completed in spring 2005
- where an actuarial valuation reveals a past service deficit, agreeing employers' contributions with the actuary to recover the deficit.

Investment of the Fund

The Panel seeks a return on the Fund's investments which will enable 100% funding to be achieved and its liabilities to be met with a stable employers' contribution rate. Hewitt Associates Limited advised after their most recent asset/liability study in 2005 that this means aiming to achieve an overall investment return 2.5% a year above that on a low-risk portfolio, (defined as a portfolio invested 85% in index-linked gilts and 15% in fixed-interest gilts). The Panel aims to achieve this by:

- using the results of asset/liability studies and other analyses to set benchmark asset allocations and performance targets for external investment managers
- reviewing managers' performance against those targets over three- to five-year rolling periods at Panel meetings in the spring and autumn of each year – performance will also be monitored over one-year periods at those meetings
- reviewing annually in the spring the size of and need for each manager's portfolio in the light of their performance in each financial year
- appointing investment managers for standard periods of five years, with options to extend for a further five years subject to satisfactory performance, although all such appointments may be terminated at any time with one month's notice. Contracts will not normally be terminated in the first three years for below-target performance
- reviewing the level of transaction costs (brokerage and stamp duty) incurred in the previous 12 months by the external managers on the Fund's behalf in the autumn of each year
- delegating to the County Treasurer responsibility for monitoring the managers' performance between Panel meetings.

Arrangements for investing additional voluntary contributions (AVCs)

The Panel aims to make sure there is a wide and varied selection of high-performing investment options for fund contributors who wish to make additional voluntary contributions (AVCs).

The current AVC providers for contributors to the Fund are Zurich and Equitable Life. The performance and options offered by these providers will be reviewed by the Panel as necessary.

Business Plan

Legislative changes

The Panel aims to respond promptly to legislative changes with implications for the management and administration of the Fund by:

- closely monitoring new legislation affecting the LGPS or pension provision generally – this role is delegated to the County Treasurer
- considering reports on the implications for the Fund of relevant draft legislation
- agreeing any actions necessary to ensure full compliance when the final legislation is enacted, including meeting any deadlines.

Consultation papers

The Panel aims to play an active role in responding to and commenting on consultation papers on pensions matters on behalf of fund employers and members. In doing so it seeks to ensure high standards of corporate governance and best practice, and to further the best interests of contributors and pensioners.

Best practice

The Panel will ensure that the Fund follows best practice as recommended by the Government, the Local Government Pensions Committee (LGPC), the National Association of Pension Funds (NAPF), the Chartered Institute of Public Finance and Accountancy (CIPFA) and other organisations specialising in pensions matters. It has delegated responsibility for achieving this to the County Treasurer.

Decision-making

The Panel will take advice as necessary to ensure that all decisions are in the best interests of the Fund and its members. Advice is provided as necessary by:

- the County Treasurer and his staff
- the actuary
- the Fund's external investment managers
- the Fund's independent external adviser and sounding board, Mr Harvey Cole
- other consultants.

Developments and training plan

The Panel aims to keep abreast of all developments affecting the LGPS by undertaking training and/or taking advice when necessary from external fund managers, external consultants and County Council officers.

The Panel also expects the County Treasurer and relevant members of his department (who are the Panel's main advisers) to keep up-to-date with developments in pensions and investment matters and to undertake training as required. The County Treasurer's Department has been given the 'Investor in People' award, which shows its commitment to identifying and providing for learning and development opportunities for its staff.

Communications with participating employers and Fund members

The Panel will make arrangements to keep the Fund's participating employers and members fully informed about matters that affect them by publishing:

- an annual report on the Fund for each financial year, to be available for an AGM of the Fund's employers held in September of each following financial year
- an annual leaflet for the Fund's pensioners and contributors which will contain key information about the management and investment of the Fund, changes and developments in the LGPS, service standards and contact points
- an annually updated employees' guide to the Scheme
- an annual newsletter to pensioners.

Review and evaluation of business plan

The Panel will review and revise the business plan annually in November and will evaluate performance against the action plan.

The latest action plan for the period to March 2010 is included on page 12.

Funding Strategy Statement

The Fund's Pension Fund Panel undertook its latest substantive review of the Funding Strategy Statement (FSS) in November 2007.

Introduction

The Local Government Pension Scheme (Amendment) Regulations 2004 requires the Hampshire Pension Fund to prepare and publish a Funding Strategy Statement (FSS). The Fund's actuary must take this statement into account when setting employers' contribution rates.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued detailed guidance on the content and format of an FSS. This guidance was followed in preparing this document.

This FSS should be read in the context of the Fund's Statement of Investment Principles (SIP), which sets out in detail the Fund's investment arrangements and strategy. The current version of this is attached for information on pages 41 to 44.

Purpose of the Funding Strategy Statement

The FSS has two main purposes:

- To set out clearly the Fund's strategy for how it intends to meet its liabilities over the long term.
- To explain how the Fund will try to maintain stable contribution rates from employers.

Aims of the Fund

The Fund has four main aims:

- To make sure the Fund can always meet its liabilities.
- To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers.
- To manage the employers' liabilities effectively.
- To maximise the income from investments within reasonable risk parameters.

These aims are explained in more detail below.

To make sure the Fund can always meet its liabilities

The Fund's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure liabilities can be met over the long term.

