HAMPSHIRE PENSION FUND
ANNUAL REPORT AND ACCOUNTS
2018/2019

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 85.

If you have any comments on the annual report, please call 01962 847054, 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 2018/19.

I am writing to you at the end of an eventful year for markets, with more volatility evident than we have perhaps become accustomed to over recent years. Global equity markets fell in the run up to Christmas but have performed better since, with the Pension Fund's investments delivering returns of 7.68% this year, taking the value of the Fund to over £7 billion.

When writing last year, I reported that the Panel and Board had agreed new strategic asset allocations in November 2017. These allocations were set with the aim of putting the Fund in the best position possible to meet future liabilities and we have made good progress in implementing the changes over the course of the year. I am pleased to be able to report that two Multi-asset Credit investment managers (Alcentra and Barings) and a private debt manager (JP Morgan) have been appointed as planned and all three have now begun making investments on behalf of the Fund. In addition, as the latest update from the Fund's actuary showed an improved funding position, we commissioned Hymans Robertson to investigate options to reduce investment risk. As a result of this piece of work, the Panel and Board agreed to increase the strategic allocation to index linked gilts in November, with a corresponding reduction in our hedge fund and global equities allocations.

I am also pleased to be able to let you know that good progress has been made with investment pooling. We have continued to work with 10 other LGPS funds as part of ACCESS (A Collaboration of Central, Eastern and Southern Shires) and I reported last year that we had successfully appointed both UBS, as a passive investment manager, and Link Asset Services, as the Operator for our Collective Investment Vehicle (CIV). About 39% of the Fund is now invested with UBS, delivering significant fee savings for the Pension Fund, with a further 24% invested in three sub-funds managed by Link. This has been a significant achievement and means the hard work in setting up these new arrangements is starting to pay off and I will look forward to providing you with a further update next year.

Of course, whatever the investment and however arrangements are structured, the responsibility for the Pension Fund's investments remains with the Panel and Board, including the consideration of responsible investment. During the year, we reviewed our existing Responsible Investment (RI) policy and published a significantly revised draft, including the proposed creation of a Responsible Investment Sub-Committee of the Panel and Board. The draft policy was published for consultation with scheme members and employers and the Panel and Board will consider the feedback received in agreeing a new policy in July 2019. We have a belief in the importance of responsible investment as part of our fiduciary duties to the Fund and I look forward to coalescing with the new Sub-Committee later in the year.

All of the things I've written about above demonstrate why developing and maintaining relevant skills and knowledge has once again been a key point of focus for the Panel and Board. Several excellent bespoke in-house training sessions covering a wide range of topics have been delivered to the group as a whole, while individual members have also attended a number of external seminars and conferences, sharing their learning with the rest of the Panel and Board. Training will continue to be given high priority and plans are in place for the year ahead. Further information can be found in the training report on page 14.

In April 2018, Pension Services once again retained their Customer Service Excellence (CSE) accreditation, collecting 5 compliance plus scores in the process. These scores highlight areas where the service is performing to a very high standard against the CSE requirements and I'm delighted to say that a further 2 compliance plus scores were awarded as part of an excellent assessment report following a recent interim review. This would be a great achievement in any year but is even more impressive this year given that Pension Services have successfully taken on the administration of the West Sussex Pension Fund. This has been a significant piece of work for staff across the service and I am impressed by the hard work and commitment of the Pension Services team and would like to take this opportunity to thank them, and their colleagues in the investments and Borrowing team, for their efforts over the course of the year.

I would also like to thank the members of the Pension Fund Panel and Board for their valuable input and dedication during 2018/19, and I am looking forward to working with all the members over the coming year. Full details of the membership of the Panel and Board can be found on page 5.

