

## Hampshire Pension Fund

### Report from Councillor Mark Kemp-Gee

#### Chairman of the Pension Fund Panel and Board



I have now enjoyed a year chairing one of only two joint Pension Fund Panel and Boards across the whole of the Local Government Pension Scheme (LGPS), and I am delighted to report back that this innovative approach has achieved its objectives. This efficient model, which has now received an endorsement from

DCLG, has ensured effective oversight whilst avoiding unnecessary duplication across two committees, and paves the way for continued strong governance into the future.

Panel and Board members have continued to show their dedication to training during 2015/16, and have attended and reported back on a wealth of external training events. We have also hosted three outstanding training half-days in house. Training will continue to be given high priority by all members of the Panel and Board. Further information on the training received and plans for training over the next year can be found in the training report on page 7 of the annual report.

I would like to thank the members of the Pension Fund Panel and Board for embracing the new approach with enthusiasm, and for their hard work and commitment during 2015/16.

This year the Pension Fund's investments have delivered modest returns of 1.2%, in line with what has been a challenging market environment, and at 31 March 2016 the total value of the Pension Fund was £5,213 million.

With regard to investment management, we have entered into new discretionary contracts for the private equity, infrastructure and hedge fund portfolios, and have also appointed investment advisers to assist in further tender exercises. At the time of writing our global equities tender is in progress. Furthermore, Hampshire officers have been instrumental in working with other funds towards the set up of a new passive investment management services framework

agreement, which should deliver access to even lower fees. When this is complete in the autumn all LGPS funds will be able to use the framework to satisfy their passive investment needs.

During 2015/16, the Government announced its intention to work with LGPS administering authorities to pool the investments of the LGPS. Pooling is a topic on which the Panel and Board members and the Pension Fund's officers are spending an ever increasing amount of time, and I am delighted to say that Hampshire has joined along side several other LGPS funds in the ACCESS pool. This is a constantly evolving area and I look forward to updating everyone on where our efforts have taken us in another year's time.

Work on the 31 March 2016 actuarial valuation continues apace, and Aon Hewitt, the Fund's actuary, will be back at the Annual Employers Meeting this autumn to provide a firm indication of their results in advance of the final publication.

Pensions Services staff have been working hard to ensure that we continue to deliver a high level of service, and I am very happy to say that Pensions Services were hitting 100% of their targets by the end of 2015/16, in spite of a significant increase in the volume of work. A Customer Service Excellence assessment was held in April 2016, and Pensions Services achieved full compliance, and in addition were awarded a "compliance plus", as validation of their continuous improvement ethos. This is excellent news and I would like to thank all Pensions Services staff for their efforts.

I hope you find the following report helpful.

**Councillor Mark Kemp-Gee**

Chairman, Pension Fund Panel and Board

September 2016

## Management arrangements

The Pension Fund Panel and Board oversees the administration and management of the Pension Fund, including investments. The Panel and Board reports to Hampshire County Council and consists of:

- nine county councillors plus four deputies
- one representative from the unitary councils, one representative from the district councils, and one representative from the other employers, plus a substitute member representative
- one employee representative, one deferred member representative, and one pensioner representative, plus a substitute member representative.

In addition, there is an independent adviser without voting rights.

This leaflet includes reports from the pensioner, deferred member and employee representatives.

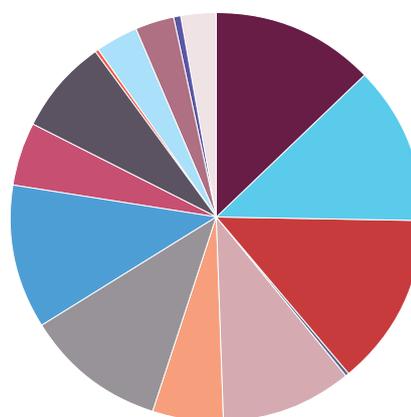
Investments are managed by external fund managers responsible for specialist portfolios. During 2015/16, the Pension Fund had fund managers in place to manage portfolios of global and UK equities, global and UK index-linked bonds, UK and European property, and alternative investments.

All the equity managers are required to encourage the companies they invest in to adopt positive social, environmental and ethical policies. The Panel believes this is in the best long-term interests of these companies and their shareholders. The Hampshire Pension Fund has an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk.

The diagram below shows the percentage breakdown of the Fund's investments held by each of the fund managers at 31 March 2016.