Hampshire County Council as administering authority will make sure that the Fund always has enough cash available to pay pensions, transfer values to other pension funds, and other costs and expenses. Such expenditure will normally be met from incoming contributions from employees and employers and investment income to avoid the cost of selling any of the Fund's investments. The position is reviewed every three months to make sure enough cash is available to meet its obligations.

To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers

Achieving stability in employers' contribution rates requires investment in assets that 'match' the Fund's liabilities. In this context, 'match' means behaving in a similar manner to the liabilities as economic conditions alter. Index-linked and fixed-interest investments are the best match for the Fund's liabilities.

Other asset classes, such as shares and property, offer the potential for higher long-term rates of return. A substantial proportion of the Fund's investments is held in these asset classes with the aim of increasing investment returns. However, these asset classes are more risky and can lead to volatile returns over short-term periods.

This short-term volatility in investment returns can lead to similar volatility in the Fund's solvency level in successive actuarial valuations, which in turn can mean volatility in employers' contribution rates. Such volatility can be reduced by the use of smoothing adjustments as advised by the actuary.

Maintaining stability in employers' contribution rates can run counter to the primary aim of ensuring solvency. There is a need to strike a balance between the investment policy, smoothing adjustments used when carrying out actuarial valuations, and the stability of employers' contribution rates from one valuation period to the next.

The position can be even more volatile for admitted bodies whose participation in the Fund is for a fixed period (for example, non-local authority employers awarded contracts to provide local authority services), where the use of smoothing adjustments is less appropriate.

To manage the employers' liabilities effectively

The County Council as administering authority makes sure that the Fund's liabilities are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law. These determine the employers' contribution rates required to make sure liabilities can be managed effectively.

To maximise the income from investments within reasonable risk parameters

Returns should be higher over the long term than those from index-linked stocks by investing in other asset classes such as shares, property and alternative investments. However, investment is restricted as specified in the LGPS investment regulations.

Risk parameters are controlled by restricting investment to asset classes generally recognised as appropriate for UK pension funds. From time to time, the County Council reviews the potential risks of investing in the various asset classes with assistance from the Fund's actuary and its investment managers.

Following an asset/liability study by the actuary, the Fund's target is to achieve a long-term return of 2.5% a year above a low-risk portfolio. This is defined as a portfolio invested 85% in index-linked gilts and 15% in fixed-interest gilts.

An investment management structure has been developed and managers appointed to deliver this long-term return within an acceptable level of risk. Details of the structure and managers are included in the Statement of Investment Principles (SIP).

Purposes of the Fund

The purposes of the Fund are:

- to pay out pensions and benefits, transfer values for fund members moving to other schemes, and other costs, charges and expenses
- to receive contributions, transfer values for Fund members moving from other schemes, and investment income.

Responsibilities of the key parties

The three main parties with obligations to the Fund are the County Council as administering authority, the other employers in the Fund, and the Fund's actuary. The County Council delegates responsibility for fulfilling these obligations to the Pension Fund Panel.

The County Council's obligations

- To collect employers' and employees' contributions and, as far as possible, make sure they are paid by the due date as specified in the LGPS regulations.
- To invest surplus money in accordance with the LGPS regulations relating to the investment of funds.
- To make sure that cash is always available to meet the Fund's liabilities when they are due.
- To manage the valuation process in consultation with the Fund's actuary, agreeing appropriate timescales and providing accurate data.
- To monitor regularly the Fund's investment performance and funding level.
- To prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement.

Individual employers' obligations

- To deduct contributions from employees' pay, and make employers' contributions at the rates specified by the actuary, paying both to the County Council by the due date.
- To exercise discretions allowed to employers within the LGPS regulations.
- To pay for agreed added-years arrangements.
- To keep the County Council fully informed of all changes to membership, or other changes that could affect the solvency position.

The actuary's obligations

- To prepare actuarial valuations every three years as required by law, setting employers' contribution rates after agreeing assumptions with the County Council and having regard to this Funding Strategy Statement. The actuary will prepare the valuation in accordance with the latest guidance issued by the Faculty and Institute of Actuaries, as far as it applies to the LGPS.
- To prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Solvency

The County Council (through the Panel) will seek to ensure the Fund is solvent in the long term. Solvency is defined as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities, based on current actuarial methods and assumptions.

The 'projected unit actuarial method' of valuation will be used when assessing solvency, using assumptions appropriate for an ongoing pension fund and taking account of the strength of covenant of the participating employers.

The financial assumptions used to assess the funding level will have regard to the yields available on long-term fixed-interest and index-linked gilt-edged investments.

The County Council has agreed with the actuary that the assumptions will make short-term allowance for the higher long-term returns that are expected on the assets actually held by the Fund, and accepts the risks to the Fund of such an approach if those additional returns fail to materialise. The position will be reviewed in subsequent three-yearly actuarial valuations.

The County Council has also agreed with the actuary that explicit smoothing adjustments can be used on the asset values when measuring solvency (see also 'Smoothing' on page 39). The use of these adjustments is unlikely to be extended for employers who participate in the Fund for a fixed period only (for example non-local authority employers awarded contracts to provide local authority services).

Funding strategy

When an actuarial valuation shows that the Fund has a past service deficit based on this solvency measure, employers' contribution rates will be adjusted to achieve solvency over a period of years (the recovery period). In consultation with the Fund's actuary, the County Council has set a common maximum recovery period of 40 years for all employers in the Fund. The actual recovery period within this maximum of 40 years is determined at each actuarial valuation by balancing the Fund's solvency requirements against the financial strength of the Fund's main scheduled employers. A recovery period of 25 years has been used in the 2004 and 2007 valuations.