Mark N. Kemp-Gee

Councillor Mark Kemp-Gee

Chairman, Pension Fund Panel and Board, July 2019

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
Aberdeen Standard Investments

Acadian

Alcentra

Baillie Gifford

Barings

CBRE Global Investors

Dodge & Cox

GCM Grosvenor

Morgan Stanley

Newton The Power of Ideas

Schroders

UBS

Western Asset

Asset Pool
ACCESS

Pool Operator
Link Asset Services
UBS (passive investments)

Custodian
JP Morgan

Actuary
Aon

Bankers
The National Westminster Bank plc

External auditor
Ernst & Young

AVC providers
Zurich
Prudential
Equitable Life

County Council contacts

Head of Pensions, Investments & Borrowing	Andy Lowe 01962 876370
Legal adviser	Paul Hodgson

Pension Fund Panel and Board

as at 31 March 2019

County Council members

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

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

Cllr Christopher Carter
10 years' membership

Cllr Alan Dowden
9 years' membership

Cllr Jonathan Glen
2 years' membership

Cllr Andrew Gibson
7 years' membership

Cllr Andrew Joy
6 years' membership

Cllr Peter Latham
5 years' membership

Cllr Bruce Tennent
10 years' membership

County Council deputies

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

Employer representatives

Cllr Jeanette Smith
Unitary Council representative
1 years' membership

Cllr Trevor Cartwright
District Council representative
1 years' membership

David Robbins
Other employer representative
3 years' membership

Cllr Mark Chaloner
Substitute employer representative
4 years' membership

Member representatives

Neil Wood
Employee representative
3 years' membership

Valerie Arrowsmith
Deferred member representative
3 years' membership

Cliff Allen
Pensioner representative
6 years' membership

Sarah Manchester
Substitute Scheme representative
1 years' membership

Pension Fund Panel and Board continued

Cllr Jeanette Smith and Cllr Trevor Cartwright were appointed as Unitary and District Council employer representatives respectively, replacing Cllr Mark Chaloner and Cllr Peter Giddings in these roles. Cllr Chaloner is now the substitute employer representative. Sarah Manchester was appointed as the substitute scheme representative.

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. Attendance of the members at Panel and Board meetings, internally organised training events, and other external training opportunities is shown in the table below. It should be noted that internal training sessions 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, 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 meetings attended	Internal training sessions attended	External training sessions attended
Cllr Kemp-Gee	6/8	5	3
Cllr Thacker	6/8	5	0
Cllr Carter	7/8	5	1
Cllr Dowden	8/8	5	2
Cllr Gibson	8/8	5	2
Cllr Glen	7/8	5	5
Cllr Joy	7/8	2*	2
Cllr Latham	8/8	5	1
Cllr Tennent	5/8	4	2
Cllr Smith	0/5	0	0
Cllr Cartwright	2/5	0	0
David Robbins	6/8	5	0
Valerie Arrowsmith	8/8	5	3
Cliff Allen	7/8	4	0
Neil Wood	8/8	3	1

Substitute and deputy members have also attended the Panel & Board on the following number of occasions:
Cllr Chaloner (4), Cllr Mellor (5), Sarah Manchester (5) and have assumed voting rights when substituting for other members.

Cllr Smith, Cllr Cartwright and Sarah Manchester were appointed to the Panel and Board in September 2018

Conflicts of interest have been managed in accordance with the County Council's standing orders.

* Due to unavoidable County Council business

Board report

Hampshire Pension Fund has the endorsement of 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 2018/19 are as follows:

Governance

- Panel and Board training
- Investment pooling updates
- Pension administration updates
- Risk management
- Pension Fund Annual Report
- Pension Fund costs
- Draft Responsible Investment Policy
- Fair Deal consultation response
- 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

Investment

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

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 5.

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 that the administering local authority may exercise proper democratic accountability and continue to meet fiduciary responsibilities. The Chairman of the Panel and Board is the vice-chairman of the ACCESS pool's Joint Committee and 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:

http://documents.hants.gov.uk/pensions/2018-2019-GovernancePolicyStatement.pdf

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 can be found on page 10.

Value of pooled and non-pooled investments

	2017/18		2018/19	
	£'000	%	£'000	%
Equities	0	0.0	1,737,878	24.2
Passive investments	2,505,806	37.9	2,813,476	39.2
Pooled sub-total	**2,505,806**	**37.9**	**4,551,355**	**63.4**
Equities	2,738,835	41.4	771,358	10.7
Fixed income	272,154	4.1	657,421	9.2
Property	482,340	7.3	538,317	7.5
Alternative assets	501,196	7.6	588,358	8.2
Cash and other assets	112,909	1.7	75,071	1.0
Non-pooled subtotal	**4,107,433**	**62.1**	**2,630,526**	**36.6**
Total	**6,613,239**	**100.0**	**7,181,881**	**100.0**

In 2018/19 Hampshire Pension Fund transitioned over £1.7bn of its investments to the ACCESS pool, in addition to its passive investments that became part of the pool in 2017/18. The assets that were transitioned are invested in sub-funds managed by ACCESS' operator Link.

