HAMPSHIRE PENSION FUND

ANNUAL REPORT AND ACCOUNTS

2019/2020

Hampshire County Council

www.hants.gov.uk

We hope you find this annual report informative and useful.
There is a glossary of terms at page 84.

If you have any comments on the annual report, please call 01962 845588, email budget@hants.gov.uk or write to:

Pension Fund Annual Report
Pensions, Investments & Borrowing
Corporate Services
Hampshire County Council
The Castle
Winchester
SO23 8UB

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

Foreword

Welcome to the Hampshire Pension Fund annual report for 2019/20.

I would typically begin my foreword by reflecting on the Pension Fund's investment performance over the preceding year. This year, however, we find ourselves faced with a global crisis unlike anything in recent memory and, as a result, talk of our investment returns pales into insignificance compared with the very real and immediate human impact of this awful virus. My thoughts are with everyone affected and I sincerely hope that we have returned to some form of normality when I write to you again in 2021.

Our pension scheme counts over 178,000 people in its membership and throughout the pandemic I have been exceptionally proud to hear how committed our Pension Services team has been in working to ensure these members and their employer organisations continue to receive the excellent level of service they have become accustomed to and deserve. I am sure you will join me in thanking them, and their colleagues in the Investments and Borrowing team, for their continued efforts and dedication throughout the year and in particular during what has recently been such a challenging time for us all.

When I wrote to you last year, we were in the process of consulting on a significantly revised Responsible Investment (RI) Policy and I am pleased to be able to tell you that the Pension Fund is now a signatory to both the UK Stewardship Code and the UN Principles for Responsible Investment (PRI). We have signed up as signatories to these two organisations as part of our commitment to RI, which we believe is important in seeking long term investment returns for our scheme members and their employers.

Our Responsible Investment Sub-Committee met for the first time this year following the implementation of the new RI Policy. The Sub-Committee affords us greater capacity to review important environmental, social and governance (ESG) issues and it considered items on stewardship, engagement, and the Fund's carbon emissions, which highlighted that our portfolio of equity investments currently compares favourably to the FTSE All World index. More details of our responsible investment activities are contained in the expanded RI section of the annual report on page 14. I hope you will find this of interest, and the Panel and Board would welcome your thoughts and views.

This year we have had the latest triennial actuarial valuation of the Pension Fund, which resulted in a significantly improved position compared with the previous valuation. The actuary calculated that the Fund's assets at 31 March 2019 were almost a match for its liabilities (98.9%), reflecting strong investment returns over the preceding three years. It goes without saying that the Fund's valuation has been negatively impacted by the global pandemic since then, however strong performance in the year before markets fell means the Fund lost 3.1% in 2019/20, taking the overall value to £6.9 billion.

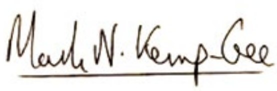
Following the actuarial valuation, the Pension Fund Panel and Board commissioned Hymans Robertson to review the Fund's investment strategy, particularly with respect to taking the appropriate level of risk to achieve the Fund's objectives. One result of the review has been the allocation to a new asset class in Asset Backed Securities, and the appointment of two new investment managers (Insight and TwentyFour). The Panel and Board has also made the decision to switch the Fund's passive global equities mandate to a climate aware fund offered by UBS. This passively managed fund is designed to track the performance of the same global index whilst being tilted towards companies with better relative climate credentials.

Alongside our own strategic review and governance, Hampshire has continued to be an active participant and collaborator in the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool alongside our 10 partner LGPS funds and I have had the honour this year of being appointed as the Chairman of the pool's Joint Committee. About 36.5% of the Pension Fund is invested through the pool's passive manager, UBS, with a further 19.8% invested in three sub-funds managed by Link Fund Solutions, the operator of the pool. Further assets are expected to transfer this year and I look forward to giving you a further update next year as we continue to reap the benefits of the hard work and dedication to establish these arrangements.

As I have detailed in describing some of our key activities, the landscape is constantly changing and our ongoing focus on developing and maintaining relevant skills and knowledge feels more important now than ever. We have once again benefited from several excellent bespoke in-house training sessions for all members, while individuals have also attended externally arranged conferences and seminars. Training continues to be given high priority and more details can be found on page 12.

Finally, I would like to thank the members of the Pension Fund Panel and Board for their valuable input and dedication during 2019/20 and the role they play in the robust governance of the Fund. I am looking forward to working with all the members over the coming year and full details of the membership of the Panel and Board can be found on page 5.

I hope you find the following report helpful.



Councillor Mark Kemp-Gee
Chairman, Pension Fund Panel and Board, July 2020

Who's Who

Administering authority and scheme manager
Hampshire County Council

Treasurer
Carolyn Williamson, Deputy Chief Executive
and Director of Corporate Resources

Independent adviser
Carolan Dobson

Investment managers

AberdeenStandard Investments

ACADIAN

Alcentra

BAILLIE GIFFORD

BARINGS

CBRE GLOBAL INVESTORS

DODGE & COX

GCM GROSVENOR

Insight INVESTMENT

J.P.Morgan Asset Management

Morgan Stanley

Schroders

TwentyFour ASSET MANAGEMENT

UBS

Asset pool
ACCESS

Pool operator
Link Fund Solutions

Custodian
JP Morgan

Actuary
Aon

Bankers
The National Westminster Bank plc

External auditor
Ernst & Young

AVC providers
Zurich
Prudential
Utmost

County Council contacts

Head of Pensions, Investments & Borrowing	Andy Lowe 01962 845588
Legal adviser	Paul Hodgson

Pension Fund Panel and Board

as at 31 March 2020

County Council members

Cllr Mark Kemp-Gee
(Chairman)
15 years' membership

Cllr Tom Thacker
(Vice-Chairman)
11 years' membership

Cllr Christopher Carter
11 years' membership

Cllr Alan Dowden
3 years' membership

Cllr Jonathan Glen
3 years' membership

Cllr Andrew Gibson
8 years' membership

Cllr Andrew Joy
7 years' membership

Cllr Peter Latham
6 years' membership

Cllr Bruce Tennent
11 years' membership

County Council deputies

Cllr Derek Mellor
Cllr Keith House
Cllr Michael White
Cllr Roger Price

Employer representatives

Cllr Stephen Barnes-Andrews
Unitary Council representative
1 years' membership

Cllr Paul Taylor
District Council representative
1 years' membership

Liz Bartle
Other employer representative
1 years' membership

Cllr Cal Corkery
Substitute employer representative
1 years' membership

Member representatives

Neil Wood
Employee representative
4 years' membership

Lindsay Gowland
Deferred member representative
1 years' membership

Cliff Allen
Pensioner representative
7 years' membership

Sarah Manchester
Substitute Scheme representative
2 years' membership

Pension Fund Panel and Board continued

The Pension Fund Panel and Board has 15 full members and 6 substitute or deputy members. The 15 full members comprise 9 County Council elected members, 3 employer representatives and 3 scheme member representatives. The employer representatives represent the Southampton and Portsmouth unitary authorities, Hampshire's district authorities, and other scheme employers respectively, while the 3 scheme member representatives cover active contributors to the scheme, members with deferred pension rights, and members currently in receipt of their pension. All full members of the Panel and Board have voting rights. Substitute or deputy members may attend all meetings and will have voting rights when other members for whom they are substitutes are not present. An independent adviser to the Panel and Board attends all Panel and Board meetings but does not have voting rights.

The Panel and Board'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 and Board's objectives are:

- 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 Scheme Advisory Board, the Pensions Regulator, the Local Government Pensions Committee (LGPC), the Chartered Institute of Public Finance and Accountancy (CIPFA) 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.

More detail can be found in the Business Plan:

https://documents.hants.gov.uk/pensions/2018-2019-BusinessPlan.pdf

During 2019/20, Cllr Stephen Barnes-Andrews and Cllr Paul Taylor were appointed as Unitary and District Council employer representatives respectively, replacing Cllr Jeanette Smith and Cllr Trevor Cartwright in these roles, with Cllr Cal Corkery taking over as the substitute employer representative from Cllr Mark Chaloner. Liz Bartle was appointed as the other employer representative, replacing David Robbins, and Lindsay Gowland was appointed to represent deferred members in place of Valerie Arrowsmith.

Attendance of the members at Panel and Board meetings, Responsible Investment Sub Committee meetings, internally organised training events, and other external training opportunities in 2019/20 is shown in the table below. It should be noted that internal training sessions, including sessions provided by ACCESS, have greater weight as they cover topics on which the most Panel and Board members have identified a training need. For Pension Fund Panel and Board meetings and Responsible Investment Sub Committee meetings, the number of meetings attended is shown against the number of possible meetings for that member.

Panel and Board member	Pension Fund Panel and Board	Responsible Investment Sub Committee	Internal training sessions	External training sessions
Cllr Kemp-Gee	4/6	2/2	7	2
Cllr Thacker	4/6		2	0
Cllr Carter	5/6		2	0
Cllr Dowden	3/6	1/1	2	1
Cllr Gibson	2/6		4	3
Cllr Glen	4/6	1/2	5	4
Cllr Joy	6/6		1	0
Cllr Latham	6/6	2/2	4	0
Cllr Tennent	5/6	2/2	2	3
Cllr Barnes-Andrews*	4/5	2/2	0	0
Cllr Taylor*	2/3		0	0
Liz Bartle*	1/1		0	1
Cliff Allen	5/6	2/2	5	4
Lindsay Gowland*	1/1		0	0
Sarah Manchester (Substitute)	5/6		5	3
Neil Wood	5/6		5	0
Cllr Mellor (Deputy)	4/5		3	0

* During the year the following members were appointed to the Panel and Board: Cllr Barnes-Andrews (July 2019), Cllr Taylor (November 2019), Liz Bartle and Lindsay Gowland (both February 2020).

Conflicts of interest have been managed in accordance with the County Council's standing orders:
http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=620&MId=3642&Ver=4&Info=1.

Details of the Pension Fund's approach to conflicts of interest in relation to responsible investment and stewardship are set out in the Responsible Investment Policy, which can be found in the Investment Strategy Statement.

Board Report

Hampshire Pension Fund has the endorsement of the Ministry of Housing, Communities and Local Government (MHCLG) for the arrangement of managing the Fund with a joint Panel and Board.

This efficient governance model was developed to ensure effective oversight whilst avoiding unnecessary duplication across two committees. Board issues are dealt with under separate governance agenda items. Items that have been considered in 2019/20 are as follows:

Governance

- Panel and Board training
- Investment pooling updates
- Pension administration updates
- Risk management
- Pension Fund Annual Report
- Pension Fund budget and costs
- Responsible Investment Policy
- Proposed changes to grouping arrangements in the Fund
- 2019 triennial actuarial valuation
- Internal audit plan and progress reports
- Internal audit report and opinion
- Review of the Business Plan
- Investment Strategy Statement
- Funding Strategy Statement
- Employer Policy
- Administration Strategy
- Communication Policy Statement
- Governance Compliance Statement
- Governance Policy Statement
- Provision of advice to the Panel and Board
- Scheme Advisory Board Good Governance Consultation
- Scheme Advisory Board guidance on Responsible Investment
- Appointments to the Panel and Board and the RI Sub-Committee
- Investment consultancy aims and objectives

Investment

- Custodian performance updates
- Investment Strategy review
- Investment updates
- Alternative investments portfolio updates
- Property portfolio update
- Pension fund cash reports
- ACCESS pool business plan and investment updates
- MHCLG draft pooling guidance

The Pension Fund also has a dedicated Responsible Investment Sub-Committee of the Panel and Board that met twice during 2019/20 and considered the following items:

- Sub-Committee work plan
- UK Stewardship Code
- UN Principles for Responsible Investment
- Global Real Estate Sustainability Benchmarking (GRESB)
- Shareholder voting
- Portfolio ESG considerations for the Acadian investment manager
- Responsible Investment Policy review
- Responsible Investment annual report

All Panel and Board members take part in a full training programme covering the range of knowledge and skills required for their membership of the Panel and Board, as summarised on page 12.

The Panel and Board receives regular updates on investment pooling and the performance of assets managed within the pool, providing oversight as part of the effective governance of pooling arrangements. These arrangements have been set up to ensure each administering local authority may exercise proper democratic accountability and continue to meet fiduciary responsibilities. The Chairman of the Panel and Board is a member of the ACCESS pool's Joint Committee (JC) and was elected as Chairman of the JC during 2019/20. Officers represent the administering authority in various officer groups.

More detail on the governance of the Pension Fund is provided in the Governance Policy Statement:
https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/policies

Further information on the governance arrangements for the ACCESS pool can be found on the pool's website:
https://www.accesspool.org/

Progress on Investment Pooling

In 2015 the Department of Communities and Local Government (DCLG as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity and capability to invest in infrastructure.

The Hampshire Pension Fund is a member of the ACCESS pool (A Collaboration of Central, Eastern and Southern Shires) with 10 other Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire, East Sussex, Essex, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk, and West Sussex. The following paragraphs describe Hampshire's individual pooling progress. ACCESS' annual report, highlighting the progress of the pool overall is contained in the following section.

Value of pooled and non-pooled investments

	2018/19		2019/20	
	£'000	%	£'000	%
Equities	1,737,878	24.2	1,366,327	19.8
Passive investments	2,813,476	39.2	2,521,958	36.5
Pooled subtotal	**4,551,355**	**63.4**	**3,888,285**	**56.3**
Equities	771,358	10.7	734,497	10.6
Fixed income	657,421	9.2	921,425	13.3
Property	538,317	7.5	509,548	7.4
Alternative assets	588,358	8.2	645,310	9.3
Cash and other assets	75,071	1.0	211,415	3.1
Non-pooled subtotal	**2,630,526**	**36.6**	**3,022,195**	**43.7**
Total	**7,181,881**	**100.0**	**6,910,480**	**100.0**

Totals may be +/- 1 the individual values due to roundings.

The proportion of investments held under the ACCESS pool reduced in 2019/20 as a result of reductions in asset values and tactical and strategic investment decisions made by the Pension Fund Panel and Board to reduce the Pension Fund's exposure to equities. The Pension Fund has kept the same number of portfolios under the ACCESS pool throughout 2019/20.

It is planned that Hampshire's remaining global equity and bond investments will transfer to the pool in the coming years, with options for pooling new alternative investments being available in subsequent years.

ACCESS' business case for pooling that was accepted by DCLG stated that there was no economic case to pool LGPS property and cash investments.

Progress on investment pooling continued

Pooled costs and savings

Hampshire Pension Fund's investment management costs of £47,780m are also reported in the Fund's accounts and are broken down into the following criteria based on the guidance published by CIPFA for pension fund annual reports. The data is based on data provided by the Pension Fund's investment managers who have completed the Cost Transparency Initiative template. The Fund's investment management costs shown in the table below are broken down into the following categories:

- Direct fees – that are invoiced to the Pension Fund by its investment managers.
- Indirect fees – are charged directly against the Fund's investments within investment vehicles such as pooled funds within the ACCESS pool and held outside, as well as the alternative investment funds that the Pension Fund invests in directly.
- Transaction costs – such as broker commission paid in the purchase and sale of investments, as well as the costs of maintaining the Fund's directly held property portfolio.
- Custody and other costs – the fees paid to the Fund's custodian for the safe custody and administration of the Fund's investments and consultancy costs where they specifically relate to investments.

	Pooled		Non-pooled		Total	
	£'000	bps (%)	£'000	bps (%)	£'000	bps (%)
Direct fees	550	0.01	7,150	0.24	7,700	0.10
Indirect fees	4,876	0.11	26,144	0.88	31,020	0.41
Transaction costs	2,382	0.05	6,244	0.21	8,626	0.12
Custody and other costs	–	0.00	435	0.01	435	0.01
Total	**7,807**	**0.17**	**39.538**	**1.33**	**47,780**	**0.64**

The investment management costs of pooled investments are disproportionately lower because the assets that have not been pooled, specifically property and alternative assets, attract significantly higher costs, but these assets are held to ensure the Pension Fund's investment strategy is suitably diversified. The costs of the Pension Fund's investments are considered by the Panel and Board in considering investment returns on a net of costs basis when evaluating investment performance and options.