The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the County Council has agreed the current recovery period of 25 years. This is consistent with keeping employers' contribution rates as stable as possible. Were any member employers to participate in the Fund for a short period only, the County Council and actuary would be unlikely to agree to their having a recovery period longer than their remaining term of participation.

Employers in the Fund are currently split into two groups: scheduled bodies and admitted bodies. Two common employers' contribution rates are set for each of these groups, instead of individual contribution rates for each employer. The County Council accepts that this can give rise to cross-subsidies between employers. However, employers in the Fund are required to make upfront contributions determined by the actuary to cover the costs of early retirements, which is the major distinction between employers over time. The County Council and actuary continually review whether separate rates for individual employers or groups of employers are required.

At each actuarial valuation, the County Council will consider whether new higher employers' contribution rates should be payable immediately, or phased in. The County Council discusses with the actuary the risks of adopting such an approach. The current policy is to phase in over a maximum of three steps within each valuation period. However, such increases may be phased in over forthcoming and subsequent valuation periods, on a year-by-year basis, if unusual and difficult budgetary constraints make this necessary, or if other changes are expected, up to a maximum of six steps.

Identification of risks and counter measures

The County Council's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at individual risk level. Risks to the Fund will be monitored and action taken to limit them as soon as possible. The main risks are as follows:

Demographic

Demographic risks include changing retirement patterns and increasing life expectancy. The County Council will make sure that the Fund's actuary investigates these matters at each valuation, or more often if necessary. The actuary will report to the County Council as appropriate. The County Council will then agree with the actuary any necessary changes to the assumptions used in assessing solvency.

If significant demographic changes become apparent between valuations, the County Council will notify all participating employers of the likely effect on their contributions after the next full valuation, and will review the bonds that are in place for transferee admitted bodies.

Regulatory

Regulatory risks relate to changes in LGPS regulations, including the introduction of the 'new-look' Scheme from 1 April 2008, national pensions legislation and HM Revenue & Customs rules. The County Council will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The County Council will ask the Fund's actuary to assess the effect of any changes on employers' contribution rates.

The County Council will then notify employers of how these rule changes are likely to affect their contribution rates at the next valuation, if they are significant.

Governance

This covers the risk of unexpected structural changes in the Fund's membership (for example, if an employer closes their scheme to new entrants or if many members withdraw or groups of staff retire), and the related risk of an employer failing to notify the County Council promptly.

To limit this risk, the County Council requires the other participating employers to communicate regularly with it on such matters.

Statistical/financial

Risks to the Fund are posed by the performance of the various investment markets, the quality of the Fund's managers, variations in pay and price inflation, and the budget constraints faced by the Fund's employers.

The County Council regularly reviews these factors with the actuary to decide whether the assumptions for assessing solvency are still appropriate.

Investment returns

The assumption that investment returns will exceed those accruing on Government bonds introduces an element of risk, in that those returns may not materialise. To make sure the funding strategy remains realistic, the County Council will monitor the underlying solvency position on the assumption that there are no such excess returns.

Smoothing

The use of a smoothing adjustment to the value of the Fund's assets introduces an element of risk, in that the smoothing adjustment may not provide a correct measure of the underlying position. This adjustment is reviewed at the end of each valuation to ensure it remains within acceptable limits.

Recovery period

Allowing surpluses or deficiencies to be eliminated over a recovery period of up to 40 years entails a risk of too little action to restore solvency between successive actuarial valuations. The associated risk is reviewed with the actuary as part of the three-yearly valuation process, to ensure as far as possible that enough is done to restore solvency. In practice, the smoothing arrangements described above deal with this.

Stepping

Increasing employers' contribution rates in annual steps rather than immediately introduces a risk that too little will be done to restore solvency in the early years of the process. The County Council's policy is to limit the number of permitted steps to three, or, in exceptional circumstances, six. In addition, it accepts that a slightly higher final rate may be necessary at the end of the stepping process to help make up the shortfall.

Links to investment policy set out in the Fund's Statement of Investment Principles

The County Council has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles (available on the web on www.hants.gov.uk/finance/pensions or from the Corporate Finance Section, County Treasurer's Department, Hampshire County Council, The Castle, Winchester, SO23 8UB) and is included in this publication on pages 41 to 44.

Both documents are subject to regular review.

Future monitoring

The County Council plans to review this Statement as part of the three-yearly actuarial valuation process unless circumstances arise that require earlier action.

The County Council and the actuary will monitor the Fund's solvency position at regular intervals between valuations. Discussions will be held with the actuary to establish whether any changes are significant enough to require further action, such as informing employers of the need for different employers' contribution rates after the next valuation.

Statement of Investment Principles

The Fund's Pension Fund Panel undertook its latest substantive review of the Statement of Investment Principles (SIP) in November 2008.

Introduction

Hampshire County Council is the administering authority for the Hampshire Pension Fund, which covers employees of the County Council, two city (unitary) councils, 11 district councils, 134 other scheduled bodies, 59 admitted bodies, and six transferee admitted bodies. The total number of contributors is around 47,000 and there are approximately 28,000 pensioners.

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities of pension funds to prepare and review, from time to time, a written statement setting out the investment policy for their Fund.

This SIP has been drafted to comply with these regulations.

The Government has endorsed the recommendation in the Myners Report on Institutional Investment that SIPs should be strengthened to include details of the Fund's decision-making structure, investment objectives, asset allocation strategy, and advisers' and managers' mandates.