It is planned that Hampshire's remaining Global Equity and Fixed Income investments will transfer to the pool in 2019/20, with its Alternative Investments transferring in subsequent years when pooled opportunities are available and funds are naturally released from current investments.

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

Pooled costs and savings

2018/19	Non-Pooled	Pooled
	£'000	£'000
Equities	8,957	684
Fixed income	805	0
Passive investments	0	635
Property	4,146	0
Alternative investments	21,786	0
Custody and other costs	563	0
Total costs	**36,257**	**1,319**

Hampshire Pension Fund's investment management costs of £37.576m, reported in its annual accounts include £1.319m of investment management costs from within the pool (the cost of fees paid to the operator and to the investment managers that the operator has appointed).

The investment management costs of pooled investments are disproportionately lower as a significant proportion of assets were transferred to the pool part way through the year and 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.

Cumulative costs and savings:	£'000
Pool setup and on-going costs*	279
Transition costs	403
Investment management fee savings	(652)
Net cost of pooling to date	**30**

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

It is expected that a net saving from investment pooling will be delivered over future years as the savings from investment manager fees accrue.

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

ACCESS Annual Report

ACCESS

As Chairman of the ACCESS Joint Committee I am pleased to be introducing the first Annual Report for the ACCESS Pool. The Pool has made excellent progress during the year with just under £20 billion of assets pooled. £8.176 billion is invested directly in the Pool through Link Fund Solutions and the passive investments of £11.431 billion are invested on a pool governance basis.

I am grateful for the dedication and support from my fellow Chairmen on the Joint Committee, the officers from the ACCESS authorities and the staff of the Support Unit whose hard work and collaborative spirit has made such progress possible.

The pace of development for the Pool will continue during 2019-20, with further sub-fund launches planned throughout the year.

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight Council; Kent County Council; Norfolk County Council; Northamptonshire County Council; Suffolk County Council and West Sussex County Council in response to the Governments pooling agenda across the LGPS.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.

Collectively as at 31 March 2019, the pool has assets of £46 billion serving 3,000 employers with over 1 million members including 290,000 pensioners.

Governance

The ACCESS Pool is not a legal entity in itself but is governed by an Inter Authority Agreement signed by each Administering Authority. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

The formal decision-making body within the ACCESS Pool is the Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Officer Working Group and the ACCESS Support Unit (ASU).

The Officer Working Group are officers representing the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. The permanent staff roles within the ASU are employed by the Host Authority (Essex) with additional technical support from Officers within the ACCESS Pension Funds.

The Section 151 Officer of each Pension Fund provide advice to the Joint Committee and in response to decisions made by the Joint Committee ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Fund's asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

The Operator

Link Fund Solutions Ltd has been appointed to provide a pooled operator service. Link is responsible for establishing and operating an authorised contractual scheme (ACS) along with the creation of a range of investment sub-funds to meet the needs of the investing authorities enabling them to execute their asset allocation strategies and the appointment of the investment managers to those sub-funds.

Progress

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing and moving assets into the pool and has regularly submitted progress reports to Government. These are all published on the Pool's website **(www.accesspool.org).**

Included in the proposal is an indicative timeline of when assets will be pooled and ACCESS has made excellent progress against the principal milestone of having £27.2 billion assets pooled and estimated savings of £13.6 million by March 2021.

Pooled Assets

As at 31 March 2019 ACCESS has pooled the following assets:

Pooled Investments	£ billion
Passive investments	11.431
UK Equity Funds	2.323
Global Equity Funds	5.853
Total Pooled Investments	**19.607**

The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2018/19

- Establishment of the ACCESS Support Unit and recruitment of a contract manager and support officer to provide day to day support for the Pool. The unit was further strengthened by the appointment of technical leads from existing officers to lead and progress specific areas of work.
- Development of a Governance Manual to reflect decision making principles, communications strategy, policies and procedures.
- Approval and launch of the first two tranches of sub-funds.
- Establishment and implementation of the stock lending programme.
- Providing updates of progress to Government and responding to consultations.

