

Your Pension

Report to pensioners and contributors 2017

Hampshire Pension Fund

Report from Councillor Mark Kemp-Gee

Chairman of the Pension Fund Panel and Board



I am writing to you at the end of quite an eventful year for markets. Global equity markets grew significantly over the year to 31 March 2017, in particular over the second half of the year, which saw a strong market rally in the wake of the election of President Trump. The weakening of Sterling following the results of the Brexit referendum also increased returns for

the Pension Fund, as many of the Pension Fund's investments are global portfolios held in currencies other than Sterling. The Pension Fund has also benefitted from its allocation to UK index-linked gilts, which have delivered remarkable returns of 21.6% over the year, due to strong inflows from investors. The results of all this have been investment returns of 21.4% for the year to 31 March 2017, taking the value of the Fund to over £6 billion.

Whilst this has been an impressive year for the Fund's investments, we are in no way complacent, and continue to work hard to ensure that the Fund is best positioned to deliver the returns needed into the future. The results of the 2016 actuarial valuation have now been finalised, showing a gradual improvement in the funding level from the previous position, with the Fund's assets as at 31 March 2016 covering 81% of the liabilities. Following on from the actuarial valuation, we are now in the process of reviewing the Fund's strategic asset allocation, and I look forward to reporting back on how we have implemented any changes to our arrangements next year.

With regard to investment management, we have completed the competitive tender exercise for our global equities allocation, and have reappointed one manager – Newton, and also appointed three new managers – Acadian Asset Management, Baillie Gifford, and Standard Life. It is early days yet, but I am enthusiastic about working with these managers and seeing how they perform over time.

Investment pooling continues to be a significant piece of ongoing work for the Pension Fund, and I am pleased with the strong engagement which has been shown by all Chairmen and officers

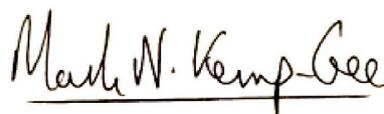
from the funds within our pool, ACCESS (A Collaboration of Central, Eastern and Southern Shires). I am therefore encouraged that the ACCESS funds will be able to successfully work together to achieve the best outcome for all of the 11 funds in the pool, given the requirements for pooling that have been set by Central Government.

Training continues to be taken very seriously by the Panel and Board members, and we have again hosted two excellent bespoke in-house training half-days. Training will continue to be given high priority, particularly as we welcome new members onto the Panel and Board, and as we continue to seek to keep pace with changes within the LGPS and wider investment markets. 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 Pension Fund's 2016/17 annual report.

In April 2017, Pensions Services had a review for Customer Service Excellence. This was conducted as a day's site visit by the assessor who also contacted employers for feedback on the service. Pensions Services retained their accreditation and picked up two further compliance plus marks for telling customers about performance, and incorporating customer feedback into processes, along with the existing one for the corporate commitment to putting the customer at the heart of service delivery. 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 100% of targets were met in every quarter for 2016/17. This is exemplary work and I would like to extend my thanks to the Pensions Services team.

I would also like to thank the members of the Pension Fund Panel and Board for their hard work and commitment during 2016/17, and I am looking forward to working with the new members over the coming year. Full details of the membership of the Panel and Board can be found on page 5 of the Pension Fund's 2016/17 annual report.

I hope you find the following report helpful.



Councillor Mark Kemp-Gee

Chairman, Pension Fund Panel and Board, July 2017

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 as at 31 March 2017 consisted of:

- nine county councillors plus four deputies
- employer representatives: one representative from the unitary councils, one representative from the district councils, and one representative from the other employers, plus a substitute member representative
- scheme member representatives: 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.

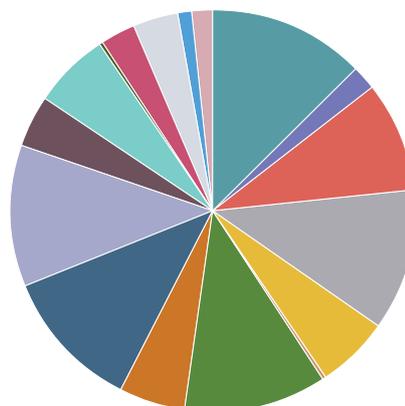
Investments are managed by external fund managers responsible for specialist portfolios. During 2016/17, the Pension Fund had fund managers in place to manage portfolios of global and UK equities, global bonds and UK index-linked bonds, UK and European property, and alternative investments.