Types of investments to be held

The Fund can be invested in shares, bonds and other investments to limits defined in Schedule 1

of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended by subsequent regulations 1999, 2000, 2003, 2005 and 2008.

The main limits are:

- no more than 10% of each portfolio can be invested in any individual holding
- no more than 25% of the Fund can be invested in each manager's in-house unit trusts.

A comprehensive review of the Fund's investment management arrangements was completed in October 2006, and a new specialist management structure was put in place. This took effect on 1 January 2007.

The Pension Fund Panel agreed to increase the limit on contributions to private equity and indirect property partnerships from 5% to 10% of the total Fund with effect from 1 March 2008, so that investment in alternative investments of up to 10%, agreed as part of the new investment management structure, proceeded. The decision to increase the limit to 10% complies with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003.

The expected return on investments

The overall objectives when investing the Fund are:

- to achieve a 100% funding level, which means that all current and future Fund liabilities (pensions and other benefits) can be met in full for the foreseeable future
- to maintain a stable employers' contribution level, with a long-term target of around 200% of employees' contributions set for the actuary.

Following an asset/liability study in 2005 by the Fund's actuary, Hewitt Associates Limited, the Fund's target is to achieve a long-term return 2.5% a year above a low-risk portfolio, which is defined as a portfolio invested 85% in index-linked gilts and 15% in fixed-interest gilts.

Spread of investments

The Pension Fund Panel agreed the following specialist investment management structure, which took effect on 1 January 2007. The structure is designed to achieve the overall long-term target return without exposing the Fund to excessive risk.

Investment sector	Management style	% of Fund
UK equities	Low-risk active	20
UK equities	High-performance active	9
Global equities	High-performance active	36
Global bonds	Active	5
UK index-linked bonds	Passive	20
UK property	Direct and indirect	8
European property	Indirect	2
Total		100

Nine managers were appointed from 1 January 2007 for 11 separate mandates. Contracts are for an initial five-year period, but can be extended for periods of up to five years subject to satisfactory performance.

The Pension Fund Panel also intends to invest up to 10% of the Fund in alternative investments, such as private equities and hedge funds. These investments are being funded from new cash flows, as the Fund's income will exceed its expenditure over the foreseeable future. Bramdean Asset Management were appointed from 1 August 2007 to act as an adviser on appropriate alternative investments for the Fund for an initial five-year period, with the option of an extension for a further five years.

Projected annual investment returns on asset classes assumed by Hewitt Associates Limited in the 2005 asset/liability study are:

Asset class	Projected annual return %
UK fixed-interest stocks	5.5
UK index-linked stocks	5.25
UK equities	8.5
Global equities	8.5
Property	7.0

Realisation of investments

Managers are asked to avoid unnecessary sales and purchases of stocks which incur transaction costs. They must regard all sales and purchases of stocks as being in the Fund's financial interests; that is, they will either improve the return or limit excessive risk.

Transaction costs are monitored closely and reported to the Pension Fund Panel once a year.

Managers of equity and bond portfolios are asked not to invest in stocks that are not readily realisable (that is, capable of being turned into cash).

Social, environmental and ethical considerations

The prime objective of the investment of the Fund is to achieve the best financial return consistent with an acceptable degree of risk.

However, the Fund recognises that where companies adopt positive social, environmental and ethical principles in planning their activities, this can enhance their long-term performance and increase their financial returns.

The Fund has delegated to the fund managers

Statement of Investment Principles

The Fund has delegated to the fund managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments. Each manager must work positively with companies to promote forward-looking social, environmental and ethical standards, rather than adopting a policy of negative screening of stocks.

The County Council asks managers not to invest in stocks that could reasonably be expected to embarrass the Fund.

Exercise of rights attaching to investments

Managers have been instructed to exercise the Fund's responsibility to vote on company resolutions wherever possible.

They have also been instructed to intervene, by voting or direct contact with company management, in companies that are failing and thus jeopardising the Fund's interests.

The Fund believes that if companies comply with the principles of the combined code published by the Stock Exchange, following the Hampel report on corporate governance, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of shareholders, company employees and consumers. The Fund's managers should cast their votes with this in mind.

In particular, the Fund's managers should cast their votes to ensure that:

- executive directors are subject to re-election at least every three years
- executive directors' salaries are set by a remuneration committee consisting of a majority of independent non-executive directors, who should make independent reports to shareholders
- arrangements for external audit are under the control of an audit committee consisting of a majority of independent non-executive directors, with clear terms of reference – these should include a duty to ensure that managers closely control the level of non-audit work given to auditors, and should not significantly exceed their audit-related fee unless there are, in any manager's opinion, special circumstances to justify it
- in the managers' opinion, no embarrassment is caused to the Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the combined code.

The managers must report to the Panel with a full explanation in any case where they do not follow these guidelines.

Custody

Northern Trust were appointed as the Fund's independent global custodian with effect from 1 August 2006 for a seven-year period ending on 31 July 2013, subject to satisfactory performance.

Review of the Statement of Investment Principles

This Statement of Investment Principles is subject to review at any time by the County Treasurer, who will report to the Pension Fund Panel accordingly, seeking approval for any changes.