Cumulative pooling costs and savings	£'000
Pool setup and on-going costs*	396
Transition costs	403
Investment management fee savings	(1,478)
Net saving of pooling to date	**-679**

*The breakdown of pool costs is detailed in the ACCESS Annual Report

The investment performance of both the Pension Fund's pooled and non-pooled investments are shown in the Investment Performance section of the Annual Report.

ACCESS Annual Report

The ACCESS Annual Report is published on the ACCESS pool's website.

The report provides more details on ACCESS and the progress that has been made in pooling in 2019/20.

The report can be found here:
https://www.accesspool.org/

Training and Development Report

Knowledge and Skills Framework Policy

As an administering authority of the Local Government Pension Scheme, Hampshire County Council recognises the importance of ensuring that all officers and members charged with financial management and decision making for the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to appoint individuals who are both capable and experienced and will provide and arrange training for relevant officers and members. This training is designed to enable officers and members to acquire and maintain an appropriate level of expertise, knowledge, and skills.

A formal training plan is prepared each year to identify and meet the training needs of the Panel and Board, both as a group and as individuals, and is based upon the recommendations of the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Deputy Chief Executive and Director of Corporate Resources at the County Council is responsible for ensuring that policies and strategies are implemented.

Training received in 2019/20

Four internal training sessions were arranged by the Hampshire Pension Fund for Panel and Board members and officers in Winchester during November 2019 and January 2020. The topics covered in these sessions were focused on delivering training alongside the Panel and Board's responsible investment actions during 2019/20 and further developing the Panel and Board's understanding of investing in private debt following the appointment of JP Morgan Alternative Asset Management to manage this new mandate.

Date	Topic	Provider
November 2019	Private Debt	JP Morgan Alternative Asset Management
November 2019	Sustainable Investing for Passive Investments	UBS
January 2020	Responsible Investing Policy	MJ Hudson Spring
January 2020	Principles of Responsible Investing	UN PRI

These training sessions were supplemented by a training session on treasury management, which was open to all County Councillors as well as the Pension Fund Panel and Board members and officers, and was provided by Arlingclose, the County Council's advisers on treasury management.

The internal training sessions followed a similar programme of in-house training in previous years which has been designed to cover the full range of knowledge and skills required by Panel and Board members and staff.

In addition, some Panel and Board members and officers attended internal training sessions arranged by ACCESS. The topics covered by these sessions were as follows:

Date	Topic	Provider
September 2019	Responsible Investment	East Sussex County Council
October 2019	ACCESS Investor Day	LINK Asset Services
December 2019	Governance	Squire Patton Boggs
March 2020	Alternative Investments	bFinance

Individual Panel and Board members and officers attended a range of training events in 2019/20 provided by the Pension Fund's investment managers and other external organisations, as follows:

27th Annual Property & Infrastructure Investment Strategies for Pension Funds	SPS
Alternative Investments & Equity Protection	LGPS
Annual Investor Conference	Alcentra
DB Strategic Investment Forum	DG Publishing
ESG & Sustainable Investments for Pension Funds	SPS
Infrastructure & Real Assets Investment Strategies for Pension Funds	SPS
Investment & Training Seminar	Baillie Gifford
Investment Seminar	LGC
Investment Strategies & Cash Flow Management for Maturing Pension Funds	SPS
LGC Investment & Pensions Summit	LGC
LGPS Fundamentals	LGA
Local Authority Responsible Investment Seminar	SAB
Pensions Expert LGPS Forum 2019	FT
Private Equity (& Debt) Investors' Annual Seminar	SPS
Schroders Trustee Training	Schroders

Evaluation of training

Training logs for each member of the Panel and Board are completed on an on-going basis and are used to record the training undertaken during the year. The training logs include details of all relevant training courses, seminars and events attended, along with an assessment of whether each training event has fulfilled the need it was intended to meet. This information is used to help design the training plan for the following year.

Training in 2020/21

During the early part of 2020/21, individual members of the Panel and Board will be reviewing their knowledge and skills against a Training Needs Analysis. The purpose of this exercise is to allow Panel and Board members to consider their existing level of knowledge and areas where additional training is likely to be beneficial.

The Training Needs Analysis is designed around the CIPFA Pensions Finance Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector, and the CIPFA Technical Knowledge and Skills Framework for Local Pension Boards and helps to ensure the Panel and Board meet the requirements set out in the guidance referenced in the regulations. The Training Needs Analysis is also completed by all new Panel and Board members to enable them to identify any training requirements.

The training plan for 2020/21 is due to be approved by the Pension Fund Panel and Board in September 2020 based on the Training Needs Analysis. Proposed training includes further in-house training sessions, external training events, use of online learning tools, briefing information in reports to the Panel and Board from officers, and background reading as appropriate.

Relevant internal training sessions will be arranged for 2020/21 and 2021/22 based on the Training Needs Analysis.

Investment Policy including Responsible Investment

The Pension Fund Panel and Board is responsible for determining at a strategic level how investments will be made by the Pension Fund, with the objective of achieving the investment return required to meet the target calculated by the Fund's actuary without exposing the Fund to excessive risk.

The Investment Strategy Statement sets out the Pension Fund's strategic asset allocation and has been designed to achieve this objective by ensuring the Pension Fund can meet 100% of pension liabilities over the long term by investing within reasonable risk parameters whilst also ensuring primary contribution rates are kept affordable and steady.

Investment Strategy: Understanding cost, risk and return

The Pension Fund's investments are grouped into three categories in the Investment Strategy Statement: growth, income and protection. Holding different types of investments helps the Fund to achieve diversification, which means the required investment returns are not heavily dependent on the performance of one economy, sector or asset class. The Pension Fund uses different fund managers so that returns are not tied to how well a single fund manager performs. These fund managers all manage diversified portfolios, the most concentrated of which holds around 30 stocks, whilst the most diverse will hold many hundreds of securities.

Different asset classes bring different levels of risk and uncertainty. The Pension Fund therefore invests in assets across multiple classes, aiming to ensure the profile of returns will not be completely correlated, for example by investing in assets that deliver an income stream as well as those held to deliver capital growth. Where investments are in riskier asset classes, such as equities, the aim is to ensure that the return achieved more than compensates for the risk taken.

In line with its investment beliefs, the Pension Fund holds passive investments, which are low cost and are designed simply to track a given market, and actively managed investments, where a premium is paid to an investment manager to select the right investments to outperform the comparative market.

Responsible Investment Policy and ESG considerations

The Hampshire Pension Fund believes in the importance of Responsible Investment (RI) and is a signatory to both the UK Stewardship Code and the UN Principles for Responsible Investment (PRI).

The Pension Fund's investment principles include:

i) that it has a long-term focus, and

ii) a belief in the importance of Responsible Investment, including consideration of social, environmental and corporate governance (ESG), which can both positively and negatively influence investment returns.

The UN PRI provides the following examples of ESG factors:

- Environmental – climate change – including physical risk and transition risk, resource depletion, including water, waste and pollution, deforestation
- Social – working conditions, including slavery and child labour, local communities, including indigenous communities, conflict, health and safety, employee relations and diversity
- Governance – executive pay, bribery and corruption, political lobbying and donations, board diversity and structure, tax strategy

These factors are not exhaustive but provide a baseline when considering ESG issues as part of the Pension Fund's overall investment strategy.

The Hampshire Pension Fund Panel and Board has created a dedicated Responsible Investment sub-committee that meets at least twice a year to consider emerging ESG issues and support the implementation of the Responsible Investment Policy.

The Pension Fund sets out its expectations for different types of investment manager in its Responsible Investment Policy, which can be found in full on the Pension Fund's Responsible Investment webpage:

https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment

Passive investment managers and quantitative investment managers are expected to engage on ESG issues with companies within their index and to exercise voting rights. Active investment managers are required to pro-actively consider how all relevant factors, including those relating to ESG, will influence the long-term value of each investment.

Where investments are made in closed-ended limited partnerships, investment managers are required to integrate ESG considerations into their selection of these funds. The Pension Fund also holds directly owned UK property and the investment manager is required to consider improving the environmental impact of these properties as part of the investment case.

The Panel and Board will consider disinvestment from particular stocks or sectors, or the investment in specific 'social' investments, where it believes the decision would be supported by a significant majority of scheme members and employers, so long as it does not result in significant financial detriment to the Pension Fund.

Investment managers are expected to work actively with companies they are invested with to ensure they achieve the best possible outcomes for the Pension Fund and are instructed to exercise the Fund's responsibility to vote on company resolutions wherever possible. The Responsible Investment Policy provides guidelines for investment managers when casting their votes and managers who do not follow these guidelines must report to the Pension Fund to explain why.

Responsible Investment Activity 2019/20

The Pension Fund recognises that two important elements of responsible investment are disclosing and making its RI policy available and being transparent about the RI activity of the Fund. This section of the report provides details of the activities that have taken place during 2019/20.

Responsible Investment Sub-Committee

The following items were considered by the Responsible Investment Sub-Committee during 2019/20:

- Sub-Committee work plan
- UK Stewardship Code
- UN Principles for Responsible Investment
- Global Real Estate Sustainability Benchmarking (GRESB)
- Shareholder voting
- Portfolio ESG considerations for the Acadian investment manager
- Responsible Investment Policy review
- Responsible Investment annual report

Training

Responsible Investment has been a significant focus in the training provided to Pension Fund Panel and Board members during 2019/20, including:

- a briefing from a representative from the UN Principles for Responsible Investment (PRI)
- a specialist RI investment consultant reviewing the Fund's RI policy
- a session delivered by the Pension Fund's passive investment manager UBS on stewardship and ESG approaches.

Members have also received training on Responsible Investment and ESG through sessions arranged by ACCESS and at externally run training events.

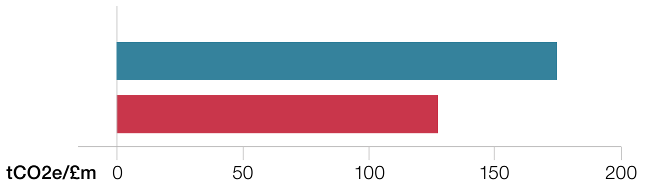
Investment policy including responsible investment continued

Reporting

The Pension Fund's initial focus on ESG disclosure has been on carbon emissions. The following graphs show the carbon data of the companies in the Fund's equity portfolios, both active and passive, (50% of the Fund) in comparison to the global index.

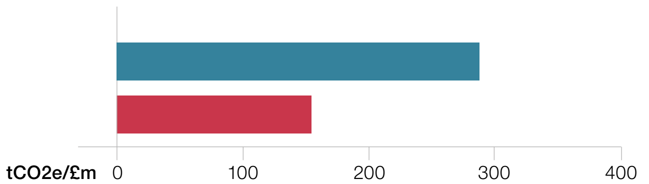
Carbon footprint
31 December 2019 (tCO2/£m invested)

FTSE All World	170.4
Hampshire average	128.0



Carbon intensity
31 December 2019 (tCO2/£m revenue)

FTSE All World	287.4
Hampshire average	158.8



This shows that the Pension Fund's investments had a lower carbon impact than the global index both in terms of the carbon footprint (emissions per pound invested) and the carbon intensity (emissions per pound of revenue generated).

Investment decisions won't be made solely on the basis of carbon emissions, but the data above will be used as a baseline to enable the Panel and Board to monitor the actions of its investment managers and as a useful way to help these managers to target their engagement with companies on the reduction of carbon emissions.

Investments

The Pension Fund's passive investments are managed by UBS. The Pension Fund Panel and Board has agreed to switch its passive global equity portfolio (6.8% of the Fund) to the Climate Aware Fund, which is 'tilted' to continue to deliver returns in line with the global index but favouring companies with lower carbon emissions. The Fund is also employing a specialist RI consultant to report on the ESG credentials of its investment managers and portfolios, to improve monitoring.

Engagement and shareholder voting

The Pension Fund's investment managers' engagement and shareholder voting continues to be a key feature of the Fund's RI policy and is regularly reviewed. The Fund's investment managers have reported that key themes they have covered are:

- good governance, including board composition and executive pay,
- diversity, inclusion, and the quality of company workforces, and
- sustainability and climate change including reducing use of fossil fuels and plastic.

All voting rights have been exercised in accordance with the Investment Strategy Statement.

Feedback

The Pension Fund would like to hear what members think about RI for the Pension Fund. Members can contact the Pension Fund using the following email address: **responsible.investment@hants.gov.uk**

Custody of assets

The Pension Fund's global custodian, JP Morgan, provides a wide variety of services that underpin the work of the officers of the Pension Fund and its investment managers in managing the Pension Fund's assets. The performance of the global custodian is reported to the Panel and Board on an annual basis.

The custody services provided by JP Morgan to the Fund include:

- safekeeping of the Pension Fund's assets in the various different investment markets that the Pension Fund owns assets
- settlement of trades placed by the Pension Fund's active non-pooled investment managers
- collection of income from dividends and interest
- tax reclamation services
- corporate action processing and proxy voting based on the instructions received by the Pension Fund's investment managers
- filing of US-based class action lawsuits
- foreign exchange settlement to enable the Pension Fund to buy and sell assets in foreign currencies
- stock lending
- reporting on the value of the Pension Fund's assets and the investment performance of the Fund's investment managers.

Pooled investments are managed by the pool operator (Link Asset Services) and are held in custody by Northern Trust, the custodian appointed by Link. JP Morgan have custody of all of the Pension Fund's non-pooled active equity portfolios. Other listed investments (multi-asset credit and asset-backed securities) are held in unitised funds managed by the respective investment managers. All other assets are held directly by the Pension Fund. JP Morgan report on the performance of the entire portfolio.

Matters relating to implementation of the Funding Strategy Statement

All grouped employers' contribution rates stepped up by 1% in 2019/20. No bonds or other secured funding arrangements were entered into during the year.

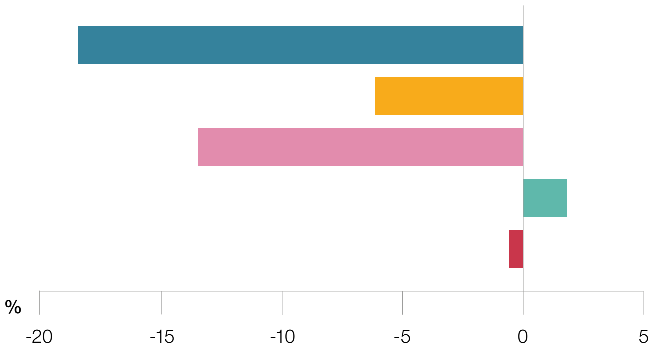
All admission bodies were managed in accordance with the Funding Strategy Statement and Employer Policy.

Investment Performance

The global coronavirus pandemic had a significant impact on financial markets at the end of 2019/20. After seeing gains of over 22% in the 2019 calendar year, global stock markets fell at a historic pace in March as investors reacted to the pandemic, resulting in a 6.22% fall for the year to 31 March 2020. The annual impact on the UK stock market was even more severe, with UK stocks suffering a decline of 18.45%, while emerging market equities fell 13.30%. UK index-linked bonds delivered modest positive returns of 1.97% for the year, while the UK commercial property market saw a marginally negative return at -0.50%.

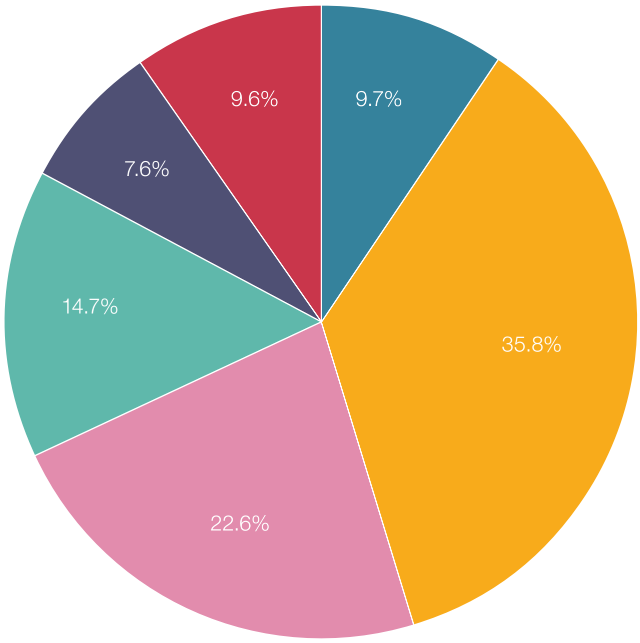
Market returns in 2019/20

	%
UK equities	-18.45
Global equities	-6.22
Emerging market equities	-13.30
UK index-linked bonds	1.97
UK property	-0.50



Breakdown of the Hampshire Pension Fund's investments on 31 March 2020*

	%
UK equities	9.7
Overseas equities	35.8
UK bonds	22.6
Overseas bonds	14.7
UK and European property	7.6
Alternative investments	9.6
Total	**100.0**



* Based on Note 11a of the Pension Fund's accounts and excluding accounting adjustments for long term debtors, current assets and current liabilities (notes 18 to 20 in the accounts)

The Fund has appointed investment managers responsible for several specialist portfolios, as follows.