## Value of investments on 31 March 2016

Manager	£million	%
Schroders (UK equity portfolio)	665	12.8
Aberdeen (global equity portfolio)	654	12.6
Newton (global equity portfolio)	710	13.6
Aberdeen (frontier markets fund)	11	0.2
State Street (passive global equities portfolio)	544	10.4
State Street (passive UK equities portfolio)	284	5.5
Legal & General (index-linked bond portfolio)	581	11.1
State Street (index-linked bond portfolio)	589	11.3
Western (global bond portfolio)	256	4.9
CBRE (UK property)	400	7.7
Aberdeen (European property)	12	0.2
Aberdeen (private equity and other alternatives)	163	3.1
Morgan Stanley (hedge funds)	166	3.2
GCM Grosvenor (infrastructure)	26	0.5
Held centrally (for pension payments, investment, etc.)	152	2.9
<b>Total</b>	<b>5,213</b>	<b>100%</b>



You can find more about how the Fund is invested and managed in the Pension Fund's annual report, and in the Fund's Statement of Investment Principles (SIP). Both the annual report and SIP are available from the County Council's website:

<http://www3.hants.gov.uk/pensions/lgps/pensions-reportsandaccounts.htm>

## How the Fund has performed

During 2015/16, stock markets delivered negative returns, as the UK stock market fell by -3.9% and world stock markets returned -0.7% overall. UK index-linked bonds delivered a modest return of 1.9% in 2015/16.

The UK commercial property market has continued the strong performance seen in 2013/14 and 2014/15 with a return of 10.4% for 2015/16.

The Pension Fund's investment managers have shown a mix of positive and negative performance returns during 2015/16.

The Pension Fund Panel and Board will continue to monitor the investment managers' performance against their targets on a rolling three and five-year basis.

The total investment return for the Hampshire Pension Fund in 2015/16 was 1.2%. This compares with a weighted benchmark return of 0.3%. The Fund's investment return was 6.7% per annum over the three years to March 2016, and 6.1% per annum over the period since January 2007, which was when new investment management arrangements were put in place.

## Statement of the Actuary for the year ended 31 March 2016

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 (the actuarial valuation) was completed at 31 March 2013. The valuation at 31 March 2013 showed that the Fund's financial position had improved since the previous valuation at 31 March 2010 in relation to benefits promised for membership before the valuation date.

The value of the Fund's assets was sufficient to cover 80% of the value of the benefits earned to date (the 'funding target') by the Fund's members (that is, an 80% 'funding ratio'). The funding ratio has increased since the previous valuation (from 72%) as a result of higher than anticipated returns on Fund assets, increases in pay being lower than expected, contributions being paid by Employers towards the shortfall identified at the 2010 valuation, and changes to the assumptions being used (such as the assumed retirement age). These were partially offset by allowing for interest on the shortfall identified in the 2010 valuation and the change in the financial assumptions used (mainly a reduction in the assumed level of future investment returns).

The cost of future benefit promises increased compared with the costs identified in the previous valuation from 13.2% of Pay to

14.1% of Pay. This was as a result of the reduction in the assumed level of future investment returns and an increase in the assumed life expectancy after retirement. These were partially offset by the introduction of the 2014 Scheme and changes to the assumed rate of pension increases.

Employers will pay revised levels of contributions as part of the funding plan agreed with the administering authority for addressing the shortfall identified in the 2013 valuation. Average Employer contribution rates will increase from 20.2% of Pay over the year commencing 1 April 2014 to 20.9% of Pay over the year ending 31 March 2017, assuming Pensionable Pay increases in line with our assumptions.

The next actuarial valuation of the Fund is due to take place as at 31 March 2016. Preparation work for that valuation is currently underway and that valuation will determine employer contributions for the 3 years commencing 1 April 2017. The aim is to continue to meet the cost of future benefit promises and also restore the funding level to 100% over an appropriate recovery period. At the 2013 valuation the recovery period was set at 22 years from 1 April 2014 for most employers.

Aon Hewitt Limited  
July 2016

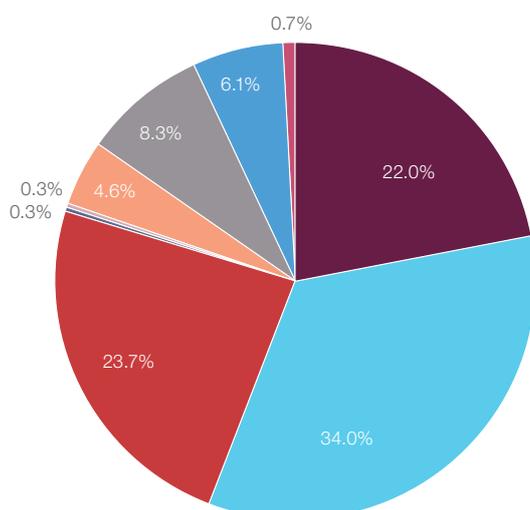
## Auditor's opinion

The Hampshire Pension Fund accounts form part of the County Council's statutory accounts. The auditor gave an unqualified opinion on the Council's accounts, including the Hampshire

Pension Fund's accounts on 29 September 2016. This leaflet contains a summary of the audited figures.