Annex   Investment management arrangements from 1 January 2007

	Benchmark	Annual target performance gross/net of fees
Low-risk active UK equities		
Aberdeen Asset Management	FTSE All Share	+1.5% gross
Schroder Investment Management	FTSE All Share	+1.25% gross
High-performance UK equities		
GLG Partners (formerly SGAM)	LIBOR	+5% gross
High-performance global equities		
Aberdeen Asset Management	MSCI World	+3% gross
AllianceBernstein	MSCI World	+3.5% gross
Newton Investment Management	MSCI World	+3% gross
Active global bonds		
Western Asset Management	Barclays Capital Global Aggregate Bonds Index	+1.5% gross
Passive index-linked bonds		
Legal & General	FT British Government Over Five Years Index-Linked Gilts Index	
State Street Global Advisors	As above	
UK property		
CB Richard Ellis Investors	Retail Price Index (RPI)	+4.5% net
European property		
Aberdeen Property Investors	Eurozone Harmonised Index of Consumer Prices (HICP)	+5% net

Governance Policy Statement

The Local Government Pension Scheme (Amendment) (No 3) Regulations 2007 require the Fund to maintain a Governance Policy Statement.

The County Council, as administering authority for the Hampshire Pension Fund, has delegated responsibility for managing the Fund's investments to the Pension Fund Panel through its Audit Committee.

The Pension Fund Panel oversees the proper administration and management of the Pension Fund. It is responsible for:

- appointing external fund managers and advisers
- making suitable custody arrangements for the Fund's investments
- considering and approving actuarial valuations every three years and determining the level of employers' contributions
- considering changes in pension fund regulations and determining actions required
- considering and approving strategic advice on investment policy
- considering and approving the external managers' investment strategies
- monitoring the investment performance of each manager against their target and benchmark, based on statistics prepared by Northern Trust
- the periodic review of the Statement of Investment Principles, the Fund's Business Plan, its Funding Strategy Statement, the Governance Compliance Statement, this Governance Policy Statement and the Fund's Communication Policy Statement.

The Pension Fund Panel normally meets four times each year. There are usually two meetings in the spring and two meetings in the autumn of each year. Two of these meetings, one in the spring and one in the autumn, are used mainly for discussions with the Fund's investment managers, using a report on their strategies and performance prepared by the County Treasurer, any views of the independent adviser, and presentations prepared by the managers themselves. The other meetings are 'business meetings', where the Panel considers reports from the County Treasurer, the independent adviser and other consultants as necessary on a range of issues, for example reviews of the SIP, the Fund's business plan, training matters, and proposals for Scheme changes.

The Pension Fund Panel is constituted to reflect the views of:

- the County Council as administering authority and the largest employer with 46% of the contributing membership
- the two city unitary authorities with 22% of the contributing membership
- the district councils and other employers with 32% of the membership, and
- the Fund's pensioners and contributors themselves.

The Pension Fund Panel consists of:

- nine county councillors with voting rights
- one representative of the unitary city councils of Portsmouth and Southampton with voting rights
- one representative of the 11 district councils in the Hampshire county area with voting rights
- one representative of the Fund's contributors with voting rights
- one representative of the Fund's pensioners with voting rights.

There is also an independent adviser/sounding board without voting rights, who attends all Panel meetings.

Training

Members of the Pension Fund Panel and officers in the County Treasurer's Department have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate. The cost of attending such events is charged to the Pension Fund.

A training plan for members of the Pension Fund Panel has been implemented.

Use of advisers

The County Treasurer advises the Panel on all Pension Fund investment and administrative matters.

The Fund's independent adviser and sounding board, Mr Harvey Cole, advises the Panel on investment matters.

The Panel uses the Fund's actuary, Hewitt Associates Limited, and other consultants as necessary, for advice on matters when in-house expertise is not available. The Panel takes advice from the actuary, the fund managers or specialist consultants or advisers as required on allocating assets, selecting managers, and investment performance targets.

Communications with Fund employers and members

Each financial year, an annual report on the Fund is prepared for consideration by the Fund's employers at an Annual General Meeting to be held by 30 September in the next financial year. This covers the Fund's accounts, investment arrangements and policy, investment performance, Scheme changes and other issues of current interest.

A leaflet for Fund pensioners and contributors is also prepared annually and distributed in the autumn. This summarises the accounts, and the investment management and administrative arrangements.

The Statement of Investment Principles is published and made available to Scheme employers within three months of any amendment(s).

Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners.

Membership of external bodies

The Hampshire Pension Fund is a member of the following external bodies:

- the National Association of Pension Funds (NAPF)
- the Local Government Pensions Committee (LGPC).

Service standards

The County Council follows best practice as set out in the LGPC circular 'Principles of Good Practice for the Management of Local Government Pension Schemes'.

The 10 principles for the management of defined benefit schemes – compliance

Effective decision-making

The County Council has delegated responsibility for the management and administration of the Fund to the Pension Fund Panel through its Audit Committee.

Workshops and seminars are made available to Panel members and County Council officers on investment and pensions matters.

Detailed investment decisions are delegated to fund managers. Advice on asset allocation is sought from the actuary and other consultants as necessary.

Full briefings on investment and pensions matters are provided to Panel members by the County Treasurer. The Panel also takes advice on investment matters from its independent adviser and sounding board, Mr Harvey Cole.

There is no power under LGPS regulations to pay Panel members for pension fund work. A business plan, which includes a training plan, has been prepared.

Clear objectives

The Fund's objectives are set out clearly in the Statement of Investment Principles.

Asset allocation

The Fund's actuary, Hewitt Associates Limited, carried out asset/liability studies in 1999 and 2005.

Advice from the actuary and other sources was used to determine the final strategic asset allocation to take effect from 1 January 2007, which should enable the Fund to meet its liabilities and maintain stable employers' contribution rates.