Pension Fund investment management structure

	Target portfolio size %	Actual allocation at 31 March 2020† %	Benchmark	Annual target performance gross/ net of fees
Growth				
UK equities				
LF ACCESS UK Equity Fund (Schroders)	5.4	4.5	FTSE All Share	+1.25% gross
High-performance global equities				
Acadian Asset Management	6.5	6.4	MSCI World	+1.5% to 2.5% net
Baillie Gifford & Co	3.7	4.2	MSCI All Countries World	+1.5% to 2.5% net
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	8.1	9.1	MSCI All Countries World	+1.5% to 2.5% net
LF ACCESS Global Stock Fund (Dodge & Cox)	6.7	6.2	MSCI All Countries World	+1.5% to 2.5% net
Passive equities				
UBS (UK equities)	4.6	4.1	FTSE All Share Index	–
UBS (global equities)	0.6	4.8	FTSE All World Equity Index	–
UBS (alternative beta)	5.4	5.4	MSCI All Countries World	–
Private equity and other alternatives				
Aberdeen Standard Investments	5.0	4.4	–	+9% to 11.5% net
Hedge funds				
Morgan Stanley	0.0	0.1*	–	+5.5% to 8.0% net
Income				
Multi-asset Credit				
Alcentra	5.5	4.6	3 month GBP LIBOR	+3.0%
Barings	4.5	3.7	3 month GBP LIBOR	+3.0%
Asset Backed Securities				
Insight	1.0	2.5	3 month GBP LIBOR	+2.0%
TwentyFour	1.0	2.6	3 month GBP LIBOR	+2.0%
Private debt				
JP Morgan	5.0	1.9	3 month GBP LIBOR	+4.0%
Infrastructure				
GCM Grosvenor	5.0	3.0	–	+7.5% to 10.0% net
European property				
Aberdeen Standard Investments	0.0	0.0*	Eurozone Harmonised	+5% gross

Investment Performance continued

Pension Fund investment management structure (continued)

	Target portfolio size %	Actual allocation at 31 March 2020*† %	Benchmark	Annual target performance gross/ net of fees
Income (continued)				
UK property				
CBRE Global Investors	10.0	7.4	Retail Prices Index (RPI)	+3.5% net
Protection				
Passive index-linked bonds				
UBS	22.0	22.1	FT British Government Over Five Years Index-Linked Gilts Index	–
Other				
Cash and other net assets	0.0	3.0	–	–
Total	**100.0**	**100.0**		

* portfolio no longer forms part of the Investment Strategy and positions are being exited
† as per Note 11b in the Pension Fund's accounts

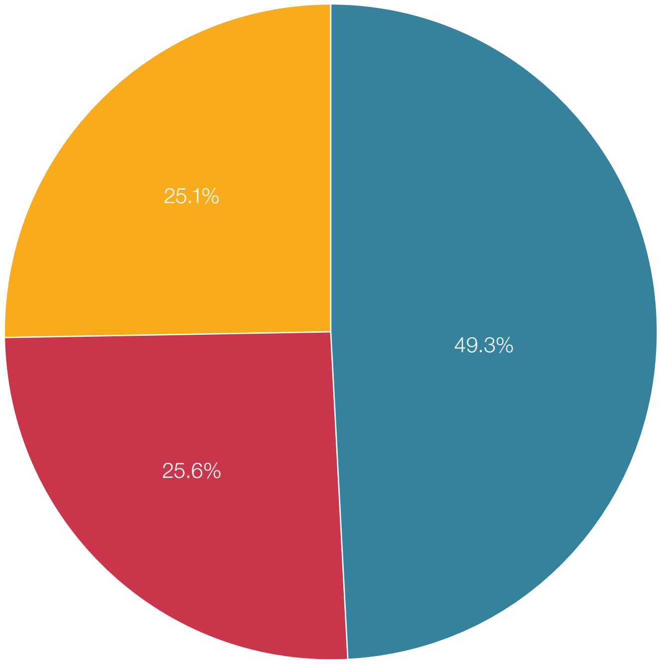
The value of the investments held by each of the Fund's managers on 31 March 2020 is shown in the following table.

Value of investments on 31 March 2020†

Manager	£million
Growth	
LF ACCESS UK Equity Fund (Schroders)	309
Acadian (global equity portfolio)	448
Baillie Gifford (global equity portfolio)	287
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	632
LF ACCESS Global Stock Fund (Dodge & Cox)	426
UBS (passive UK equities portfolio)	286
UBS (passive global equities portfolio)	334
UBS (passive alternative beta portfolio)	375
Aberdeen Standard (private equity and other alternatives)	304
Morgan Stanley (hedge funds)	7*
Income	
Alcentra (Multi-asset Credit)	315
Barings (Multi-asset Credit)	252
Insight (ABS)	175
TwentyFour (ABS)	179
GCM Grosvenor (infrastructure)	207
Aberdeen Standard (European property)	1*
CBRE (UK property)	509
Protection	
UBS (index-linked bond portfolio)	1,527
Cash and other net assets	208
Total	**6,911**

* portfolio no longer forms part of the Investment Strategy and positions are being exited

† as per Note 11b in the Pension Fund's accounts



Monitoring the performance of the investment managers

All the Pension Fund's investment managers have been set targets, with the expectation that these targets will be achieved over any three to five-year period. The performance of managers investing in listed equities is benchmarked against the relevant global, local or specialist index. Active managers are set targets to outperform the benchmark, whereas passive managers should track the index. Managers in asset classes other than listed equities are given targets relevant to both their asset class and the level of risk the Pension Fund considers appropriate to achieve its investment objectives.

For some asset classes, such as listed equities, the performance of the Pension Fund's assets will often show a strong degree of correlation to the benchmark and reflect what is going on in the wider market, albeit the investment managers appointed to the Fund's actively managed equity mandates are still expected to outperform their respective benchmarks. For other asset classes, investment returns are likely to show less correlation to the benchmarks against which targets have been set, such as where the Fund's managers invest in debt and credit instruments and the target is to outperform LIBOR rates.

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.

Investment Performance continued

The Fund in total

Total investment returns for the Hampshire Pension Fund were negative in 2019/20 as the global coronavirus pandemic caused markets to fall significantly shortly before the end of the reporting year on 31 March 2020. As a result, the Pension Fund's investments returned -3.1% compared with a weighted benchmark return of -1.4%.

The Fund's investment return was 2.7% per annum over the three years to March 2020, and 6.1% per annum over the five years to March 2020, with the impact of the global pandemic partially but not wholly eroding positive gains made in previous years. Over the five-year period to 31 March 2020 the Fund has achieved total returns greater than the weighted benchmark but below the weighted targets set for its investment managers.

When looking at the Pension Fund's equity investments, global and UK equity markets suffered losses in 2019/20 as a result of the global coronavirus pandemic, with companies listed in the UK particularly badly hit. All of the Pension Fund's active and passive equity managers saw marginal to significant losses in value in 2019/20, with the exception of the very strong positive performance delivered by the pooled Long Term Global Growth Fund (Baillie Gifford). This fund has been a strong performer for the Pension Fund since the Fund first invested in 2016.

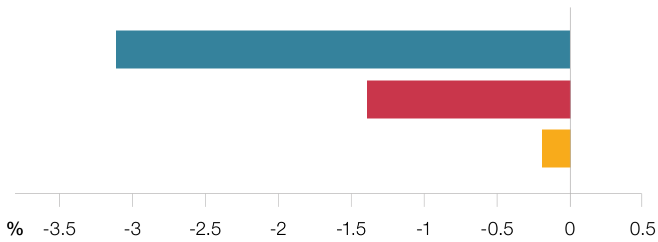
The pandemic also had a significant impact on debt markets, leading to falls in value for the Fund's Multi-Asset Credit and Asset Backed Securities investments. The impact on the less liquid property, private equity, infrastructure and private credit markets had not been fully quantified by the end of March 2020 due to the longer timescales involved in valuing these assets, however the estimated impact has been included in the Pension Fund's accounts (see page 24).

The Fund did see positive returns from the UBS managed UK index linked bonds portfolio, which is part of the Protection category of the Fund's Investment Strategy and accounts for approximately 22% of the overall Fund.

All performance figures are shown net of fees for the periods covering one and three years to 31 March 2020 but are shown gross of fees over the five year period due to the performance data available.

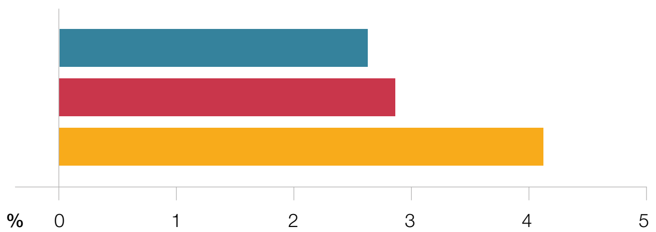
Total investment returns for the Fund
12 months to 31 March 2020

	%
Total Fund return	-3.1
Weighted benchmark indices	-1.4
Weighted benchmarks plus targets	-0.2



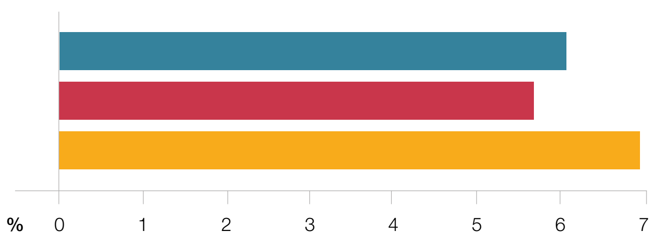
Total investment returns for the Fund
Three years to 31 March 2020

	% per annum
Total Fund return	2.7
Weighted benchmark indices	2.9
Weighted benchmarks plus targets	4.1



Total investment returns for the Fund
Five years to 31 March 2020

	% per annum
Total Fund return	6.1
Weighted benchmark indices	5.7
Weighted benchmarks plus targets	6.9



Global equities

The Pension Fund invests in global equities through a combination of passive and actively managed mandates. Two of the four actively managed mandates are through the ACCESS pool, while the other two mandates are currently managed outside of the pool but with the intention that they will transfer to the pool in future. The passive mandates are managed by UBS, the ACCESS pool's passive manager.

Full details of the investment management arrangements are on page 19 and performance data is only shown where meaningful data is available.

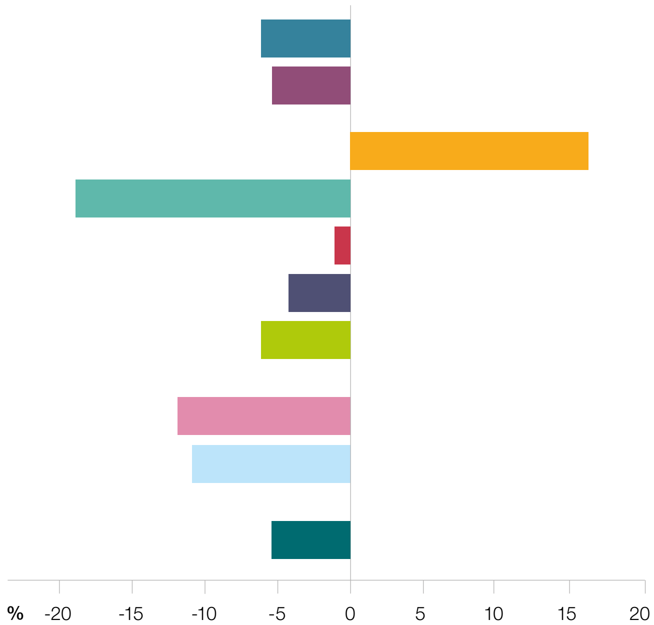
Global stock markets lost 6.2% in 2019/20, as measured by the MSCI All Countries World Index (ACWI), and 5.3% when emerging market stocks were excluded (MSCI World).

The Baillie Gifford Long Term Global Growth fund greatly outperformed the MSCI ACWI. This was due to a concentrated portfolio of growth stocks that performed well both before and during the pandemic. The Dodge and Cox Global Stock Fund suffered a more significant fall than the wider market as the value strategy employed has not been favoured by the market. In aggregate, the Fund's active global equity managers outperformed the MSCI ACWI benchmark, falling 5.4% compared with the 6.2% fall for the index.

Global equities

12 months to 31 March 2020

	%
Acadian	-6.2
MSCI World	-5.3
ACCESS Long Term Global Growth (Baillie Gifford)	16.4
ACCESS Global Stock Fund (Dodge & Cox)	-18.4
Baillie Gifford Global Alpha	-1.4
UBS Alternative Beta	-4.4
MSCI All Countries World Index	-6.2
UBS Global Equities	-11.7
FTSE All World Equity Index	-10.9
All active global investment managers	-5.4



Two of the Pension Fund's current global equity managers have a track record of three years and their performance is shown in the chart overleaf against their respective benchmarks. The chart also shows the aggregate performance over three years, including the performance of the Fund's previous active equity managers, showing that the Fund's active equity managers have outperformed the wider market.

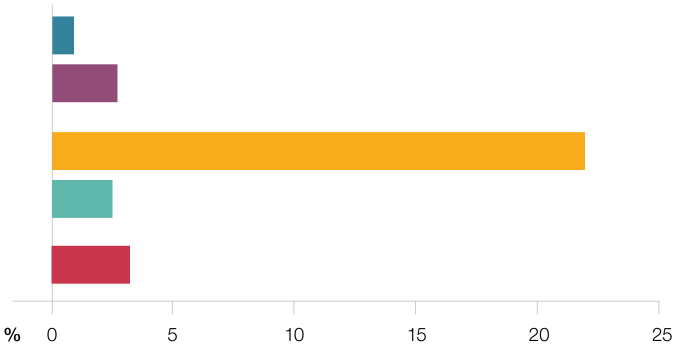
Investment Performance continued

The Baillie Gifford Long Term Global Growth Fund has achieved very strong returns over this period, significantly outperforming the benchmark. This has been because of a concentrated portfolio of growth stocks that have benefited from disruption and change. The Acadian portfolio has underperformed the benchmark because the strategy focuses on low volatility stocks and there has not been significant volatility in the market for the majority of the three year period.

Global equities

Three years to 31 March 2020

	% per annum
Acadian	0.9
MSCI World	2.8
ACCESS Long Term Global Growth (Baillie Gifford)	21.9
MSCI All Countries World Index	2.3
All active global investment managers	3.2

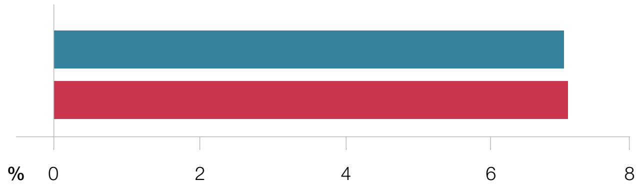


None of the Pension Fund's current active global equity managers has a track record of five years. The table below shows the aggregate performance of the Fund's active global equity managers over the last 5 years including the Fund's previous managers and shows the Fund's managers have marginally lagged the benchmark.