Objectives for 2019-20

Following the launch of a number of sub-funds, progress will continue a pace with significant rationalisation of the existing range of mandates. The Operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the Funds and facilitate a significant move of the assets to be pooled.

Whilst establishing and developing the ACCESS Pool, the initial focus has been on pooling the most liquid assets, mainly equities and fixed income bonds. The next step is to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

ACCESS Annual Report continued – Financial Management

Pool Set-Up Costs

The set-up costs incurred by the pool includes professional and legal advice received in relation to establishing the pool and procuring the operator, and advice and support in the development of good governance. A breakdown of the total costs from inception are as below. The costs are split equally amongst the 11 Funds.

	2015/ 16 £'000	2016/ 17 £'000	2017/18 £'000
Strategic & Technical Advice	38	295	281
Legal	1	95	313
Project Management	20	379	189
ACCESS Support Unit	–	–	3
0ther	1	108	101
Total	**60**	**877**	**887**

Fee Savings

The ACCESS pool has sought out fee savings based on economies of scale with investment mandates that have been set up as sub-funds by Link and by consolidating its passive investments with one investment manager. The management fee savings received by the pool are as below:

	2015 to 2016 £'000	2016 to 2017 £'000	2017 to 2018 £'000	2018 to 2019 £'000	Total £'000
Set Up Costs	60	877	887	–	1,824
Ongoing Operational Costs	–	–	149	1,248	1,397
Transition Costs	–	–	–	674	674
Total Costs	**60**	**877**	**1,036**	**1,922**	**3,895**
Fee Savings	–	–	681	6,378	7,059
Net Savings Realised/(Costs)	**(60)**	**(877)**	**(355)**	**4,456**	**3,164**

Expected v Actual Costs and Savings

The table below compares the actual costs and savings for 2017–18 and 2018–19 compared to the business case submission to MHCLG.

	2017–18		2017–18	
	Actual In Year £'000	Budget In Year £'000	Actual Cumulative to date £'000	Budget Cumulative to date £'000
Set Up Costs	887	800	1,824	1,400
Ongoing Operational Costs	149	–	149	–
Transition Costs	–	–	–	–
Total Costs	**1,306**	**800**	**1,973**	**1,400**
Pool Fee Savings	(681)	(950)	(681)	(950)
Net Savings Realised/(Costs)	**(355)**	**(150)**	**(1,292)**	**(450)**

	2018–19		2018–19	
	Actual In Year £'000	Budget In Year £'000	Actual Cumulative to date £'000	Budget Cumulative to date £'000
Set Up Costs	–	–	1,824	1,400
Ongoing Operational Costs	1,248	1,266	1,397	1,266
Transition Costs	674	2,499	674	2,499
Total Costs	**1,922**	**3,765**	**3,895**	**5,165**
Pool Fee Savings	6,378	3,800	7,059	4,750
Net Savings Realised/(Costs)	**4,456**	**35**	**3,164**	**(415)**

The original budget for setting up the ACCESS Pool was £1 million which was 0.3 bps based on the value of the Funds, £33.5 billion as at 31 March 2015. The Fund value has risen in the intervening years and 0.3 bps on the current value is £1.4 million. The additional expense has been incurred in securing technical and legal advice in setting up the Pool and procuring the Operator.

Ongoing operational costs were included in the submission at 1.5 bps of pooled assets excluding the passive investments. These are the costs for running the ACCESS Pool and include the costs of the support unit and professional and legal advice.

Significant additional savings have also been achieved through negotiating a reduction in investment management fees in pooled aligned investments. These savings have not been included in the table overleaf.

The ACCESS Pool has worked hard to minimise the costs of transition for pooled holdings. Transition costs for the passive investment mandate were met by the appointed investment manager.

Environmental, Social and Governance

The Pension Funds in ACCESS believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

ACCESS acknowledges its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. It believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole.

The ACCESS pool has a single voting policy for pooled assets and seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies. The voting policy sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies.