All the equity managers are required to encourage the companies they invest in to adopt positive social, environmental and ethical policies. The Panel and Board 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 2017.

Value of investments on 31 March 2017

Manager	£million
Schroders (UK equity portfolio)	802
Acadian (global equity portfolio)	119
Baillie Gifford (global equity portfolio)	558
Newton (global equity portfolio)	729
Standard Life (global equity portfolio)	368
Aberdeen (frontier markets fund)	13
State Street (passive global equities portfolio)	724
State Street (passive UK equities portfolio)	347
Legal & General (index-linked bond portfolio)	710
State Street (index-linked bond portfolio)	718
Western (global bond portfolio)	265
CBRE (UK property)	402
Aberdeen (European property)	7
Aberdeen (private equity and other alternatives)	186
Morgan Stanley (hedge funds)	225
GCM Grosvenor (infrastructure)	69
Held centrally (for pension payments, investment, etc.)	95
Total	6,337



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

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

How the Fund has performed

During 2016/17, stock markets delivered very strong positive performance, as the UK stock market returned 22.0% and world stock markets in Sterling returned 33.0% overall. UK index-linked bonds have also delivered high returns of 21.6% for the year, and global bonds delivered modest positive returns of 0.6% in 2016/17.

The UK commercial property market has continued to deliver positive returns of 6.2% in 2016/17, although this is less than the very strong returns over the previous few years.

The Pension Fund's investment managers have all delivered positive performance returns during 2016/17. 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 2016/17 was 21.4%. This compares with a weighted benchmark return of 21.5%. The Fund's investment return was 12.2% per annum over the three years to March 2017, and 7.4% per annum over the period since January 2007, which was when original specialist investment management arrangements were put in place.

Statement of the Actuary for the year ended 31 March 2017

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 2016.

The results of that valuation showed that the value of the Fund's assets were sufficient to cover 81% of the value of the benefits earned to date (the 'liabilities') by the Fund's members (that is, an 81% 'funding ratio'). The funding ratio has marginally increased since the previous valuation (from 80%) 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 2013 valuation, and changes in the Fund's membership. There were some offsetting factors including a reduction in the assumed level of future investment returns, which has increased the liabilities.

The cost of future benefit promises increased compared with the costs identified in the previous valuation from 14.1% of Pay

to 17.1% of Pay. This was primarily as a result of the reduction in the assumed level of future investment returns and a material reduction in the assumed take up of the 50/50 scheme option in light of actual experience.

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 2016 valuation. Average Employer contribution rates will increase from 21.8% of pay over the year commencing 1 April 2017 to 24.3% of pay over the year ending 31 March 2020, assuming pay increases in line with our assumptions.

The next actuarial valuation of the Fund is due to take place as at 31 March 2019. That valuation will determine employer contributions for the 3 years commencing from 1 April 2020. 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 2016 valuation the recovery period was set at 19 years from 1 April 2017 for most employers.