Global equities

Five years to 31 March 2020

	% per annum
All active global investment managers	7.1
MSCI All Countries World Index	7.2



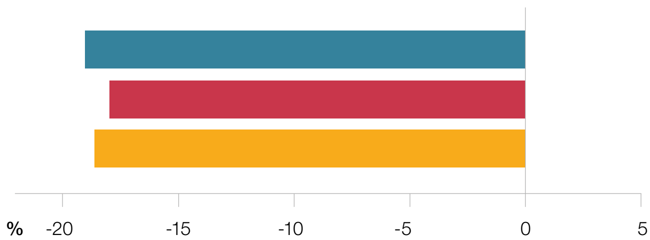
UK equities

The UK stock market experienced a significant fall as a result of the global coronavirus pandemic and lost 18.5% during 2019/20 as measured by the FTSE All Share Index. The ACCESS UK Equity Fund (managed by Schroders) has underperformed the FTSE All Share index over the last one year, three and five year periods. Underperformance in 2019/20 was partly due to some unsuccessful individual stock picks, but also due to Schroders' value strategy not being favoured by the market over this time period. The passive mandate with UBS has slightly outperformed the index over the one and five year time horizons.

UK equities

12 months to 31 March 2020

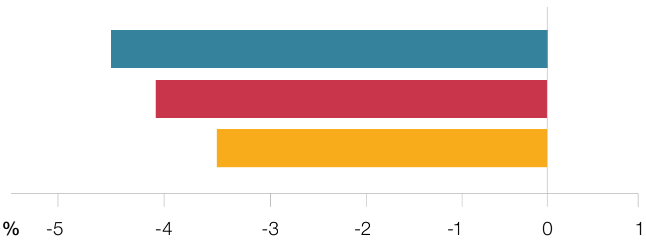
	%
ACCESS UK Equity Fund (Schroders)	-18.8
UBS UK equities	-18.2
FTSE All Share Index	-18.5



UK equities

Three years to 31 March 2020

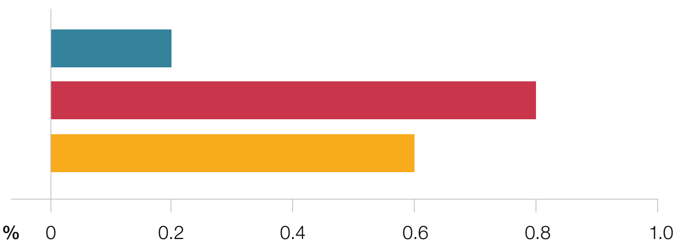
	% per annum
ACCESS UK Equity Fund (Schroders)	-4.5
UBS UK equities	-4.1
FTSE All Share Index	-3.5



UK equities

Five years to 31 March 2020

	% per annum
ACCESS UK Equity Fund (Schroders)	0.2
UBS UK equities	0.8
FTSE All Share Index	0.6



Bonds

The FTSE British Government Over Five Years Index-Linked Gilts Index returned 1.98% during 2019/20 and UBS tracked this performance almost exactly.

The Pension Fund appointed Alcentra and Barings as its two Multi-Asset Credit investment managers during 2019 and 2019/20 is the first year for which performance data is available. Both investment managers predominantly invest directly in bonds and loans and have been given a target to deliver returns of 3% per annum above the 3 month average LIBOR rate. The value of both portfolios fell significantly as markets reacted to the global coronavirus pandemic and investors sought safety in cash and there was a sell-off in bonds and loans.

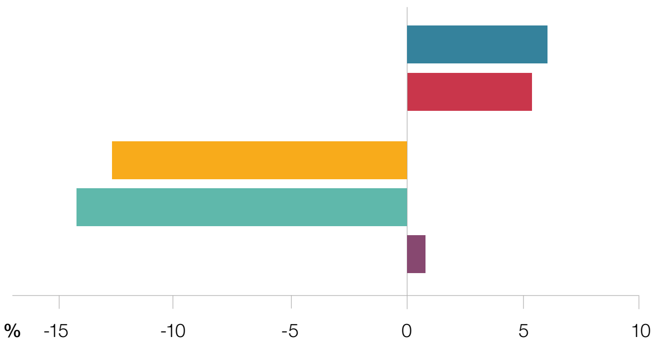
Two new investment managers were appointed during 2019/20 to manage investments in Asset Backed Securities (Insight and TwentyFour). Performance data is not shown for these managers as investments have been held for under a year. The Fund's investments in private debt through JP Morgan Alternative Asset Management are covered under the section on alternative investments on page xx.

None of the Fund's current bond managers have a track record of three years or more.

Bonds

12 months to 31 March 2020

	%
UBS	5.8
FTSE index linked gilts index	5.1
Alcentra	-13.1
Barings	-14.5
3 month average LIBOR	0.8



Property

CBRE Global Investors manage a portfolio of UK properties, with a performance target of the Retail Price Index (RPI) plus 3.5% over seven to 10 years. CBRE Global Investors performance return of -0.5% in 2019/20 was below their target. CBRE Global Investors have underperformed their RPI plus 3.5% target over the last three year period but have outperformed over the last 5 years, as well as over the 7 and 10 year periods against which their target is judged.

CBRE Global Investors mirrored the Investment Property Databank (IPD) benchmark return of -0.5% during 2019/20

Investment Performance continued

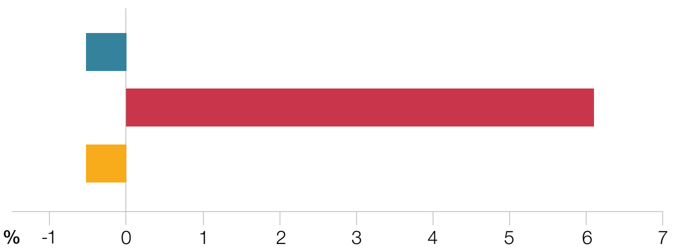
while slightly underperforming the benchmark over the previous 3 year period and slightly outperforming over 5 years. The IPD benchmark reflects the returns achieved by similarly sized property portfolios but is not the performance target for this portfolio.

Shown below are the performance results of the Fund's UK property manager against the IPD benchmark and their benchmark of RPI plus 3.5%.

Property

12 months to 31 March 2020

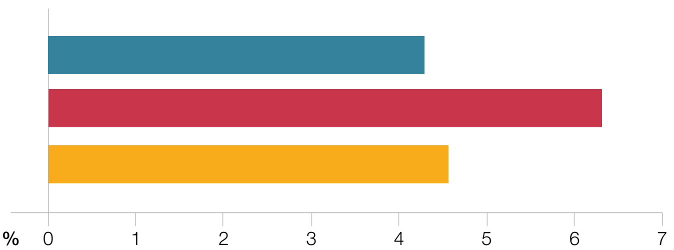
	%
CBRE Global Investors – UK property	-0.5
RPI plus 3.5%	6.1
IPD benchmark	-0.5



Property

Three years to 31 March 2020

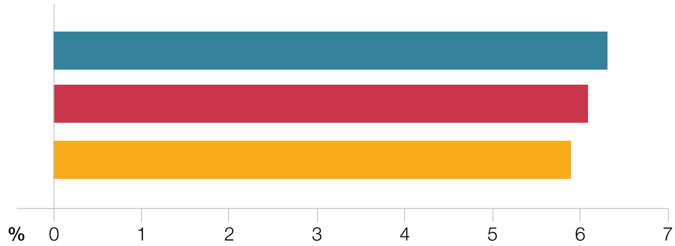
	% per annum
CBRE Global Investors – UK property	4.3
RPI plus 3.5%	6.3
IPD benchmark	4.6



Property

Five years to 31 March 2020

	% per annum
CBRE Global Investors – UK property	6.3
RPI plus 3.5%	6.1
IPD benchmark	5.9



Alternative investments

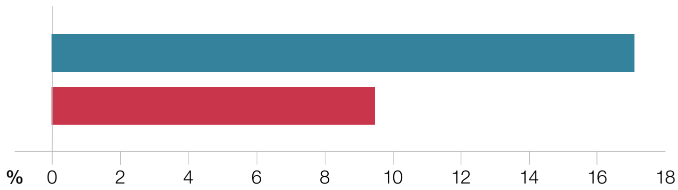
The Pension Fund's private equity and infrastructure portfolios are managed by Aberdeen Standard Investments and GCM Grosvenor respectively. Following changes to the Investment Strategy, the Pension Fund is in the process of disinvesting from the hedge funds portfolio (Morgan Stanley) and has established a new private debt mandate with JP Morgan.

The performance of the private equity and infrastructure portfolios is measured using the Internal Rate of Return (IRR), which gives an annualised effective interest rate for the investment, taking account of the timing of the cashflows. The infrastructure portfolio in particular should be considered a long-term investment.

No performance data is shown for the private debt portfolio because investments have been held for less than a year. The full impact of the global coronavirus pandemic is not reflected in the performance figures for the private equity and infrastructure investments at 31 March 2020 due to the longer timescales associated with the valuation of illiquid assets. The valuations in the Pension Fund's accounts for these investments have, however, been adjusted to allow for the estimated impact, with more detail provided on page 67.

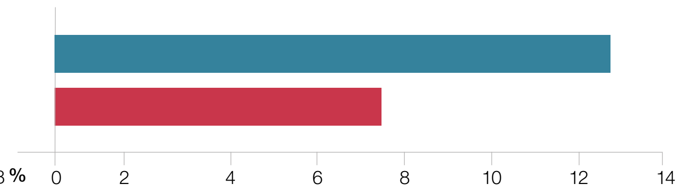
Private equity and other
12 months to 31 March 2020

	%
Aberdeen Standard Investments	17.1
Absolute target 9.5% p.a	9.5



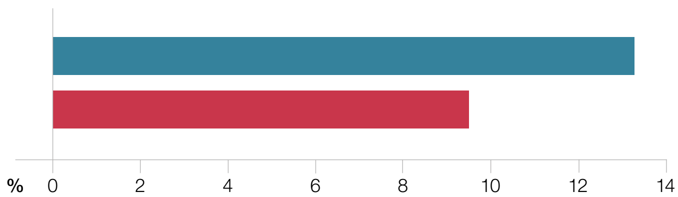
Infrastructure
12 months to 31 March 2020

	%
GCM Grosvenor	12.7
Absolute target 7.5% p.a	7.5



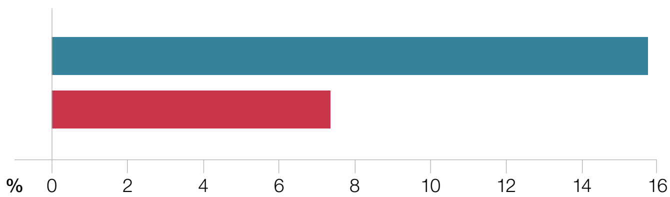
Private equity and other
Three years to 31 March 2020

	% per annum
Aberdeen Standard Investments	13.3
Absolute target 9.5% p.a	9.5



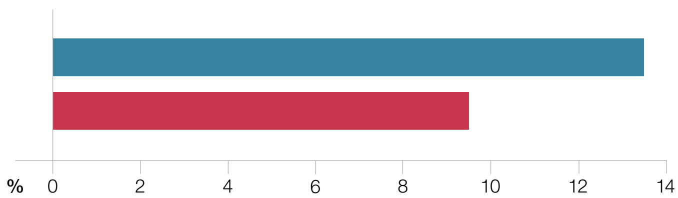
Infrastructure
Three years to 31 March 2020

	% per annum
GCM Grosvenor	15.8
Absolute target 7.5% p.a	7.5



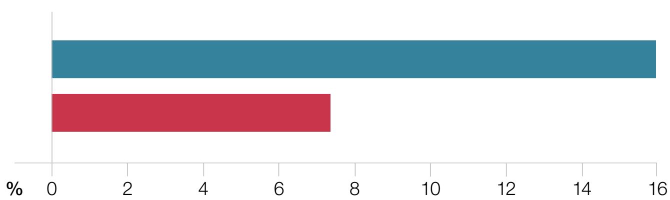
Private equity and other
Five years to 31 March 2020

	% per annum
Aberdeen Standard Investments	13.5
Absolute target 9.5% p.a	9.5



Infrastructure
Five years to 31 March 2020

	% per annum
GCM Grosvenor	16.0
Absolute target 7.5% p.a	7.5



Investment Performance continued

Analysis of Fund Assets and Investment Income

The following tables show an analysis of the Fund assets and investment income as at 31 March 2020, split between UK, non-UK and global portfolios. Not all of the Fund's investments distribute income and in such cases any gains instead contribute to the overall value of the asset.

Fund Assets at 31 March 2020*

	UK £m	Non-UK £m	Global £m	Total £m
Equities	655.8	–	2,417.7	3,073.5
Bonds	1,526.5	–	992.5	2,519.0
Property	509.1	0.4	–	509.5
Alternatives	31.9	–	613.4	645.3
Cash and cash equivalents	0.0	–	–	0.1
Total	**2,723.3**	**0.4**	**4,023.6**	**6,747.4**

** Based on Note 11a of the Pension Fund's accounts. Excludes accounting adjustments for long term debtors, current assets, current liabilities (notes 18 to 20 in the accounts) and investment liabilities.*

Investment income received in 2019/20

	UK £m	Non-UK £m	Global £m	Total £m
Equities	–	–	14.0	14.0
Bonds	31.8	–	9.9	41.7
Property	26.7	0.0	–	26.7
Alternatives	1.5	–	16.7	18.2
Cash and cash equivalents	–	–	–	1.2
Other (including stock lending)	–	–	–	1.8
Total	**60.0**	**0.0**	**40.6**	**103.6**

Scheme Administration Report

Who belongs to the Hampshire Pension Fund?

The Hampshire Pension Fund provides pensions for employees of Hampshire County Council, the unitary authorities of Southampton and Portsmouth and the 11 district / borough 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 the Office of the Police and Crime Commissioner and the Chief Constable for Hampshire, Hampshire Fire and Rescue Authority, the University of Portsmouth, Southampton Solent University and other colleges that were part of the County Council. Town and parish councils that have opted to join the Fund are known as resolution bodies.

There are also admission bodies which include voluntary organisations that the County Council has admitted to the Scheme under its discretionary powers. Other admission bodies include employees of contractors for jobs transferred from scheduled bodies.

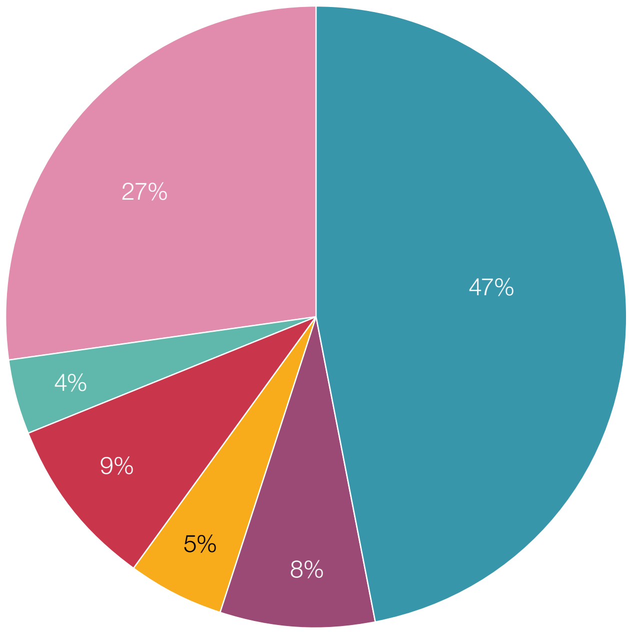
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years.

The 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**

On 31 March 2020 there were 43,706 pensioners, 75,920 deferred members, and 58,913 contributors, a total of 178,539 Scheme members.

	Number of contributors	%
Hampshire County Council	27,610	47
Portsmouth City Council	4,678	8
Southampton City Council	3,200	5
District and Borough Councils	5,110	9
Office of Police and Crime Commissioner and Chief Constable	2,530	4
Other organisations	15,785	27
Totals	**58,913**	**100**



Scheme administration report continued

The following table shows a summary of employers in the fund analysed by type.

Employer Type	Employers	Active members	Deferred members	Pensioner members
Scheduled	180	57,296	73,730	41,062
Resolution	59	296	191	208
Admitted	66	1,155	1,053	1,081
Community admitted	15	71	323	359
Transferee admitted	22	5	277	228
Councillors (no active members)	10	0	94	128
Ceased (no active members)	52	0	252	640
Total	**404**	**58,913**	**75,920**	**43,706**

How the service is delivered

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. Members can access their pension information online via the Member Portal.