Andrew Reid

Cllr Andrew Reid –
Chairman, ACCESS Joint Committee

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 staff 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 staff and members. This training is designed to enable staff 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 2018/19

Five internal training half-days were arranged for Panel and Board members in Winchester during August, September and November 2018. The topics covered by these sessions were as follows:

Date	Topic	Provider
August 2018	Pooling and Investment Regulations	Pension Fund Officer
August 2018	Factor-based Investing	Acadian
September 2018	Alternative Beta Indexation	UBS
November 2018	Multi-asset Credit	Alcentra
November 2018	Constitutional and Regulatory Matters	Hampshire Legal Services

These training half-days 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, and was provided by Arlingclose, the County Council's advisers on treasury management.

These training half-days 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.

During the early part of 2019, individual members of the Panel and Board reviewed their knowledge and skills against a Training Needs Analysis. The purpose of this exercise was to allow Panel and Board members to consider their existing level of knowledge and areas where additional training was likely to be beneficial. The Training Needs Analysis was 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.

Relevant internal training sessions will be arranged for 2019/20 and 2020/21 based on the Training Needs Analysis, which is also provided to all new Panel and Board members to enable them to identify any training requirements.

Individual Panel and Board members attended a range of training events in 2018/19 provided by the Pension Fund's investment managers and other external organisations, as follows:

Infrastructure and Real Assets	SPS
Investment and Pensions Summit	LGC
Investment Strategies and Cashflow Management	SPS
Autumn Investment Conference	Schroders
Data Roadshow	Government Actuaries Department
Investment Strategies	SPS
Global Alpha Investment Forum	Baillie Gifford
LA Pension Fund Investment Issues	SPS
Trustee Forum	JP Morgan
Training Event	Western

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 design the training plan for the following year.

Training in 2019/20

The training plan for 2019/20 was approved by the Pension Fund Panel and Board in July 2019. 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.

Investment Policy and Performance Report

Custody of assets

The Pension Fund's global custodian, JP Morgan, provides a range 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 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

JP Morgan have custody of all of the Pension Fund's non-pooled active equity, global bonds and hedge fund portfolios. All other non-pooled assets are held directly by the Pension Fund. Pooled investments are managed by UBS (passive investments) and by Link Asset Services (active investments), and both firms manage their own custody arrangements. JP Morgan report on the performance of the entire portfolio.

Social, environmental and ethical considerations

During 2018/19 the Pension Fund consulted on a new Responsible Investment policy. The updated policy was approved by the Panel and Board on 12 July 2019 and is set out in the Investment Strategy Statement, available via the following link:

https://www.hants.gov.uk/hampshire-services/pensions/local-government/joint-pension-fund-panel/annual-report

An extract and a summary of responsibilities are shown below:

The Pension Fund's investment principles include:

i) that it has a long-term focus, and must make investment returns to meet the pensions liability (currently calculated by the Fund's actuary as 4.5% p.a.) 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 Pension Fund's approach to Responsible Investment, includes consideration of the Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing as It relates to ESG. The 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 (including health inequalities), employee relations and diversity
- **Governance** – executive pay, bribery and corruption, political or religious lobbying and donations, board diversity and structure, unjustifiable tax strategy

These factors, whilst not exhaustive, provide a baseline of ESG factors to be taken into account as part of the Pension Funds overall investment strategy.

As detailed in the Investment Strategy Statement, the Pension Fund has established a Responsible Investment Sub-Committee which meets at least twice a year to review ESG issues and support implementation of the RI policy.

The passive investment manager is 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 in a consistent and transparent manner 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 the requirements for reporting on their actions to the Pension Fund.

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

Matters relating to implementation of the Funding Strategy Statement

All grouped employers' contribution rates stepped up by 1% in 2018/19. 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 Strategy: Understanding cost, risk and return

The Investment Strategy Statement sets out the Pension Fund's strategic asset allocation. This allocation has been set with the aim of achieving the investment return required to meet the target calculated by the Fund's actuary without exposing the Fund to excessive risk.

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 also uses different fund managers to ensure that investment performance is not tied to the performance of a single fund manager and pooled funds are used to enable further diversification.

Different asset classes bring different levels of risk and uncertainty and 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.