## Investments

The breakdown of the Hampshire Pension Fund's investments on 31 March 2016 is shown below:



UK equities	22.0
Overseas equities	34.0
UK index-linked gilts	23.7
UK fixed interest bonds	0.3
Overseas index-linked gilts	0.3
Overseas fixed interest bonds	4.6
UK and European property	8.3
Alternative investments	6.1
Cash held pending investment	0.7
<b>Total</b>	<b>100.0</b>

## Report from Phillip Reynolds, employee representative

The Pension Fund, as reported elsewhere in this update, has performed well despite a challenging global market and fluctuations in oil and currency prices.

The Department for Communities and Local Government (DCLG) confirmed the arrangements we have in Hampshire of having a combined local Pension Board and Committee. I was successful in my application to be the scheme member representative on the joint Fund Panel and Board for 4 years.

In the autumn of 2015, DCLG announced its criteria for all administering authorities to make proposals for pooling LGPS investments. Its criteria is around scale (pools must have at least £25bn of assets), governance, reduced costs and the capacity to increase investment in infrastructure.

Hampshire has agreed to join the ACCESS pool with 10 other administering authorities and a submission to set up the pool was made in July 2016.

The valuation of the fund by our Actuaries, AON Hewitt, also takes place in 2016, and the outcome should be known by the time the Annual Employers meeting takes place in October.

If you have any questions regarding the fund or the LGPS, please do not hesitate to contact me via email at [phillipreynolds77@gmail.com](mailto:phillipreynolds77@gmail.com).

## Summary of accounts 2015/16

A full version of the accounts is published as part of the County Council's Statement of Accounts for the year ended 31 March 2016. The Pension Fund Annual Report gives more details of the investments and management arrangements including the Pension Fund's accounts.

### Fund Account

	2014/15 £'million	2015/16 £'million
<b>Dealings with members, employers and others directly involved in the Fund</b>		
Employees' contributions	58	59
Employers' contributions	179	193
Transfers in from other pension funds	7	12
Benefits	-217	-231
Payments to and on account of leavers	-85	-12
<b>Net additions from dealings with members</b>	<b>-57</b>	<b>21</b>
<b>Returns on investments</b>		
Investment income	96	102
Taxes on income	-1	-1
Profits and losses on disposal of investments and changes in the market value of investments	585	-26
Investment management expenses	-20	-20
<b>Net increase in net assets</b>	<b>601</b>	<b>76</b>

### Net assets statement at 31 March

	2015 £'million	2016 £'million
Market value of investments	4,995	4,936
Cash we hold and amounts owed to us	133	269
Long term debtors	9	8
<b>Total</b>	<b>5,137</b>	<b>5,213</b>

## Report from Valerie Arrowsmith, deferred member representative

The new Joint Pension Fund Panel and Board has been in operation for one year and in that time has had several meetings and training sessions to enable it to carry out its work in an effective and professional manner. The Joint Panel and Board now has a member dedicated to the Pension Fund's deferred members to ensure that this group is adequately represented. The number of deferred members on 31st March 2016 was 59,875 and this number has been increasing over recent years. It was therefore an important step to include a deferred members' representative on the Panel and Board.

In addition to reviewing investments and investment strategies, the Panel and Board have spent time discussing the government's requirements to pool investments with other local government pension funds and this work is still progressing. The Hampshire Pension Fund has elected to join the ACCESS group for the purpose of pooling investments as this group was judged to be the best fit for Hampshire. There are currently 11 local government pension funds in the group. Negotiations are still in progress regarding the legal structure of the pool but the total investment for the ACCESS group will be in excess of £30bn, compared to Hampshire's approximately £5bn. This should be a positive move for the future.

## Report from Clifford Allen, pensioner representative

In the new Pension and Board structure, scheme representation has been expanded and this is where my role and work as Pensioner Representative now sits. However, our metamorphosis from a Pension Panel, to a Pension Panel and Board, has hardly been consolidated before Central Government has embarked upon introducing further initiatives in the form of Pooling. But despite the distractions of new initiatives the core work of pensioner representation has been my focus. This year pensioners have expressed concerns about risk, performance and ethical issues.