There are 53 full time equivalent members of staff involved in the administration of the scheme for Hampshire, split into two main teams, supported by finance, projects and systems staff:

- a single Member Services team responsible for administering all casework, handling all member queries and paying pensioners
- an Employer Services team, responsible for all employer work including new and exiting employers, 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).

The CSE assessment considers how Pensions Services deliver against over 50 criteria in five key areas:

- Customer insight
- Culture of the organisation
- Information and access
- Delivery
- Timeliness and quality of service

The assessment is carried out by a qualified external assessor, with a full on-site review every third year and annual interim reviews. As well as viewing documentation, and observing working practices, the assessor speaks to customers, staff and partners to review Pensions Services' approach, along with details of their customer focussed initiatives and performance.

Pensions Services have held the Customer Service Excellence (CSE) standard since 2009, and retained the award following an interim assessment in April 2020, with compliance plus passes in nine areas:

- We use reliable and accurate methods to measure customer satisfaction on a regular basis.
- There is corporate commitment to putting the customer at the heart of service delivery and leaders in our organisation actively support this and advocate for customers.

- We empower and encourage all employees to actively promote and participate in the customer focused culture of our organisation.
- We can demonstrate our commitment to developing and delivering customer focussed services through our recruitment, training and development policies for staff.
- We can demonstrate how customer-facing staff's insight and experience is incorporated into internal processes, policy development and service planning.
- We have challenging standards for our main services, which take account of our responsibility for delivery of national and statutory standards and targets.
- We make our services easily accessible to all customers, through the provision of a range of alternative channels.
- We monitor and meet our standards, key departmental and performance targets, and we tell our customers about our performance.
- We identify any dips in performance against our standards and explain these to customers, together with action we are taking to put things right and prevent further recurrence.

Pensions Services ran 11 training events in the year which w ere attended by 171 people representing 66 employers and two Employer Focus Group meetings. The Annual Employers Meeting was held in October 2019 and was attended by representatives from 90 employers. In addition Pensions Services staff attended various employer liaison meetings throughout the year, as well as the regional payroll officer's group.

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, as well as update personal details. 45,993 members had registered for the Member Portal by 30 April 2020.

Key performance data

			% cases completed against service standard			
Area of work	**Service Standard**	**Number of Cases**	Q1 %	Q2 %	Q3 %	Q4 %
Retirement	15 days	977	99.55	100	100	100
Deferred Retirement	15 days	1,635	98.67	100	100	100
Estimate	15 days	2,747	92.43	100	100	100
Deferred	30 days	6,509	90.50	99.50	100	100
Transfers In and Out	15 days	399	71.21	94.94	100	100
Divorce	15 days	409	65.26	97.89	100	100
Refund	15 days	1,338	100	100	100	100
Rejoiners	15 days	625	91.95	100	100	100
Interfunds	15 days	462	63.38	94.19	93.10	100
Death	20 days	949	95.92	100	100	100

Scheme Administration Report continued

Annual benefit statements were produced for 99.43% of active members and for 100% of deferred members by the statutory deadline of 31 August 2019. Of the 321 active members who did not have a statement by the deadline, 244 were produced by December 2019 once employers had provided the outstanding information.

Pension Savings Statements (PSS) were produced by the statutory deadline of 6 October for the 104 members who were identified as breaching the annual allowance limit in 2018/19. Of these 25 had a tax charge.

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

Timeliness of contributions

All employer contributions due for 2019/20 have been received, with the exception of one admitted body who has not paid for March 2020.

A total of £3.845m was paid late (£3.203m in 2018/19) which was 1.13% of the total contributions received. The average delay on all late payments received during 2019/20 was 11 days (11 days in 2018/19). Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2019/20.

Mortality screening and National Fraud Initiative

Pension Services run a monthly mortality screen to ensure that all deaths are reported promptly to the Fund and to minimise overpayments of pension. Overpayments are recovered by the Fund by invoice to the estate, or, with permission from the beneficiary, from a death grant or dependant pension. The table below shows the breakdown of how overpayments were recovered by the Fund.

Recovered From	Number	Total Value
Death Grant	73	£30,946.27
Dependent Pension	198	£99,219.68
Invoice	315	£137,491.55
Write Off	89	£3,464.83
Total	**675**	**£271,122.33**

Cost benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Department for Communities and Local Government. The most recent data is that for the financial year 2018/19 and is summarised in the following table:

	2018/19		2017/18	
	Hampshire	All Funds	Hampshire	All Funds
Administration cost per member	£14.07	£22.28	£11.96	£20.85
Governance cost per member	£3.68	£10.39	£3.27	£8.96
Investment cost per member	218.70	£189.59	£228.42	£175.44

The increase in administration costs in 2018/19 were in part due to the investment in the new Member Portal.

Value for money statement

Hampshire Pension Services deliver an efficient and effective administration service as demonstrated by:

- delivery against service levels
- internal audit assurance on sound control framework
- retention of Customer Service Excellence award
- low administration cost per member

Work has continued in the year to improve data quality, with a focus on working with employers to improve the timeliness and quality of the information they provide.

Summary of activity in 2019/20

As well as the focus on processing casework, Pension Services also completed a number of projects.

- Dismantling the main employer funding group and creating two smaller pools; providing information and support to affected scheme employers, as well as wider support for employers in the valuation year.

- New starters now receive an email rather than a letter welcoming them to the Fund. The email asks them to register for the Member Portal to securely access their documents and complete a membership option form.
- The Pension Services website has been fully reviewed to ensure the content is accessible and relevant to members.

Common and conditional data scores were reported to the Pensions Regulator in November 2019. The results of this provided a score for conditional data of 94% (87% in 2018/19). The score for common data was measured as 92% (94% in 2018/19). The main reason for the reduction in the common data score is the number of deferred members for whom we do not hold a current address (approximately 6,000 of whom 261 are over age 65). With the new Member Portal now in place, a one-off exercise to trace deferred members will be carried out in 2020/21 to ask them to register so that they can easily keep the Fund informed when they change their details.

What does membership cost and what are the benefits?

The Scheme operates tiered employee contribution rates set by Government. Employees pay a rising percentage depending on their pay band. The rates that apply from 1 April 2020 are set out in the following table:

Band	Actual salary	Contribution rate per year	
		Main Section	50:50 Section
1	Up to £14,600	5.50%	2.75%
2	£14,601 to £22,800	5.80%	2.9%
3	£22,801 to £37,100	6.50%	3.25%
4	£37,101 to £46,900	6.80%	3.4%
5	£46,201 to £65,600	8.50%	4.25%
6	£65,601 to £93,000	9.90%	4.95%
7	£93,001 to £109,500	10.50%	5.25%
8	£109,501 to £164,200	11.40%	5.7%
9	£164,201 and more	12.50%	6.25%

Every three years the Fund's actuary, Aon, completes an actuarial valuation. This involves looking at the Fund's investments, future contributions from employees and commitments to decide the future level of employers' contributions. The most recent actuarial valuation of the Fund was undertaken at 31 March 2019. The actuarial position of the Fund is explained in more detail on page 46.

Following the 2010 valuation, the employer contribution rate was split into two elements. This approach has continued with the subsequent valuations:

- a percentage of contributor's pay for future service (primary contribution rate).
- a fixed cash amount based on a percentage of employer payroll for past service (secondary contributions).

At the 2019 valuation for the Fund as a whole, the primary contribution rate was 17.8% and secondary contributions required to remove the past service shortfall over a recovery period of 16 years from 1 April 2020 are £1.3m per annum (increasing at 3.1% per annum).

Prior to 1 April 2019 all the secure scheduled bodies in the Fund participated in a grouped funding arrangement called the 'Scheduled Body Group'. With effect from 1 April 2019 the Scheduled Body Group was disbanded, with the main employers instead having their contributions assessed on an individual basis.

At this valuation, an Academies pool was created, as well as a Town and Parish Council pool. In addition a small Admitted Body Group remains consisting mainly of small charitable bodies. Within these groups, employers pay the same future service contribution.

Benefits

The normal retirement age for all members is the later of age 65 or their state pension age. At retirement, members will receive:

- a pension of 1/80th of their final year's pay for each year of membership before 1 April 2008, and
- a lump sum of 3/80ths of their final year's pay for each year of membership before 1 April 2008, and
- a pension of 1/60th of their final year's pay for each year of membership after 31 March 2008 until 31 March 2014, and
- a pension of 1/49th of their actual pay for each year of membership after 1 April 2014.

In addition to the lump sum for membership before 1 April 2008, each member can exchange part of their pension pot for a lump sum and will receive £12 for every £1 of pension given up. However, the total lump sum is limited to 25% of their pension pot's value.

HM Revenue and Customs (HMRC) values retirement benefits in defined benefit schemes like the Hampshire Scheme at £20 for each £1 of pension, whatever the person's age. For all pensions already in payment, the value will be £25 for each £1 of pension.

The average annual pension paid in 2019/20 was £5,038 (£5,023 in 2018/19).

Retirement age

The normal retirement age for members under the Scheme is the later of age 65 or their state pension age, but members can choose to retire from age 55 and receive their benefits immediately, although these may be reduced for early payment.

A total of 2,462 Scheme members retired during 2019/20, with an average retirement age of 62 years. Of this number, 1,350 (or 54.8%) took some form of early retirement including 91 ill health retirements and 1,079 members choosing to take a reduced pension.

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 AVCs are invested separately from the Fund's main assets and are used to buy extra pension benefits on retirement.

The Fund has two AVC providers, Prudential and Zurich. Members with existing AVCs with Equitable Life transferred to Utmost Life and Pensions in January 2020, following the positive vote by shareholders.

Membership information

A full listing of contributing employers to the Hampshire Pension Fund is available at:

https://www.hants.gov.uk/hampshire-services/pensions/local-government

Year ending 31 March	No. of contributors	No. of deferreds	No. of pensioners
2013	46,319	48,970	33,449
2014	50,551	52,417	33,286
2015	54.679	55,787	34,364
2016	57,815	59,857	36,519
2017	57,781	64,060	38,216
2018	57,877	69,503	39,796
2019	58,055	72,050	41,714
2020	58,913	75,920	43,706

The number of contributors has increased slightly in the year. The number of pensioners and deferred members in the Fund have increased in line with the general trend.

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 2019/20. These were all investigated and changes were 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 Finance if it is against Pension 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) appeals against the Pension Fund during 2019/20. This was not upheld and proceeded to stage two of the IDRP process, the outcome agreeing with the stage one decision.

There were two stage two appeals against employer decisions; one on ill health, and one on purchasing additional pension contributions. These were not upheld.

The Fund's Statutory Statements

Hampshire Pension Fund maintains a number of statutory statements, as follows:

Business Plan
Funding Strategy Statement
Investment Strategy Statement
Governance Policy Statement
Governance Compliance Statement
Communication Policy Statement
Hampshire Pension Fund Administration Strategy
Employer Policy

These statements were last reviewed and approved by the Pension Fund Panel and Board during 2019/20:

http://democracy.hants.gov.uk/ieListMeetings.aspx?CId=189&Year=0

All reports are available on the Pension Fund website at the following link:

https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/policies

Risk Management Report

The management of risk is part of the control framework managed by the staff of the Deputy Chief Executive and Director of Corporate Resources with assurance provided through the work of Hampshire County Council's internal audit function.

The aims of the Pension Fund are published in the Funding Strategy Statement, which is reported to the Pension Fund Panel & Board annually. Risks are identified by analysing what may interfere with the achievement of these aims, including risks associated with investment pooling arrangements.

An assessment of each risk is conducted by the staff of the Director of Corporate Resources with assistance from the Fund Actuary. The risk register is reported to the Pension Fund Panel & Board annually. In addition, investment risks are published in the Investment Strategy Statement.

Control assurance reports from investment managers and the custodian (JP Morgan) are received by the Pension Fund and are used to provide assurance over third party operations.

The Pension Fund has identified the following risks and has put in place the following mitigating action:

Risk	Description	Likelihood	Impact	Mitigation
Employer risk	These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities. These events could cause the risk of unexpected structural changes in the Fund's membership and the related risk of an employer failing to notify the administering authority promptly.	M	H	The Administering Authority requires the other participating employers to communicate regularly with it on such matters. The Pension Fund Panel and Board have approved a Funding Strategy Statement that groups similar employers together for funding purposes. The Fund's Employer Policy outlines how the Administering Authority will deal with any situation resulting from a change in any Fund employers' circumstances or new employers entering the Fund. The Administering Authority monitors the status of the employers in the Fund and discusses any changes, including any necessary changes to the Funding Strategy Statement, with the Fund's Actuary.
	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.			The Pension Fund's Funding Strategy Statement groups similar employers together and reflects that most of the employers in the Fund have a degree of Central Government support. Where this is not the case the Funding Strategy Statement sets out how this will be taken into account to manage the risk. The Employer Policy requires new employers to have a guarantor who would be called on in the event of an insolvency, and all charitable admission bodies now have a subsumption commitment from their associated local authority which helps to reduce any exit debt. The Administering Authority has a written policy on how it would exercise its discretion to defer pension contributions in exceptional circumstances.

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Risk Management Report continued

Risk	Description	Likelihood	Impact	Mitigation
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyber attack or pandemic disease), either effecting the Pension Fund directly or one of its key suppliers.	H	M	Pension Services follow the Administering Authority's Disaster Recovery policy that ensures that processes are in place to manage in the event of the loss of key resources. Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.
Administration risk	The Pensions Regulator identifies the risks being around:	M	M	
	• Employer contribution monitoring: are employers paying the right amount of contributions on time?			Employer contributions are set out in the triennial valuation and the deadline for payment is set by Regulation as 22nd of the month. Contributions are monitored and any late payments are reported to the Pension Fund Panel and Board. Any issues of 'material significance' will be reported to the Regulator
	• Record-keeping: how comfortable are you that your records are complete and accurate?			The Administration Strategy is the agreement between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to the certain principles, including: • provide a high quality pension service to members • take responsibility to provide accurate and timely information • the results are reported to the Panel & Board twice a year. The annual returns exercise is completed each year and employer performance is monitored with processes in place to help improve this where necessary. The Compliance and Delivery Manager is responsible for ensuring that data is complete and accurate in line with TPR requirements and that any actions on the data improvement plan are implemented. The Administering Authority has implemented a data analysis tool which provides daily management information on potential data issues.

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Risk	Description	Likelihood	Impact	Mitigation
	• Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated?			Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.
	• Member communication: are these always accurate, timely and clear?			There is a Communications Policy and Customer Charter on the Pension Services website, which details the service our scheme members can expect.
	• Internal disputes: do these indicate wider problems in the Fund?			The full complaint process, going all the way though to the Pensions Ombudsman, is detailed on the Pension Services website. All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.
	• Resourcing: conflicting priorities with servicing other partners.			Resourcing plans are in place to ensure services can be delivered to each partner. Project plans are in place that identify the requirements of each partner, including the on-boarding of new partners.
Investment risk	Investment management underperformance – from the Fund's investment managers failing to outperform their benchmark returns for prolonged periods of time	M	H	The Fund's investment managers' performance is reviewed regularly by the Fund's officers and reported regularly to the Panel and Board. All of the Fund's contracts for investment management contain the provision that the Fund can cancel the contract with 1 month's notice in the event of poor investment performance.
	Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities			The Panel and Board have set a diversified asset allocation which limits exposure to one particular market. The Fund contracts with specialist external investment managers and as a general principle aims to invest globally and set mandates for investment managers that give them as much freedom as possible, in order to manage market conditions as they see fit.
	Interest rate risk – which can affect the prices of investments that pay a fixed interest rate			The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for investment managers that give them as much freedom as possible, in order to manage risks such as changes in interest rates.