Advice was also sought to draw up benchmarks and constraints within which the fund managers appointed after the review must work with effect from 1 January 2007.

Expert advice

The Fund's contract for actuarial and other advice is open to competitive tender periodically. The current contract with Hewitt Associates Limited runs until March 2010, with an option to extend up until March 2015, subject to satisfactory performance.

Mr Harvey Cole acts as an independent adviser and sounding board to the Pension Fund Panel.

Investment managers themselves are asked for advice and new approaches are developed in partnership.

Little use is made of other advisers as sufficient expertise is available in the County Treasurer's Department. Hence there is no separate tender process for other advice.

Clear mandates for the managers

All mandates have clear objectives and timescales for performance assessment.

Acceptable levels of risk vary according to the nature of each manager's mandate, and are effectively determined by the agreed targets and timescales for performance assessment.

There are no soft commission arrangements.

Voting rights and engagement

The Fund's policies on voting rights and engagement are set out clearly in the Statement of Investment Principles.

Appropriate benchmarks

The Fund's overall target return and the managers' individual targets are set out clearly in the Statement of Investment Principles and in its Annex, on page 44.

Performance assessment

Formal reviews of the managers' performance take place twice a year. Additional meetings take place between the managers and the County Treasurer each year as required.

There is no formal system for reviewing the performance of the members of the Pension Fund Panel.

Transparency

The Statement of Investment Principles covers all areas as proposed by the Myners Committee and subsequently confirmed by the Government.

Reporting

The results of the Pension Fund Panel's performance monitoring exercises are published in the annual report for the Fund.

Key information is supplied each year to Scheme members in the annual leaflet.

An updated Statement of Investment Principles is published and made available to Scheme employers within three months of the Pension Fund Panel approving any significant amendment.

The Fund's Pension Fund Panel undertook its latest substantive review of the Governance Compliance Statement in November 2008.

This statement shows how Hampshire County Council as the administering authority of the Hampshire Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) issued by the Secretary of State for Communities and Local Government in accordance with the Local Government Pension Scheme (Amendment) Regulations 2008.

Ref.	Principles	Compliance and comments
A	Structure	
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance. Hampshire County Council's constitution sets out the functions of the Pension Fund Panel.
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partial compliance. The Pension Fund Panel includes representatives of the other local authorities in the Fund, and pensioner and contributor members. Admitted bodies, which represent only 2% of contributions in the Fund, are not represented on the Pension Fund Panel.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No formal secondary committees or panels have been established.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No formal secondary committees or panels have been established.
B	Representation	
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, eg admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Partial compliance. The Pension Fund Panel includes representatives of the other local authorities in the Fund, and pensioner and contributor members. Admitted bodies, which represent only 2% of contributions in the Fund, are not represented on the Pension Fund Panel. The Fund's independent adviser attends meetings of the Pension Fund Panel. Independent professional observers are not regarded as appropriate.
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance. Equal access is provided to all members of the Pension Fund Panel.
C	Selection and role of lay members	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance.

Governance Compliance Statement

Ref.	Principles	Compliance and comments
D	Voting	
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance. All representatives on the Pension Fund Panel have full voting rights, but the Panel works by consensus without votes being required.
E	Training/facility time/expenses	
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance. Full training and facilities are made available to all members of the Pension Fund Panel.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Partial compliance. Training is reviewed each year in the Fund's business plan and all training opportunities are made available to Pension Fund Panel members. While individual training plans and logs are currently not maintained, the Pension Fund Panel (in July 2009) agreed to prepare a detailed training plan for the Panel and maintain individual training logs for Panel members.
F	Meetings (frequency/quorum)	
a.	That an administering authority's main committee or committees meet at least quarterly.	Partial compliance. The Pension Fund Panel meets at least four times a year to fit its business needs, but not necessarily at quarterly intervals.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	No formal secondary committees or panels have been established.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance. The Pension Fund Panel includes lay members. An Annual General Meeting of the Pension Fund is held and road shows arranged for employers.
G	Access	
a.	That subject to any rules in the County Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance. Equal access is provided to all members of the Pension Fund Panel.
H	Scope	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance. The Pension Fund Panel deals with fund administration issues as well as fund investment.
I	Publicity	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance. The County Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.

Communication Policy Statement 2009

Introduction

This document outlines how we communicate with our stakeholders. To communicate effectively, we use different methods according to the need and the target audience.

We have five key stakeholder groups:

- Scheme members
- prospective Scheme members
- employing authorities
- Pensions Services' staff
- other bodies, for example prospective employing authorities.

We are committed to communicating clearly and effectively with stakeholders. All our external communications carry the Clear English Standard logo, showing they have been accredited by the Plain Language Commission.

We provide a high-quality service to all our stakeholders. Our statement of service standards for employers and Scheme members can be found at:

www3.hants.gov.uk/servicesprovidedpensions.pdf

We also have a customer charter that shows the service our Scheme members can expect:

www3.hants.gov.uk/pensions/pensionsaboutus.htm

Methods of communication

Our communication with Scheme members

Scheme members include current contributors, those with a deferred benefit and those receiving a pension. Scheme members must be given detailed information about the Scheme and their own benefits.

Website

Our website offers extensive information for Scheme members. It contains links to other relevant organisations and is updated with all new legislation. We have developed the website as the prime source of information on the Scheme. This ensures timely, up-to-date and easy-to-access information for all our stakeholders.