My response has been to be proactive in committee, examining the reports from Audit, Administration and questioning Fund Managers on their current and potential future financial performance and ethical approaches to investment. I am pleased to report that Audit processes give "Substantial Assurance" to our framework of governance, risk management and management control. Administration processes have gone through major changes in replacing software systems and worked very hard to implement a new system and are now hitting all their targets. Certain fund manager contracts have been up for tender and procurement this year and as your Pensioner Representative I have been fully involved in the procurement and interview process. I have also given a significant amount of time to training. I suggested training in ethical investing and all Panel and Board Members had the opportunity to attend a training session on the complexities of ethical investment. There is now a greater awareness of the environmental, social and governance considerations in addition to our legal fiduciary requirements when investing.

If you wish to contact me you can do so at  
**[cliffallen203@aim.com](mailto:cliffallen203@aim.com)**

## Automatic enrolment

Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years. The implementation of this requirement is being rolled out over five years from October 2012, starting with the largest employers (according to PAYE references).

The LGPS is a qualifying scheme under the automatic enrolment regulations, and can be used as such by Fund employers.

Further information on automatic enrolment can be found on the Pensions Regulator website **[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)**

## Pension Fund Administration

Responsibility for the administration of the Hampshire Pension Fund is delegated to Pensions Services, part of the Corporate Resources department of the County Council.

There are 40 full time equivalent staff involved in the administration of the scheme, split into a two main teams, supported by finance, projects and systems staff:

- a single Operational team responsible for administering all casework, handling all member queries and paying pensioners
- a Service Development team, responsible for communications, training and employer support.

Assurance over the effective and efficient operation of the administration is provided by internal audit, who carry out assurance and consultancy in accordance with an annual, risk based, programme. An annual opinion concludes on the overall adequacy and effectiveness of the Pensions Services framework of governance, risk management and control.

The scheme was contracted out of state second pension (S2P) and employees and employers paid reduced National Insurance. However, from 6 April 2016 the scheme is no longer contracted out.

## Administration performance

Pensions Services' administration performance against service standards for key casework is measured each month, and is used internally to improve processes.

Focus throughout the year has been on improving processes to make them more efficient to enable all targets to be met. Following a dip in performance in 2014/15 when implementing a new pensions systems, performance was back to 100% by the final quarter of 2015/16.

The annual internal audit opinion concluded that Pensions Services have a sound framework of internal control in place, which is operating effectively. No risks to the achievement of system objectives were identified.

Pensions Services have held the Customer Service Excellence (CSE) standard since 2009, and retained the award following a three year full assessment in April 2015.

## Complaints

If you have a complaint about the service, Pensions Services staff will do their best to put things right. If you are still dissatisfied, you can write to the Complaints Officer at:

The Complaints Officer  
Corporate Services  
Hampshire County Council  
The Castle  
Winchester  
SO23 8UB

There were ten formal complaints made in 2015/16. These were all investigated and changes made to processes where appropriate.

## Appeals

The LGPS regulations provide a two stage formal appeal process for members. For stage one it will either be heard by the employer, if the appeal is against a decision made by the employer, or by the Hampshire County Council Director of Corporate Resources if it is against Pensions Services.

In either case, if the member is still dissatisfied, they can make a second stage appeal, which will be considered by the Hampshire County Council Monitoring Officer. After this second stage, if the member wishes, the matter can be investigated by the Pensions Ombudsman.

There were two IDRPs appeals against the Pension Fund during 2015/16. One was not upheld at stage one, the other progressed to stage two and was not upheld. There were four stage two appeals against the employers.

## Other publications

### Your pension – an employee's guide

Available from HR or the pensions website:

<http://www3.hants.gov.uk/full-guide-april-2016-updated.pdf>

### Annual benefit statement – August 2016

Personal illustration of benefits produced annually to all contributors and deferred pensioners. These are available on member self service. Members can view their statements by registering on the pensions website:

<http://www3.hants.gov.uk/pensions/lgps/member-self-service.htm>

### Pensioners' newsletter – Spring 2016

Information about pension increases and pension payment dates.

<http://www3.hants.gov.uk/lg-arrears-web-link-2016-newsletter-updated.pdf>

### Annual report and accounts 2015/16

The Pension Fund's annual report and accounts. The annual report is available from the website:

<http://www3.hants.gov.uk/pensions/lgps/pensions-reportsandaccounts.htm>

## How to contact Pensions Services

By telephone 01962 845588

By e-mail [pensions@hants.gov.uk](mailto:pensions@hants.gov.uk)

By fax 01962 834537

By letter  
Pensions Services  
Hampshire County Council  
The Castle  
Winchester  
SO23 8UB

Website  
The website gives information about the pension scheme, contact details, up-to-date news on current issues and useful links to other sites.

Visit our website at:

[www.hants.gov.uk/pensions](http://www.hants.gov.uk/pensions)



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