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	Currency risk – the risk of fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			As a UK Pension Fund the Panel and Board consider that the Pension Fund should have a significant proportion of its assets denominated in Sterling, thereby removing the currency risk. The Panel and Board keep their view of the long term nature of currency movements under review and will seek specialist advice if they believe that this might change or there is likely to be an event that might crystallise the effect of particular currency movements. Where investment returns in particular asset classes are at risk of disproportionate currency effects (such as Multi-asset Credit and Private Debt) the investments are hedged back to Sterling. In addition having taken advice to mitigate the overall currency impact on the Pension Fund, the passive global equity investments is hedged back to.
	Credit risk – the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.			The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment, with further limits set in the Investment Strategy Statement to limit the Fund's exposure to particular vehicles or assets
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates.			The Fund contracts with specialist external investment managers and as a general principle aims make their portfolios 'ever-green' so that income and maturing investments can be reinvested, allowing investment managers to build portfolios that do not have a concentration of investments with a particular maturity date. The Pension Fund's stock lending programme is protected by collateral managed by the Fund's custodian.
	Custody risk – losing economic rights to Fund assets, when held in custody or being traded.			The Panel and Board and the Fund's officers regularly monitor the performance of the Fund's custodian and have the power to replace the provider should serious concerns exist.

L = Low likelihood / impact   M = Medium likelihood / impact   H = High likelihood / impact

Risk	Description	Likelihood	Impact	Mitigation
	Liability risk – that the Fund's liabilities are not accurately calculated resulting in the return target being too low and employer's contributions having to rise.			The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions.
	Environmental, social and governance (ESG) factors including the impact of climate change – that these factors materially reduce long-term returns.			As set out in the Fund's Responsible Investemnt Police, the Fund's external investment managers are required consider ESG factors in their investment decisions, including any negative contribution to climate change and the overall risk from the impact of climate change, and to exercise the Fund's responsibility to vote on company resolutions wherever possible. They have also been instructed to intervene in companies that are failing, thus jeopardising the Fund's interests, by voting or by contacting company management directly.
	Regulatory risk – that inhibits the Pension Fund Panel and Board's fiduciary duty.			The Fund will be proactive in engaging with the Government, including responding to consultation, on any issues effecting the management and investment of Pension Fund monies.
	Illiquidity – that the Fund is unable to meet its immediate liabilities			The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available. The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	M	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.

L = Low likelihood / impact   M = Medium likelihood / impact   H = High likelihood / impact

Risk Management Report continued

Risk	Description	Likelihood	Impact	Mitigation
Funding risk	The Government Actuary's Department (GAD) has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of the LGPS has been carried out. Their report must cover: • whether the fund's valuation is in accordance with the scheme regulations • whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS • whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund. These requirements will have statutory force with effect from the 2016 valuations in England and Wales. Funds will be assessed against a number of measures and scored as: **Red** – potentially a material issue that might contribute to a recommendation for remedial **Amber** – highlights a possible risk action to ensure solvency	M	H	Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2016 valuation. The Section 13 report will be reviewed and amber or red flags will be reviewed with the Fund's actuary and reported to the Pension Fund Panel and Board with proposed mitigations.

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Risk	Description	Likelihood	Impact	Mitigation
	Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency GAD will then engage with Funds with any amber or red flags.	M	H	Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2016 valuation.
Regulatory and Compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.	M	L	The Pension Fund Panel and Board has documented Terms of Reference and Operating Procedures. The Panel and Board will consider all items that are material to the management of Hampshire Pension Fund and are supported by suitably qualified officers. Members of the Pension Fund Panel and Board complete a Training Needs Analysis based on CIPFA's Knowledge and Skills Framework and undertake identified training activities as necessary.
Pooling risk	That the investment pool which Hampshire has joined does not function effectively and provide the investments that Hampshire requires in order to implement its Investment Strategy	L	M	The Chairman of the Panel and Board supported by the Pension Fund's officers take an active part in the operation of the ACCESS pool to ensure its continued effectiveness. The Panel and Board and officers will continue to monitor the suitability of the Pension Fund's investments and where necessary consider appropriate alternatives available via ACCESS.
Contractual risk	The contractual arrangements between the County Council (on behalf of the Pension Fund) and its suppliers are challenged as unlawful	L	H	The Pension Fund receives advice from the County Council's Legal and Procurement staff about the most appropriate contractual arrangements to put in place to meet its legal obligations.

Pension Fund Budget Commentary

Shown below is the Pension Fund's budget for 2019/20 compared to actual expenditure, and the budget for the years 2020/21 to 2022/23. The budget for 2020/21 was agreed by the Pension Fund Panel and Board at its meeting of 13 December 2019.

	Budget 2019/20 £'000	Actual 2019/20 £'000	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000
Contributions received – Employers – normal	176,600	179,290	397,910	92,540	95,520
Contributions received – Employers – deficit	86,900	91,293	6,300	6,500	6,800
Contributions received – Employers – total	263,500	270,583	404,210	99,040	102,320
Contributions received – Members	68,500	69,558	70,400	72,600	74,900
Transfer values	0	-3,141	0	0	0
Benefits paid	-258,800	-264,906	-277,200	-282,700	-288,400
Net additions/withdrawals from dealings with members	**73,200**	**72,094**	**197,410**	**-111,060**	**-111,180**
Investment management fees	41,555	47,780	44,751	48,352	52,960
Staff	1,560	1,698	1,597	1,635	1,674
Premises	60	65	61	62	63
IT	280	244	285	290	296
Supplies & Services	230	155	234	239	243
Other	0	34	0	0	0
Administrative Costs	2,130	2,196	2,177	2,226	2,276
Staff	330	355	375	385	395
Premises	5	5	5	5	5
IT	5	5	5	5	5
Supplies & Services	350	347	335	325	345
Other	5	10	5	5	5
Oversight & Governance Costs	695	722	725	725	755
Management Expenses	**44,380**	**50,698**	**47,653**	**51,303**	**55,991**

Dealings with members

Net additions from dealing with members was £1.1m lower than forecast. The Fund received a net inflow of £3.1m for pension transfers. Transfer values cannot be forecast as they are equally likely to be a net inflow or outflow. Benefits paid were £6.1m more than forecast, as the value of pensions was higher than planned. Employer contributions were £7.1m more than forecast as the number of active members of the scheme was higher than forecast as was the salary base for the level of contributions.

Management expenses

The Pension Fund pays its investment managers a percentage fee based on the value of investments. Investment management fees were higher than forecast as a result of additional costs for maintaining the Fund's investment properties and in fees paid to the underlying managers of the Fund's alternative allocations.

The increase in staff costs under the administration costs budget heading is due to work undertaken to reshape the teams to reflect the increasing complexity of administration. Investment in technology has produced more efficient processes and a reduction in budgeted printing and postage costs. Other expenditure is an increase in the Pension Fund's bad debt provision. This provision is made on debts owed to the Fund, including any outstanding contributions. A more prudent provision has been made because of the current Coronavirus crisis.

Governance costs were higher than forecast due to a reallocation of senior management costs between administration and governance.

Statement of the Actuary

for the year ended 31 March 2020

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Hampshire Pension Fund (the 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 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £7,181.9M) covering 98.9% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

   - 17.8% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

   Plus

   - an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 below, and monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 16 years from 1 April 2020, which together comprise the secondary rate

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

   Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2020	18.6	7.2
2021	18.6	7.5
2022	18.6	7.8*

** Increasing at 3.1% p.a.*

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	
Scheduled body group employers *	4.40% p.a.
Intermediate funding targets	
– Low Risk	3.90% p.a.
– Medium Risk	3.75% p.a.
– High Risk	3.55% p.a.
Ongoing Orphan employers	3.55% p.a.
Discount rate for periods after leaving service	
Scheduled body group employers *	4.40% p.a.
Intermediate funding targets	
– Low Risk	3.90% p.a.
– Medium Risk	3.75% p.a.
– High Risk	3.55% p.a.
Ongoing Orphan employers	1.60% p.a.
Rate of pay increases	3.10% p.a.
Rate of increase to pension accounts	2.10% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.10% p.a.

** The appropriate secure scheduled body or intermediate discount rate was also used for employers whose liabilities will be subsumed after exit by an employer subject to that funding target.*

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2N mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience using Aon's Demographic HorizonsTM longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018), with a smoothing parameter Sκ of 7.5% and long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.9	25.4
Current active members aged 45 at the valuation date	24.6	27.1

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31 March 2020 in paragraph 10 below.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

- **Increases to GMPs:**
  The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. However, the Government is still exploring various options, including

conversion of GMPs to Scheme benefits, in order to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case.

The results of the 2019 valuation do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5 April 2021 nor for conversion of GMPs to Scheme benefits. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

- **Cost Management Process and McCloud judgement:** Initial results from the Scheme Advisory Board cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS is expected in June 2020.

  The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the LGPS changes have been agreed depending upon the precise nature of the new final salary underpin, the members in scope, and how this affects the cost management process.

10. Since the valuation date, Fund asset returns have fallen short of the assumed return of 4.40% over the year to 31 March 2020, on its own leading to a reduction in the funding level. In addition, reduced expectations of future asset returns and falls in gilt yields have led to an decrease in the discount rates, further reducing funding levels and increasing the primary rate. The Actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action if it believes necessary.

11. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. 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 actuarial valuation report which details fully the context and limitations of the actuarial valuation.

    Aon does not accept any responsibility or liability to any party other than our client, Hampshire County Council, the Administering Authority of the Fund, in respect of this Statement.

12. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:

    https://www.hants.gov.uk/hampshire-services/pensions/local-government/employers/technical-information/finance/actuarial-valuation

Aon Hewitt Limited
May 2020

Pension Fund Accounts

Fund Account

	See note	2018/19 £'000	2019/20 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	307,962	340,141
Transfers in from other pension funds		12,744	31,080
		320,706	**371,221**
Benefits	8	-251,664	-264,906
Payments to and on account of leavers		-14,057	-34,221
		-265,721	**-299,127**
Net additions from dealings with members		**54,985**	**72,094**
Management expenses	9	-40,625	-50,698
Net additions/withdrawals inc. fund management expenses		14,360	21,396
Returns on investments			
Investment income	10	115,530	103,557
Taxes on income		-1,043	870
Profits and losses on disposal of investments and changes in the market value of investments	11a	439,795	-397,224
Net return on investments		**554,282**	**-292,797**
Net increase in the net assets available for benefits during the year		**568,642**	**-271,401**
Opening net assets of the scheme		**6,613,239**	**7,181,881**
Closing net assets of the scheme		**7,181,881**	**6,910,480**

Net Assets Statement for the year ending 31 March 2020

	See note	31 March 2019 £'000	31 March 2020 £'000
Investment assets		7,087,835	6,739,972
Cash deposits		86	105
Investment liabilities		-43	0
Total net investments	**11**	**7,087,878**	**6,740,077**
Long term debtors	20	3,043	1,521
Current assets	18	99,940	178,471
Current liabilities	19	-8,980	-9,589
Net assets of the Fund available to fund benefits at the period end		**7,181,881**	**6,910,480**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the period. The actuarial present value of promised retirement benefits is disclosed at Note 17.

Notes to the Pension Fund Accounts

1. Description of Fund

The Hampshire Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Hampshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the Scheme.

a) General

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit pension scheme administered by Hampshire County Council to provide pensions and other benefits for pensionable employees of Hampshire County Council, Portsmouth and Southampton City Councils, the 11 district councils in Hampshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Hampshire Pension Fund Panel and Board, which is a committee of Hampshire County Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hampshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 342 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2019	31 March 2020
Number of employers with active members	338	342
Number of employees in Scheme		
County Council	27,191	27,610
Other employers	30,864	31,303
Total	**58,055**	**58,913**
Number of pensioners		
County Council	18,171	18,929
Other employers	23,543	24,777
Total	**41,714**	**43,706**
Deferred pensioners		
County Council	35,557	37,485
Other employers	36,493	38,435
Total	**72,050**	**75,920**
Total members in the Pension Fund	**171,819**	**178,539**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2019. Employer contribution rates for most employers were a range from 16.1% to 18.6% of pensionable pay plus a past service deficit contribution.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Hampshire Pension Fund's website:
https://www.hants.gov.uk/hampshire-services/pensions

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year end at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

Hampshire County Council remains satisfied the LGPS that it administers continues to be a going concern. The Pension Fund's latest actuarial valuation, as at 31 March 2019, showed it to be 99% funded – a significant increase from the position 3 years prior of 81%. The impact of the Coronavirus pandemic on investment markets has affected the value of the Fund to 31 March 2020, however the Fund still has the remaining 3 years of the actuarial period to achieve the target return, and beyond this has agreed a 16 year recovery period in its Funding Strategy Statement should this be necessary to make good an increase in the funding deficit at the next actuarial valuation.

The vast majority of employers in the pension scheme (88% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions. Following the latest actuarial valuation and schedule of employer contribution prepayments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet is ongoing obligations to pay pensions from its cash balance for at least 12 months from the date of signing the accounts. In the unlikely event that investments need to be sold 83.3% of the Fund's investments can be converted into cash within 3 months.

3. Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/ paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase Scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Property-related income

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such 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 withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Income and expenditure exclude VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However in the interest of greater transparency, the Council discloses its Pension Fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.*

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2019/20 £2.1 million of fees is based on such estimates (2018/19 £4.8 million).

Net Assets Statement

g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

h) Freehold and leasehold properties

The properties were valued on 31 March 2020 by an external valuer, Mark White, BSc MRICS of Colliers International, in accordance with the *Royal Institute of Chartered Surveyors' Valuation – Current Global Standards*; see Note 13 for more details.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 12).

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 17).

n) Additional voluntary contributions

Hampshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Utmost, but only by legacy contributors (closed to new members). AVC policies with Equitable Life transferred to Utmost on 1 January 2020. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Note 21).

o) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

4. Critical judgements in applying accounting policies

Unquoted alternative investments

It is important to recognise the subjective nature of determining the fair value of alternative investments: private equity, infrastructure and private debt. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equity and infrastructure investments are valued by the investment managers using guidelines set out by *the International Private Equity and Venture Capital Valuation Guidelines*. The value of unquoted private equity investments was £301 million and infrastructure investments was £206 million at 31 March 2020 (£465 million combined at 31 March 2019). There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as *Duff & Phelps*. The value of unquoted private debt investments at 31 March 2020 was £136 million (no private debt investments were held at 31 March 2019).

Pension fund liability

The pension fund liability is recalculated every three years by the appointed actuary, with updates in the intervening years.

The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions, which are agreed with the actuary and are summarised in Note 16.

These actuarial revaluations are used to set future employer contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund's property portfolio includes a number of directly owned properties, which are leased commercially to various tenants with rental periods from less than a month to 118 years (based on current leases). The Fund has determined that these contracts all constitute operating lease arrangements under the classification permitted by IAS7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account when it is paid by the tenant according to the terms of the lease.

Wholly owned companies

The Pension Fund's investments include two companies that it owns that have been specifically created to hold the Pension Fund's investments. These companies have no other purpose and therefore the value of the companies is equal to value of the investments.

The Pension Fund accounts for these investments according to the types of investments held by the companies, in line with the rest of the Pension Fund's accounting and reporting.

5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2020 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 17)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £1,023 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £47 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £372 million.

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity (Note 13)	Private equity investments are valued at fair value in accordance with the *International Private Equity Venture Capital Valuation Guidelines.* These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £301 million. The investment manager recommends a tolerance of 10% around the net asset value (+/-£30m)
Infrastructure (Note 13)	Infrastructure investments are valued at fair value in accordance with the *International Private Equity Venture Capital Valuation Guidelines.* These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure investments in the financial statements are £206 million. The investment managers recommends a tolerance of 10% around the net asset value (+/-£21m)
Private debt (Note 13	There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as *Duff & Phelps*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private debt investments in the financial statements are £135 million. The investment managers recommends a tolerance of 5% around the net asset value (+/-£7m)
Freehold and leasehold properties and pooled property funds (Note 13)	Properties are valued at fair value at the year end using the investment method in accordance with the *RICS Valuation – Current Global Standards,* which for the year ending 31 March 2020 include *material uncertainty clauses.*	The total freehold and leasehold property and pooled property fund investments in the financial statements are £510 million. The Pension Fund's independent property valuer recommends a tolerance of 10% around the net asset value (+/-£51m)
Hedge funds (Note 13)	Hedge funds are valued at the sum of the fair values provided by the administrators of the funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £4 million. There is a risk that this investment may be under or overstated in the accounts. The investment manager recommends a tolerance of +/- 5% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £0.2 million.