Aon Hewitt Limited
July 2017

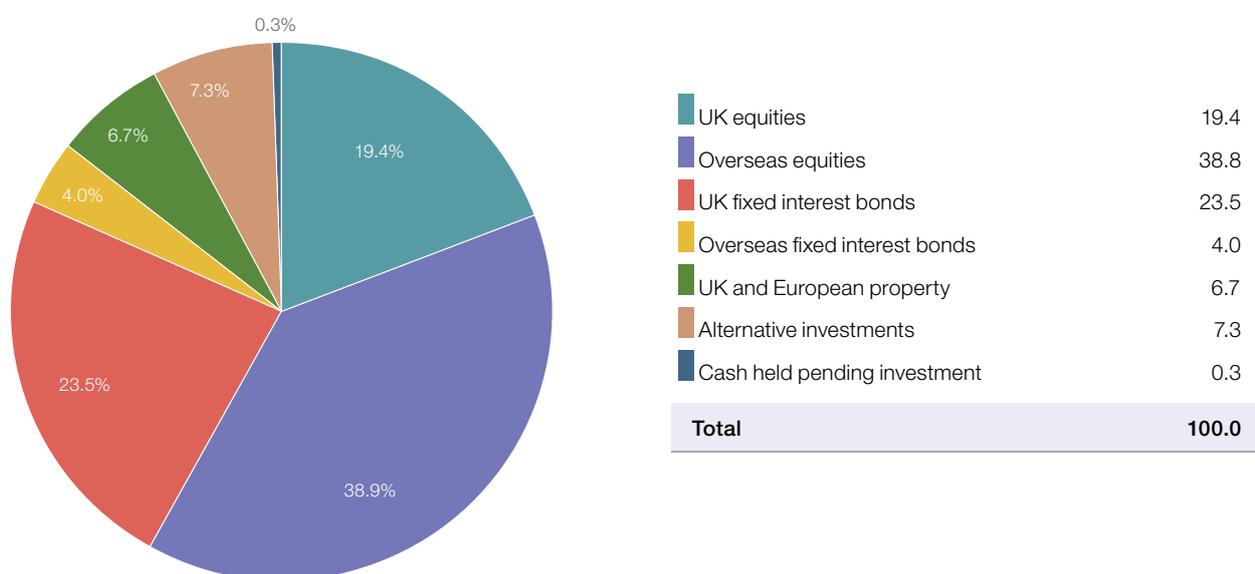
Auditor's opinion

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 28 September 2017. This leaflet contains a summary of the audited figures.

Investments

The breakdown of the Hampshire Pension Fund's investments on 31 March 2017 is shown below:



Summary of accounts 2016/17

A full version of the accounts is published as part of the County Council's Statement of Accounts for the year ended 31 March 2017. The Pension Fund Annual Report gives more details of the investments and management arrangements including the Pension Fund's accounts.

Fund Account

	2015/16 £'million	2016/17 £'million
Dealings with members, employers and others directly involved in the Fund		
Employees' contributions	59	61
Employers' contributions	193	197
Transfers in from other pension funds	12	14
Benefits	-231	-236
Payments to and on account of leavers	-12	-15
Net additions from dealings with members	21	21
Returns on investments		
Investment income	102	113
Taxes on income	-1	-2
Profits and losses on disposal of investments and changes in the market value of investments	-26	1,023
Investment management expenses	-20	-31
Net increase in net assets	76	1,124

Net assets statement at 31 March

	2016 £'million	2017 £'million
Market value of investments	4,936	6,133
Cash we hold and amounts owed to us	269	198
Long term debtors	8	6
Total	5,213	6,337

Report from Neil Wood, employee representative

The Pension Fund once again has seen another busy year with post Brexit markets, the establishment of the ACCESS pool and the Actuarial Review all adding to the workload of the Pension Fund Panel and Board.

The Fund continued to grow during 2016/17, passing the £6billion level by the end of the year with global stock markets making large returns. Whilst this is good news the Fund must continue to deliver positive returns to ensure that funding gap continues to reduce.

The ACCESS pool, which is made up of 11 authorities with combined assets of £30billion, is now well established and will be starting to move forward with the transfer of assets commencing in April 2018. This should see reduced costs with a larger base of pooled investments giving a better negotiating position for the pool.

From a personal point of view, 2016/17 saw Phillip Reynolds leave the Panel and Board which gave me an opportunity to move from substitute member to be the active member representative. These are big shoes to fill and I am looking forward to gaining more knowledge of how the Fund operates and helping any active members should they want more information concerning the Fund.