Scheme literature

The Employee's Guide is the main reference point for current Scheme members. Each new employee gets a copy from their employer. We update it regularly, usually once a year when regulations are changed. It is available from our website. Other Scheme literature is available from employers or direct from us.

Member support

We have a general query call centre which operates from:

8.30am to 5pm	Monday to Thursday
8.30am to 4.30pm	Friday.

A voice-mail service takes messages out of hours, and we return these calls the next working day.

We aim to answer 80% of the incoming queries without the need to refer on to our teams. We also have a general email address for all queries.

Employers can request clinics and open days as part of staff induction programmes or for general information. We also run pre-retirement courses four times a year for those reaching retirement age.

Correspondence

We use post and email for correspondence with Scheme members. In particular, we send details of any Scheme changes (draft or actual) to the relevant members via post or email, within three months of the change.

Benefit statements

Each year, we send all current and deferred members an annual benefit statement showing their benefits as at 31 March. These are usually issued between September and December each year.

Pay advice slips and P60s

We send pay advice slips to pensioners each April and send a P60 in May if the pensioner has had income tax deducted during the year. A payslip is also sent to pensioners if there has been a change of more than £1 in their monthly payment.

Newsletters

An annual newsletter is sent to pensioners each March. In the autumn we send a leaflet summarising the accounts, investment management and administrative arrangements to current Scheme members, pensioners, and deferred members.

Report and accounts

The annual report and full accounts are available to members on request to us.

Life certificates

From time to time, we send certificates to pensioners over the age of 85 and those living abroad to be signed, witnessed and returned to us to satisfy ourselves that we are paying the right amount of pension to the right person.

Our communication with prospective Scheme members

To promote the Scheme and ensure that eligible staff are aware of their pension options, we give information to employers.

Scheme literature

Employers give all new employees a starter pack on appointment containing the Employee's Guide, an option form to join the Scheme, a death grant nomination form and a transfer booklet. Other Scheme literature is available direct from us or via our website.

Website

The website contains a dedicated section, 'Before joining', which outlines the benefits of the Scheme and answers some common questions for prospective members.

Induction programmes

We can give an overview presentation about the Scheme. Employers can ask for this as part of an induction programme.

Our communication with employing authorities

We communicate with employing authorities in several ways to help them meet their responsibilities as Scheme employers.

Scheme literature

We give the Employer's Guide to all employing authorities. It contains details of procedures and their statutory responsibilities. Copies of leaflets and forms are also available to employers from the website or on request from us.

Correspondence

We send a regular electronic newsletter to keep employing authorities up to date with the latest regulation changes and proposals, as well as any changes in administration.

Website

The website has a dedicated section for employers. It gives the latest news and an electronic version of the Employer's Guide.

Employer training

Employer training is available on request, but we can deal with simple queries via phone or email.

Employer liaison meetings

All employers may request a meeting with us and we attend established employer forums such as the Payroll Officers Group.

Reports and accounts

We send a copy of the annual report and accounts to each employer. We publish the Statement of Investment Principles and make it available to employers within three months of any amendments.

Valuation report

We send the provisional outcome and the full actuarial report on the triennial valuation to employers when they are available.

Pension Fund Annual General Meeting (AGM)

All our employing authorities are invited to attend the Pension Fund AGM. As well as providing information on issues such as the Annual Report, Scheme changes and the investment managers' performance results, the AGM provides formal and informal opportunities for employers to ask questions of the Pension Fund Panel or those presenting.

Our communications with Pensions Services staff

It is vital that our staff are kept up to date with all changes to the Scheme so that they can continue to administer it effectively and offer a high-quality service to members and employers.

Email

A fortnightly email of latest news and information is sent to all our staff. In addition, we may send key information via the group distribution list.

Internet access

All staff have internet access, allowing access to a wide range of pension information.

Employer contact information

A database of contact information for all employing authorities is kept up to date and is available for use by our staff.

Meetings

Regular formal and informal meetings are held within teams and across groups of staff. Formal meetings have an agenda and minutes are circulated.

A quarterly section briefing is held to share information across the whole of our section.

Our communications with other bodies

Members' representatives

We provide information to members' representatives on request. Any issues that need consultation with members' representatives are referred to the regular meetings held with the Director of Human Resources.

Pension Fund Panel

The Pension Fund Panel receives reports from the County Treasurer. Although these usually concern investment issues, they will advise the Panel on changes to administrative arrangements or Scheme rules where relevant.

Prospective employing authorities

Any prospective employing authority will receive a letter outlining the costs of joining the Scheme and a copy of the Employer's Guide.

Complaints and appeals

We have a comprehensive process for dealing with complaints and appeals. A full copy of the internal disputes resolution procedure is available on our website:

www3.hants.gov.uk/pensions/pensionscomplaintsandappeals.htm

Publications matrix

Document	Format		Available to					Published	Reviewed
	Paper	Website	Prospective members	Current members	Deferred members	Pensioners	Employers		
Employee's Guide	✔	✔	✔	✔	✔	✘	✔	Always available	As regulations change
Employer's Guide	✔	✔	✘	✘	✘	✘	✔	Always available	As regulations change
Reports and accounts	✔	✔	✔	✔	✔	✔	✔	Annually	Annually
Benefit statements	✔	✘	✘	✔	✔	✘	✘	Annually	Annually
Pay advice slips	✔	✘	✘	✘	✘	✔	✘	Monthly	Annually
Pensioners' newsletter	✔	✔	✘	✘	✘	✔	✘	Annually	Annually
Fund leaflet	✔	✔	✘	✔	✔	✔	✔	Annually	Annually
Service standards	✔	✔	✔	✔	✔	✔	✔	Always available	Annually
Complaints and appeals process	✔	✔	✔	✔	✔	✔	✔	Always available	Annually