6. Events after the reporting date

It is clear the spread of Coronavirus had a significant impact on financial markets in the run up to 31 March 2020 and will continue to weigh heavily on global growth prospects for 2020 and beyond. A unique and challenging landscape has emerged for governments and their economies to navigate.

Following the reporting date, in the period that these accounts have been prepared the value of investments has improved, recovering the losses sustained following the first recognition of the effects of Coronavirus. The latest value of the Pension Fund as at 31 August was £8,427m. Therefore no further adjustments to these accounts have been made.

Notes to the Pension Fund Accounts continued

7. Contributions receivable

By category

	2018/19 £'000	2019/20 £'000
Employees' contributions	66,161	69,558
Employers' contributions		
Normal contributions	160,065	179,290
Deficit recovery contributions	81,736	91,293
Total Employers' contributions	241,801	270,583
Total	**307,962**	**340,141**

By authority

	2018/19 £'000	2019/20 £'000
Administering authority	117,275	128,829
Scheduled bodies	175,155	193,120
Admitted bodies	15,532	18,192
Total	**307,962**	**340,141**

8. Benefits payable

By category

	2018/19 £'000	2019/20 £'000
Pensions	209,547	220,205
Commutation and lump sum retirement benefits	36,335	38,865
Lump sum death benefits	5,782	5,836
Total	**251,664**	**264,906**

By authority

	2018/19 £'000	2019/20 £'000
Administering authority	93,791	97,738
Scheduled bodies	144,837	154,627
Admitted bodies	13,036	12,541
Total	**251,664**	**264,906**

9. Management expenses

	2018/19 £'000	2019/20 £'000
Administrative costs	2,417	2,196
Investment management expenses	37,576	47,780
Oversight and governance costs	632	722
Total	**40,625**	**50,698**

This analysis of the costs of managing the Hampshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

In addition to these costs, implicit costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 11a).

9a. Investment Management expenses

	2018/19 £'000	2019/20 £'000
Management fees	27,915	44,705
Custody fees	255	111
Transaction costs	9,406	2,964
Total	**37,576**	**47,780**

10. Investment income

	2018/19 £'000	2019/20 £'000
Income from bonds	7,526	0
Income from equities	55,021	13,957
Pooled property investments	1,651	1,651
Pooled investments – unit trusts and other managed funds	259	41,696
Rents from property	25,765	25,064
Interest on cash deposits	557	1,177
Alternative investment income	18,145	18,227
Stock lending	935	135
Other	5,671	1,650
Total before taxes	**115,530**	**103,557**

11. Investments

	31 March 2019 £'000	31 March 2020 £'000
Bonds		
Overseas		
Public sector unquoted	159	0
	159	**0**
Equities		
UK – Quoted	30,378	61,396
Overseas – Quoted	724,736	701,345
	755,114	**762,741**
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	1,496,970	1,526,538
Unit trusts	1,089,532	594,382
Overseas		
Fixed income unit trusts	657,184	992,425
Unit trusts	1,964,853	1,716,366
	5,208,539	**4,829,711**
Pooled property investments	51,160	54,268
Alternative investments	585,565	645,310
Property	487,255	455,280
Derivative contracts:		
– Forward currency contracts	43	4
	1,124,023	**1,154,862**
Cash deposits	86	105
Total investment assets	**7,087,921**	**6,747,419**
Investment liabilities		
Derivative contracts:		
– Forward currency contracts	-43	-7,342
Derivatives	**-43**	**-7,342**
Total investment liabilities	**-43**	**-7,342**
Net investment assets	**7,087,878**	**6,740,077**

11a) Reconciliation of movements in investments and derivatives

Period 2019/20

	Market value 1 April 2019 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2020 £'000
Bonds	159	1,411	-1,652	82	0
Equities	755,114	406,533	-347,542	-51,364	762,741
Pooled investments	5,208,539	517,914	-602,619	-294,123	4,829,711
Pooled property investments	51,160	11,134	-4,316	-3,710	54,268
Alternative investments	585,565	196,893	-111,688	-25,460	645,310
Property	487,255	3,604	-15,392	-20,187	455,280
	7,087,792	**1,137,489**	**-1,083,209**	**-394,762**	**6,747,310**
Derivative contracts:					
– Forward foreign exchange	0	14,753	-17,911	-4,180	-7,338
Other investment balances:					
– Cash deposits	86	-	-	1,718	105
Net investment assets	**7,087,878**	**-**	**-**	**-397,224**	**6,740,077**

Period 2018/19	Market value 1 April 2018 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2019 £'000
Bonds	256,696	245,831	-507,138	4,770	159
Equities	2,652,257	2,663,799	-4,699,916	138,974	755,114
Pooled investments	2,541,460	3,105,681	-664,588	225,986	5,208,539
Pooled property investments	49,270	1,250	-1,490	2,130	51,160
Alternative investments	497,470	247,316	-239,379	80,158	585,565
Property	433,070	56,362	-4,105	1,928	487,255
	6,430,223	**6,320,239**	**-6,116,616**	**453,946**	**7,087,792**
Derivative contracts:					
– Futures	-237	8,865	-6,443	-2,185	0
– Forward foreign exchange	-3,100	53,490	-42,867	-7,523	0
– Purchased/written options	0	-150	-37	187	0
	-3,337	**62,205**	**-49,347**	**-9,521**	**0**
Other investment balances:					
– Cash deposits	15,954	-	-	-4,630	86
– Spot foreign exchange contracts	-24	-	-	-	0
Net investment assets	**6,442,816**	**-**	**-**	**439,795**	**7,087,878**

Purchases and sales of derivatives are recognised in note 11a above as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

11b) Net assets analysed by fund manager

	Market value 31 March 2019 £'000	%	Market value 31 March 2020 £'000	%
ACCESS Pooled investments (Link)	1,737,878	24.2	1,366,327	19.8
ACCESS Pooled investments (UBS)	2,813,476	39.2	2,521,958	36.5
ACCESS Pooled investments Subtotal	**4,551,354**	**63.4**	**3,888,285**	**56.3**
Acadian	476,052	6.6	447,506	6.4
Alcentra	362,273	5.1	314,917	4.6
Baillie Gifford	289,850	4.0	286,991	4.2
Barings	294,912	4.1	252,305	3.7
CBRE Global Investors	537,270	7.5	508,671	7.3
Insight	0	0.0	175,362	2.3
Twenty-four Asset Management	0	0.0	178,841	2.6
	1,960,357	**27.3**	**2,164,593**	**31.3**
Other investments	595,098	8.3	649,710	9.4
Other net assets	75,072	1.0	207,892	3.0
Total	**7,181,881**	**100.0**	**6,910,480**	**100.0**

All the companies named above are registered in the United Kingdom.

11c) Stock lending

The Fund's Investment Strategy Statement sets the parameters for the Fund's stock lending programme for its directly held equities and bonds. At the year end, the value of quoted stock on loan was £67.7 million (£103.9 million 2018/19). These stocks continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank, JP Morgan. As at 31 March 2020, the custodian bank held collateral at fair value of £74.8 million (£119.8 million 2018/19). Collateral consists of acceptable securities and government debt.

Stock lending commissions are remitted to the Fund via the custodian bank. During the period the stock is on loan the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

11d) Property holdings

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase or sell any of these properties. The Pension Fund is required to meet the cost of repairs, maintenance or enhancements necessary to maintain the investment income of its property assets.

The future minimum lease payments receivable by the Fund are as follows.

	Year ending 31 March 2019 £'000	Year ending 31 March 2020 £'000
Within one year	24,200	22,842
Between one and five years	72,356	66,997
Later than five years	176,353	166,381
Total future lease payments due under existing contracts	**272,909**	**256,220**

The above disclosures have been reduced by a credit loss allowance of 4.5% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property investment manager. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

12) Analysis of derivatives

Objectives and policies for holding derivatives

Investments in forward currency contracts were to hedge exposures to reduce risk in the Fund by removing the exposure to foreign (non-Sterling) currency. The forward foreign currency contracts are all OTC (over the counter) contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

Open forward currency contracts

At 31 March 2020, the Fund had open forward currency contracts in place with a net unrealised loss of £7.3 million.

Settlement	Currency bought	Local value '000	Currency sold*	Local value '000	Asset value £'000	Liability value £'000
1 to 6 months	GBP	144,170	USD	-188,104	0	-7,331
1 to 6 months	GBP	882	EUR	-1,008	0	-11
1 to 6 months	EUR	412	GBP	-361	4	0
Open forward currency contracts at 31 March 2020					**4**	**-7,342**
Net forward currency contracts at 31 March 2020						**-7,338**
Prior year comparative:						
Open forward currency contracts at 31 March 2019					**43**	**-43**
Net forward currency contracts at 31 March 2019						**0**

* List of currencies

EUR = Euro GBP = British Pound USD = United States Dollar

13. Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Market quoted investments	1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Spot foreign exchange contracts	1	Market exchange rates at the year end	Not required	Not required
Exchange traded pooled investments	1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – fixed income	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required
Pooled investments – property funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Property valuers have included a 'material uncertainty' clause in their valuations, due to effect on property prices of the Coronavirus pandemic

Notes to the Pension Fund Accounts continued

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Freehold and leasehold properties	3	Valued at fair value at the year end using the investment method of Mark White, BSc MRICS of Colliers International in accordance with the *RICS Valuation – Global Standards 2017*	Comparable recent market transactions on arm's-length terms	Not required
Alternative Investments – Hedge funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Alternative Investments – Private equity, infrastructure and private debt	3	Comparable valuation of similar companies in accordance with *International Private Equity Venture Capital Valuation Guidelines* where appropriate or use of third-party valuers such as *Duff & Phelps.*	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium Loan to value multiple	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with the Fund's investment managers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges and has set below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/–)	Value at 31 March 2020 £'000	Value on increase £'000	Value on decrease £'000
Freehold and leasehold properties	10%	455,280	500,808	409,752
Pooled investments – property funds	10%	54,268	59,695	48,841
Alternative Investments – Hedge funds	5%	4,018	4,219	3,817
Alternative Investments – Private debt	5%	134,516	141,242	127,790
Alternative Investments – Infrastructure	10%	205,897	226,487	185,307
Alternative Investments – Private equity	10%	300,879	330,967	270,791

13a) Fair value hierarchy

Assets and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair value. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2020	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	4,971,229	621,227	699,578	6,292,034
Non-financial assets at fair value through profit and loss	0	0	455,280	455,280
Financial liabilities at fair value through profit and loss	0	-7,342	0	-7,342
Net investment assets	**4,971,229**	**613,885**	**1,154,858**	**6,739,972**

Values at 31 March 2019	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	5,306,468	708,546	585,565	6,600,579
Non-financial assets at fair value through profit and loss		487,255		487,255
Financial liabilities at fair value through profit and loss	0	-43	0	-43
Net investment assets	**5,306,468**	**1,195,758**	**585,565**	**7,087,791**

The table includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included.

13b) Reconciliations of fair value measurements within level 3

Period 2019/20	Market value 1 April 2019 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2020 £'000
Pooled investments – property funds	51,160	11,134	-4,316	-3,710	54,268
Freehold and leasehold properties	487,255	3,604	-15,392	-20,187	455,280
Alternative investments	585,565	196,893	-111,688	-25,460	645,310

£54m of pooled property funds and £455m of freehold and leasehold properties transferred from Level 2 to Level 3 on 31 March 2020 as a result of the inclusion of 'material uncertainty' clauses in the statements of the property valuer's due to the difficulty in valuing property due to the Coronavirus pandemic.

14. Financial instruments

14a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

31 March 2019				31 March 2020		
Fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000		Fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
			Financial assets			
159			Fixed interest securities	0		
755,144			Equities	762,741		
5,208,539			Pooled investments	4,829,711		
51,160			Pooled property investments	54,268		
585,565			Alternatives	645,310		
43			Derivative contracts	4		
17,820	40,601		Cash	88,060	57,204	
	10,182		Debtors		4,948	
6,618,400	**50,783**	**0**		**6,380,094**	**62,152**	**0**
			Financial Liabilities			
-43			Derivative contracts	-7,342		
		-8,146	Creditors			-8,737
-43	**0**	**-8,146**		**-7,342**	**0**	**-8,737**
6,618,357	**50,783**	**-8,146**		**6,372,752**	**62,152**	**-8,737**

14b) Net gains and losses on financial instruments

31 March 2019 £'000		31 March 2020 £'000
	Financial assets	
447,575	Fair value through profit and loss	-372,857
	Financial liabilities	
-9,708	Fair value through profit and loss	-4,180
437,867	**Total**	**-377,037**

The Administering Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

15. Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel and Board. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions

15a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2019/20 reporting period based on a one standard deviation movement in the value of the Fund's investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-)
UK equities	12.26%
Overseas equities	12.72%
UK bonds	10.64%
Overseas bonds	8.51%
Property	2.86%
Alternative investments	6.33%
Cash	0.10%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/ decreased in line with the previous table, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2020	**6,740,077**	**689,884**	**7,429,961**	**6,050,193**
Total assets 2019	7,087,878	665,565	7,753,443	6,422,313

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates. The Pension Fund's fixed interest investment manager has applied their market experience to the Fund's portfolio of investments to calculate the effect of a change in interest rates. The figures below for Fixed Interest Securities do not include the Fund's pooled investment in Index Linked Gilts. This better reflects the Fund's approach to the management of investment risk and how this analysis is applied to the Fund's different investments.

Assets exposed to interest rate risk	Value as at 31 March 2020 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	145,159	0	145,159	145,159
Cash deposits	105	0	105	105
Bonds	0	0	0	0
Total	**145,264**	**0**	**145,264**	**145,264**

Assets exposed to interest rate risk	Value as at 31 March 2019 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	58,335	0	58,335	58,335
Cash deposits	86	0	86	86
Bonds	657,184	7,154	650,030	664,338
Total	**715,605**	**7,154**	**708,451**	**722,759**

Income exposed to interest rate risk	Amount receivable as at 31 March 2020 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits / cash & cash equivalents	1,177	1,018	2,195	159
Bonds	0	0	0	0
Total	**1,177**	**1,018**	**2,195**	**159**

Income exposed to interest rate risk	Amount receivable as at 31 March 2019 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits / cash & cash equivalents	557	963	1,520	-406
Bonds	7,526	0	7,526	7,526
Total	**8,083**	**963**	**9,046**	**7,120**

Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds). The Fund holds both monetary and non-monetary assets denominated in currencies other than GB pounds.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations

Currency risk – sensitivity analysis

Following analysis of historical data the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 7.8% (as measured by one standard deviation).

A 7.8% fluctuation in the currency is considered reasonable based on the Pension Fund's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.8% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2020	**2,629,780**	**206,050**	**2,835,830**	**2,423,730**
Total assets 2019	2,701,298	256,808	2,958,106	2,444,490

15b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on OTC derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Pension Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Pension Fund invests an agreed percentage of its funds in the money markets to provide diversification. The money market funds chosen all have AAA rating from a leading ratings agency.

The Pension Fund has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £186.305 million (31 March 2019: £46.820 million). This was held with the following institutions:

	Rating as at 31 March 2020	Balances as at 31 March 2019 £'000	Balances as at 31 March 2020 £'000
Money market funds			
Aberdeen Standard	AAAm	4,350	18,000
Blackrock	AAAm	2,200	18,000
DWS (formerly Deutsche)	AAAm	2,010	11,110
Federated Investors UK	AAAm	4,550	18,000
Insight	AAAm	940	4,950
JP Morgan	AAAm	3,770	18,000
Bank deposits			
DZ Bank AG	AA+	0	10,000
HSBC	AA-	0	21,000
Lloyds	A+	1,000	1,000
NatWest	A	0	200
Nordea Bank AB	AA-	0	15,000
Rabobank	AA-	5,000	0
Santander UK	A	5,000	0
Standard Chartered	A	5,000	0
Handelsbanken	AA-	1,000	18,000
Treasury bills			
UK Government	AA-	12,000	33,045
Total		**46,820**	**186,305**

15c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2020 the value of illiquid assets was £1,127million, which represented 16.7% of the total fund assets (31 March 2019: £1,098 million, which represented 15.5% of the total fund assets).

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

The key risk is that the Pension Fund will be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

16. Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2019 and the results are published on the Pension Fund's website **https://documents.hants.gov.uk/pensions/2019-valuationreport.pdf**.