If you have any queries regarding the fund or LGPS, please do not hesitate to contact me via email at nwood@fareham.gov.uk

Report from Valerie Arrowsmith, deferred member representative

This has been another busy year for the Hampshire Pension Fund Panel and Board. There have been 7 Panel and Board meetings and many opportunities to attend training sessions, both internal and external. The training sessions have been particularly useful in delivering the range of knowledge and skills that the Panel and Board members need. These include alternative investment types including infrastructure, ethical investing, real estate, hedge funds, liability driven investments and private equity.

The Panel and Board has spent time reviewing investments and investment strategies and has made some changes to its investment managers to reflect their performance and decisions taken at Panel and Board meetings. Discussions have also been held regarding the implementation of the Markets in Financial Instruments Directive (MiFID II) which will happen in January 2018. Meetings with representatives from the ACCESS pool of local government pension funds are

continuing and the first pooled investments should commence in 2018. This is an exciting time for local government pension funds and much hard work has been done to ensure that pooling will work well for the Hampshire Pension Fund.

The Pension Fund's assets have had a good year despite uncertainty in financial markets following the Brexit vote, and are still performing well. In March of this year they were valued at approximately £6,134m and by the most recent valuation at 31st August they had increased to £6,575m.

The number of deferred members at 31st March 2017 was 64,060 which is a rise on last year's total of 59,875. This compares to 38,216 pensioner members and 57,781 active employee contributors. The Hampshire Pension Fund administration continues to be good value for its members at a cost of only £12.00 per annum cost per member.

Report from Clifford Allen, pensioner representative

Since my last report the year has been marked by unprecedented levels of change for the Pension Fund. Local elections have brought some new members to the Panel and Board. The referendum on Brexit took markets by surprise and resulted in a fall in the value of Sterling against the Dollar and the Euro. The move towards pooling has put pressure on our staff and the work of the Panel and Board. There is increased pressure from central government to invest more in infrastructure, to create and participate in a collective investment vehicle and to work collaboratively with other Local Authorities in the Access pool. This significantly changes the role of the Panel and Board to one concentrating on asset allocation while the pool concentrates upon selecting fund managers. There have been changes to the conditions and relationship we have with some of our scheme employers and

now we are working on the implementation of changes to our status as an investment body through new regulations coming through the Market in Financial Instrument Directives (MiFID II).

Keeping pace with change has meant a great deal of work and training for the Panel and Board and staff. Despite the many significant changes we have not been distracted from our main focus of investing well, exercising prudence on risk, monitoring performance and maintaining ethical standards. The Fund has performed impressively showing a return on investment of 21.4% by March 2017. Administration costs have been kept low and quality of service high demonstrated by maintaining our Customer Service Excellence Award.

If you wish to contact me you can do so at 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

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. Pensions Services use UPM, a Civica system, to provide all aspects of pensions administration including pensioner payroll and employer web access.

There are 44 full time equivalent members of staff involved in the administration of the scheme, split into 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.

In addition, Pensions Services comply with the requirements for the national standard for excellence in customer service (CSE).

Scheme information for members is provided on the Pensions Services website. Members can view their own record including their annual benefit statement via member self-service.

Approximately 20,000 members have registered so far.

Administration performance

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

% of targets met

Area of work	Q1 %	Q2 %	Q3 %	Q4 %
Retirement	100	100	100	100
Deferred Retirement	100	100	100	100
Estimate	100	100	100	100
Deferred	100	100	100	100
Transfer Out	100	100	100	100
Transfer In	100	100	100	100
Divorce	100	100	100	100
Refund	100	100	100	100
Death	100	100	100	100

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 2016/17. 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.

The Fund considered one stage one Internal Dispute Resolution Procedure (IDRP) appeal against the Pension Fund during 2016/17. This was partially upheld.

There were six stage two appeals, all against employers.

Other publications

Your pension – an employee's guide

Available from HR or the pensions website:

<http://www3.hants.gov.uk/scheme-guide-2017.pdf>

Annual benefit statement – August 2017

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 2017

Information about pension increases and pension payment dates

<http://www3.hants.gov.uk/pensions/lgps/pensioner-information/lgps-pensioner-news.htm>

Annual report and accounts 2016/17

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

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: <http://www.hants.gov.uk/finance/pensions>