Who's who

Administering authority
Hampshire County Council

Administrator
Jon Pittam, County Treasurer

Pension Fund Panel (at July 2009)
County Council members


Councillor
M N Kemp-Gee
(Chairman)

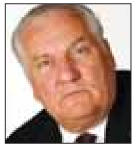

Councillor
T K Thornber CBE
(Vice-Chairman)


Councillor
F G Allgood


Councillor
C Carter


Councillor
B D Dash


Councillor
A G Dowden


Councillor
D A Kirk


Councillor
B Tennent


Councillor
T Thacker

Unitary authorities' representative	Councillor D Jones
Hampshire district councils' representative	Councillor I R Carr
Scheme employee representative	P Reynolds
Scheme pensioner representative	E W Hughes
Independent adviser	H Cole

Investment managers

Aberdeen Asset Management	Patrick Walker Anne Richards
AllianceBernstein	George Blunden Nick Davidson
Legal & General	Richard Skipsey
Newton Investment Management	John Burke Jon Bell
Schroder Investment Management	Lyndon Bolton Richard Buxton
GLG Partners	Keith Percy Hari Sandhu
State Street Global Advisors	Moira Gorman
Western Asset Management	Simon Gregory Catherine Matthews

Property managers

CB Richard Ellis	Josh Dale-Harris Sasha Noble
Aberdeen Property Investors	Michael Dinsdale Karin Koks

Alternative investment adviser

Bramdean Asset Management	Nicola Horlick

Custodian

Northern Trust	Anita Weiss

Actuary

Hewitt Associates Limited	Tim Lunn

External auditor

Audit Commission	Kate Handy

AVC providers

Zurich	Andrew Williamson
Equitable Life	Stephen Farmer

County Council contacts

Fund investments	Anthony Dodridge 01962 847407
Pensions services	Nick Weaver 01962 845588

Glossary

Actuary	A person or firm that analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep the Fund solvent.
Admitted bodies	These are employers who have been allowed into the Fund at the County Council's discretion.
Alternative investments	These are less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.
AVCs	Additional voluntary contributions are paid by a contributor who decides to supplement their pension by paying extra contributions to the Scheme's AVC providers (Zurich and Equitable Life).
Benchmark asset allocation	The allocation of the Fund's investments to the different investment sectors; this is expected to enable the Fund to meet its long-term liabilities with the minimum of disruption to employers' contributions.
Bulk transfer	A transfer of a group of members agreed by and taking place between two pension schemes.
Commutation	The conversion of an annual pension entitlement into a lump sum on retirement.
Contingent liability	A possible loss, subject to confirmation by an event after the balance sheet date, where the outcome is uncertain in terms of cost.
Cross subsidies	Amounts of money by which organisations subsidise each other.
Custodian	A bank that looks after the Fund's investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.
Dividends	Income to the Fund on its holdings of UK and overseas shares.
Emerging markets	The financial markets of developing economies.
Equities	Shares in UK and overseas companies.

Glossary

Gilt-edged securities (or Gilts)	Fixed-interest stocks issued by the UK Government.
Hedge fund	A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.
Income yield	Annual income on an investment divided by its price and expressed as a percentage.
Index	A measure of the value of a stock market based on a representative sample of stocks.
Index return	A measure of the gain or loss achieved in a year based on a representative sample of stocks and expressed as a percentage. It includes both income received and gains and losses in value.
LGPS	The Local Government Pension Scheme is a nationwide Scheme for employees working in local government or working for other employers participating in the Scheme and for councillors.
LIBOR	London Inter Bank Offer Rate – the interest rate that banks charge each other in the short-term international money market. It is often used as a benchmark to set other interest rates or to measure returns on investments.
Myners	Paul Myners, author of the Myners Report into institutional investment in the UK, published in March 2001.
Negative screening	Explicitly excluding company stocks from the Fund's investment portfolio.
Private equity	Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (that is, not easily turned into cash) and higher-risk investments that should provide high returns over the long term.
Projected unit actuarial method	One of the common methods used by actuaries to calculate a contribution rate to the Scheme, which is usually expressed as a percentage of the members' pensionable pay.
Rolling three-year periods	Successive periods of three years, such as years one to three followed by years two to four. Performance is often measured over longer periods than a single year to eliminate the short-term effects of volatile changes in stock markets.
Rule of 85	Contributors whose age in years and LGPS service total at least 85 years (for example, age 55 with 30 years' service).
Scheduled bodies	These are organisations that have a right to be in the Fund.
SETS	Stock Exchange Trading Service – a service provided by the Stock Exchange, enabling shares to be bought and sold electronically.
Smoothing adjustment	An adjustment to the Fund's market value of assets to level out market fluctuations over a certain period of time up to the valuation date.
Soft commission	A soft commission arrangement is when an investment manager agrees to do a minimum amount of business with a broker in exchange for free research and information services. The Fund has no soft commission arrangements with any of its managers.
Statutory	Controlled by the law.
Strength of covenant	Strength of the promise made by the employing organisations to fund the Scheme.
Transferee admitted bodies	A method by which employees who have been transferred to an employer outside of the LGPS are permitted to remain as active members in the Scheme (that is, when a local authority outsources services to a private-sector company).
Transfer value	A cash sum representing the value of a member's pension rights.

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