The next valuation will take place at 31 March 2022.

The key elements of the funding policy are:

- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met and that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 16 years from 1 April 2020 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

At the 2019 actuarial valuation, the Fund was assessed as 99% funded (81% at the March 2016 valuation). This corresponded to a deficit of £78 million (2016 valuation: £1,240 million) at that time.

The aggregate employer contributions were certified as 18.6% of Pensionable Pay, plus an additional total contribution amount of £7.2 million over 2020/21, £7.5 million over 2021/22 and £7.8 million over 2022/23.

The Fund operates three funding groups (or pools) in which participating employers share risks and pay a common primary contribution rate. All academies participate in the Academy Pool; all Town and Parish Councils participate in the Town and Parish Council Pool, and many of the charitable community admission bodies continue to participate in the Admission Body Group. Further information on these funding arrangements is contained within the Funding Strategy Statement. All other employers' liabilities and contribution rates are assessed individually.

Contribution schedules for the period to 31 March 2023 have been agreed for all employers. The contributions for employers reflect the profiles of their membership (or profile of the group in which they participate); the approach taken to value the liabilities on exit; the covenant of the employer and take into account the recovery of any surplus or deficiency relating to their participation over an appropriate period.

Where annual contribution amounts have been certified to an employer to remove a deficit these are expected to increase by approximately 3.1% p.a. until 31 March 2036 (or an earlier date in some cases depending on the employer's circumstances).

The valuation of the Fund has been undertaken using the projected unit method for most employers, under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

Financial assumptions

Full details of the assumptions used by the Fund's actuary are set out in the 2019 actuarial valuation report and summarised in the Statement of the Actuary.

Generally, a common set of assumptions is adopted for all employers in the Fund with the exception of the discount rate (assumption for future investment returns) which is dependent on the circumstances of the employer. In setting the discount rate the actuary takes into account the financial risk of the employer and, if the employer is expected to exit the Fund in the future, will have regard to the funding target that will be used in an exit valuation under Regulation 64.

The main actuarial assumptions that were used for the secure scheduled bodies in the March 2019 actuarial valuation were as follows:

Financial assumptions – discount rate for periods

Discount rate	4.4% a year
Rate of general pay increases	3.1% a year
Rate of increase to pension accounts and deferred pension increases	2.1% a year
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.1% a year

The assets were valued at market value.

Demographic assumptions:

A 65 year old male pensioner retiring in normal health in 2019 was assumed on average to live to 87.9 (rather than 89.1 under the assumptions adopted at the previous valuation). A 65 year old female pensioner retiring in normal health in 2019 was assumed on average to live to 90.4 (rather than 92.3).

Commutation assumption:

Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

50:50 option:

All active members were assumed to remain in the Scheme they were in at the valuation date.

17. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the Pension Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting the Fund's contribution rates and the Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 16). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2019 was £10,141million (31 March 2016: £7,595 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date.

As noted above the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2019 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

The principal financial assumptions used by the Fund's actuary for the March 2019 IAS 19 calculation were:

Discount rate	2.5%
CPI inflation / pension increase rate assumption	2.1%
Salary increase rate	3.1%

18. Current assets

	31 March 2019	31 March 2020
	£'000	£'000
Debtors:		
– Contributions due - employees	173	25
– Contributions due - employers	25,508	23,661
– Transfer values receivable (joiners)	1,521	1,521
– Tax	4,221	3,157
– Sundry debtors	10,182	4,948
Cash balances	58,335	145,159
Total	**99,940**	**178,471**

Analysis of debtors

	31 March 2019	31 March 2020
	£'000	£'000
Central government bodies	7,309	5,258
Other local authorities	18,006	18,225
Other entities and individuals	16,290	9,829
Total	**41,605**	**33,312**

19. Current liabilities

	31 March 2019	31 March 2020
	£'000	£'000
Sundry creditors	8,146	8,737
Transfer values payable (leavers)	0	0
Benefits payable	184	114
Tax	650	738
Total	**8,980**	**9,589**

Analysis of creditors

	31 March 2019	31 March 2020
	£'000	£'000
Central government bodies	650	738
Other local authorities	2,452	906
Other entities and individuals	5,878	7,945
Total	**8,980**	**9,589**

Notes to the Pension Fund Accounts continued

20. Long term debtors

With effect from 1 April 2005, the Magistrates Courts Service (a body participating in the Hampshire Pension Fund) became part of the Civil Service. Terms have been agreed for the transfer of liabilities from all Local Government Pension Schemes (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). Each affected LGPS fund's actuary has determined the value of the pensioner and deferred liabilities remaining with the LGPS and calculated the requirement for sufficient retained assets to match these liabilities.

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over 10 instalments commencing April 2012. The total amount of the remaining debt is £3.043 million; of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance (£1.521 million) is a long-term debtor.

	31 March 2019 £'000	31 March 2020 £'000
Magistrates Courts – agreed liability settlement due from central government body	3,043	1,521
Total	**3,043**	**1,521**

21. Additional voluntary contributions

	Market value 31 March 2019 £'000	Market value 31 March 2020 £'000
Prudential	13,323	13,817
Zurich	6,930	5,221
Utmost	932	961
Total	**21,185**	**19,999**

During the year, AVCs of £4.292 million were paid directly to Prudential (2018/19: £4.194 million), £0.279 million to Zurich (2018/19: £0.455 million), and £0.007million to Utmost (2018/19: £0.007 million). On 1 January 2020 AVCs managed by Equitable Life transferred to Utmost.

22. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £128.829 million to the Fund in 2019/20 (2018/19 £117.275 million).

During the reporting period, the County Council incurred costs of £2.778 million (2018/19: £2.935 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The key management personnel of the Fund are the Director of Corporate Resources of Hampshire County Council, acting as Treasurer to the Fund, and the Head of Pensions, Investments and Borrowing. Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council's charge for the administration of the Fund above. Details of the salary of the Director of Corporate Resources can be found in the main accounts of Hampshire County Council.

Part of the Pension Fund's cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2020, the Fund had an average cash balance of £159.138 million (year to 31 March 2019: £64.024 million), earning interest of £1.157 million (2018/19 £0.515 million) on these funds.

23. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2020 totalled £629.438 million (31 March 2019: £333.725 million). These commitments relate to outstanding call payments due on unquoted alternative investment and property limited partnership funds held in the alternative investments and property parts of the Fund. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

In December 2018 the Court of Appeal ruled against the Government in the McCloud and Sargeant cases, that the underpin protections for those within 10 years of retirement is age discrimination. The underpin was a protection that was put in place when the scheme changed on 1 April 2014 and applied to members who were an active member on 31 March 2012 and were within 10 years of their normal retirement age (usually 65). The Ministry for Housing, Communities and Local Government has stated its intention to engage fully with the Employment Tribunal to agree how the discrimination will be remedied for all the main public service pension schemes, including LGPS. At present the financial impact of the remedy is difficult to determine, but it is a potential future liability for the Fund.

24. Contingent assets

The Fund had no contingent assets on 31 March 2020.

25. Impairment losses

During 2019/20, the Fund has recognised an impairment loss for bad and doubtful debt of £0.037 million (2018/19: £0.003 million) for possible non-recovery of pensioner death overpayments, and there were no potential non-payment of cessation values where the employer is not backed up by a guarantee on 31 March 2020. An Expected Credit Loss has been recognised of £0.061 million (2018/19 £0.013m) for cash investments held at amortised cost.

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 make one of its officers responsible for the administration of those affairs. The Chief Financial Officer of the County Council fulfils that responsibility
- manage its affairs so as to use resources economically, efficiently and effectively, and safeguard its assets
- approve the Hampshire Pension Fund's statement of accounts.

Deputy Chief Executive and Director of Corporate Resources' responsibilities

The Chief Financial Officer 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 Great Britain.

In preparing this statement of accounts, the Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

Chief Financial Officer statement

I certify that the statement of accounts as set out on pages 49 to 81 presents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

CWilliamson

Carolyn Williamson FCPFA
Chief Financial Officer and Section 151 Officer

Independent Auditors' Statement

to the Members of Hampshire Pension Fund on the Pension Fund Financial Statements

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2020, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Hampshire County Council for the year ended 31 March 2020 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Hampshire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of:

- Foreword by the Chairman of the Pension Fund Panel and Board;
- Who's who;
- Pension Fund Panel and Board;
- Board Report;
- Training and development report;
- Progress on investment pooling;
- Investment policy and performance report;
- Scheme administration report;
- The Fund's statutory statements;
- Risk management report;
- Financial performance report;
- Statement by the Fund's Actuary; and
- Glossary.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Kevin Suter.
Ernst + Young LLP

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
29 January 2021

Glossary

ACCESS pool
The Pension Fund is one of 11 LGPS members of ACCESS (A Collaboration of Central, Eastern and Southern Shires). The pool was established in response to the 2015 DCLG (now MHCLG) guidance on LGPS investment reform criteria. The aim was to deliver benefits of scale; strong governance and decision making; reduced costs and excellent value for money; and an improved capacity and capability to invest in infrastructure.

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.

Added-years
An additional period of membership purchased within the LGPS by an employee or employer. The facility for employees to purchase added years was withdrawn on 1 April 2008, although existing contracts remain valid.

Administering Authority
A body required to maintain a pension fund under the LGPS regulations. For Hampshire Pension Fund this is Hampshire County Council.

Admission bodies
Employers who have been allowed into the Fund at the County Council's discretion. These can be Community or Transferee admission bodies.

Alternative investments
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.

Asset Backed Securities
An investment such as a bond that is backed by another financial asset that provides security in the event of default.

AVCs
Additional voluntary contributions – paid by a contributor who decides to supplement his or her pension by paying extra contributions to the scheme's AVC providers (Prudential, 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.

Bonds
A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.

Bulk transfer
A transfer of a group of members agreed by and taking place between two pension schemes.

Cessation valuation
A calculation carried out by the actuary when an employer leaves the Fund, which may result in a final deficit payment becoming due to the Fund.

Community admission bodies
Organisations that provide a public service other than for the purpose of gain and have sufficient links with a scheme employer to be regarded as having community interest.

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.

Deferred member
A Pension Fund member who no longer contributes to the Fund but has not yet retired.

Derivatives
Financial instruments that are based on the movements of underlying assets. They allow exposures to markets and individual assets to be adjusted, thereby altering the risk characteristics of a fund. Common types of derivatives include forward contracts, futures, options, and swaps. Derivatives may be traded on an exchange, or over the counter.

Discretionary
Allowable but not compulsory under law.

Dividends

Income to the Fund on its holdings of UK and overseas shares.

Economic exposure

This term relates specifically to a derivative futures contract. It represents the value of the equivalent amount of physical securities that would need to be bought or sold to get the same market exposure as that provided by the derivative futures contract.

Emerging markets

The financial markets of developing economies.

Equities

Shares in UK and overseas companies.

ESG

Environmental, Social and Governance factors

Full Funding

100% of the Funding Target chosen.

Funding Principle

The basis on which the Fund is financed. It ensures there are funds available to pay all benefits promised.

Funding Success

Reaching the Aspirational Funding Target by the end of the recovery period.

Funding Target

The amount of assets which the Fund needs to hold at any point in time to meet the Funding Principle.

FT

Financial Times – publishers of the FTSE-100 index and other indices. The FTSE-100 covers the 100 largest stocks in the UK stock market.

Gilt-edged securities (or Gilts)

Fixed-interest stocks issued by the UK Government.

Global 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.

GMP

The Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme between 6 April 1978 and 5 April 1997

Gross of fees

The percentage investment return delivered by an investment manager before the deduction of fees and expenses

Guarantors

A body which guarantees to pay for an Admission Body's liabilities in case of default. For any new admission body wishing to join the Fund, the administering authority will require a Guarantor.

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 linked

Investments which generate returns in line with an index.

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.

Informal valuations

Valuations where the calculations are based on an approximate update of the asset and liability values, and liabilities calculated using assumptions consistent with the latest formal valuation updated for changes in market conditions.

Interim valuations

Actuarial valuations carried out in between the triennial valuations.

Glossary continued

LIBOR
The benchmark London Interbank Offered Rate interest rate at which large banks lend to one another.

LGPS
Local Government Pension Scheme – a nationwide scheme for employees working in local government or working for other employers participating in the scheme and for some councillors.

MSCI ACWI
The Morgan Stanley Capital International (MSCI) All Countries World Index (ACWI) is used by the Hampshire Pension Fund to measure global stock markets.

MHCLG
The Ministry for Housing, Communities and Local Government.

Myners
Paul Myners, author of the Myners Report into institutional investment in the UK, published in March 2001.

Multi-Asset Credit
A flexible and diversified approach to investing in credit (debt) across different asset classes such as loans and bonds. The diversification allows the targeting of higher returns than a traditional fixed income strategy focused on government debt and investment grade credit.

Net of Fees
The percentage investment return delivered by an investment manager after the deduction of fees and expenses

Notional sub-funds
A subdivision of assets for funding purposes only. It does not imply any formal subdivision of assets, nor ownership of any particular assets of groups of assets.

Orphan liabilities
Residual liabilities of employers from whom no further funding can be obtained.

Pooled investment vehicle
A collective investment scheme that works by pooling money from different individual investors.

Private equity
Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (ie, not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

Private debt
Specialist pooled partnerships that invest in debt (also referred to as credit) of companies that is not publicly traded. These investments are often described as illiquid as it is more difficult to sell the debt instruments and turn the investment back into cash. Expected returns are therefore often higher than for the equivalent publicly traded debt instruments due to this illiquidity risk.

Projected unit actuarial method
A method of calculation of an actuarial valuation, where an allowance is made of projected earnings on accrued benefits. The contribution rate required is that necessary to cover the cost of all benefits accrued up to the date used in the valuation, but based on earning projected to the date of retirement.

Quartile
Three points that divide data into four equal groups, each representing a quarter. The lower quartile consists of the bottom quarter of all data, whilst the upper quartile consists of the top quarter of all data.

Recovery period
Timescale allowed (up to a maximum of 40 years) over which surpluses or deficiencies to the Fund can be eliminated.

Relaxation period
Temporarily relaxing the contribution pattern required to target funding for community admission bodies under economic circumstances which the administering authority judges to be extreme.

Relevant Scheme Employer
The local authority which has outsourced the service to a Transferee Admission Body.

Responsible Investment
The PRI (Principles for Responsible Investment) defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership

Resolution bodies
Employees have the right to be members of the LGPS, as long as their employing Council has resolved to allow membership.

Roll forward
The process of updating an employer's notional sub-fund and/or value of liabilities to account for all cashflows associated with that employer's membership, accrual of new benefits, and changes in economic conditions.

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.

Scheduled bodies
Organisations that have a right to be in the Fund. These bodies are listed in Schedule 2 of the Local Government Pension Scheme (Administration) Regulations 2008.

Scheme Advisory Board (SAB)
The Local Government Pension Scheme Advisory Board is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. It seeks to encourage best practice, increase transparency and coordinate technical and standards issues

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.

Solvency
When the Fund's assets are greater than or equal to 100% of the Funding Target.

Standard lifetime allowance
The limit on the value of retirement benefits that an individual can accumulate over their lifetime before tax penalties apply.

Statutory
Controlled by the law.

Subsumption
A process by which a Scheduled Body or the Scheduled Bodies funding group provide future funding for any resulting deficiency where an admission body leaves the Fund.

Transfer value
A cash sum representing the value of a member's pension rights which can be paid to another pension scheme only.

Transferee admission body
Typically private sector companies or charities, which have taken on staff from a local authority as a result of an outsourcing of services and the transferring employees had a right to remain in the LGPS or a "broadly equivalent" scheme.

Triennial valuation
The valuation carried out by the Actuary every three years.

UN Principles for Responsible Investment
The PRI is an organisation that works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Six principles for responsible investment have been developed:
https://www.unpri.org/pri/about-the-pri

UK Stewardship Code
The UK Stewardship Code sets expectations of those investing money on behalf of UK savers and pensioners and establishes a benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society:
https://www.frc.org.uk/investors/uk-stewardship-code

Weighted benchmark
A combination of the benchmarks of the individual investment managers, weighted according to the value of assets held by each manager as a percentage of the total Fund assets.