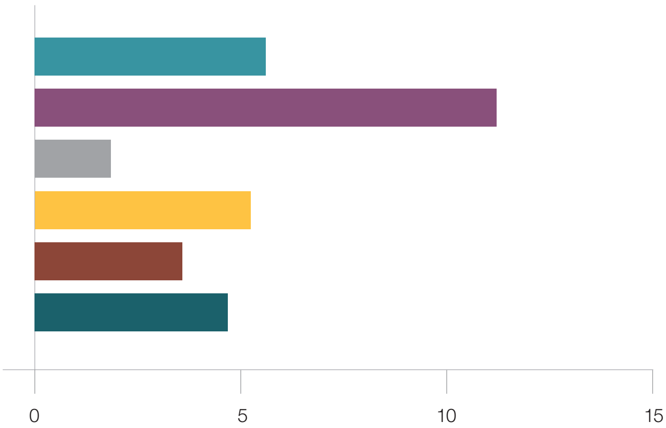
Investment overview

During 2018/19, stock markets delivered stronger returns than in the previous 12 months, as the UK stock market returned 6.36% and world stock markets (including emerging markets) returned 11.06% overall. UK index-linked bonds have delivered returns of 5.19% for the year, and global bonds delivered modest positive returns of 3.10% in 2018/19.

The UK commercial property market has delivered positive returns of 4.60% in 2018/19, continuing the trend of recent years.

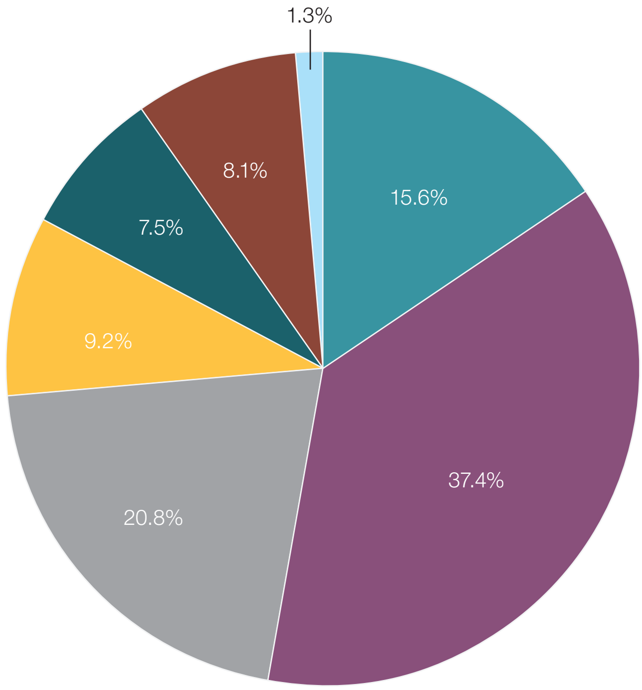
Market returns in 2018/19

	%
UK equities	6.36
Global equities	11.06
Emerging market equities	1.70
UK index-linked bonds	5.19
Global bonds	3.10
UK property	4.60



Breakdown of the Hampshire Pension Fund's investments on 31 March 2019

	%
UK equities	15.6
Global equities including emerging markets	37.4
UK fixed interest bonds	20.8
Overseas fixed interest bonds	9.2
UK and European property	7.5
Alternative investments	8.1
Cash held pending investment	1.3
Total	**100.0**



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 2019 %	Benchmark	Annual target performance gross/ net of fees
Growth				
UK equities				
LF ACCESS UK Equity Fund (Schroders)	10.1	10.3	FTSE All Share	+1.25% gross
High-performance global equities				
Acadian Asset Management	6.5	6.6	MSCI World	+1.5% to 2.5% net
Baillie Gifford & Co	3.7	4.0	MSCI All Countries World	+1.5% to 2.5% net
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	8.1	7.6	MSCI All Countries World	+1.5% to 2.5% net
LF ACCESS Global Stock Fund (Dodge & Cox)	6.7	6.4	MSCI All Countries World	+1.5% to 2.5% net
Passive equities				
UBS (UK equities)	1.9	4.9	FTSE All Share Index	–
UBS (global equities)	0.6	8.0	FTSE All World Equity Index	–
UBS (alternative beta)	5.4	5.5	MSCI All Countries World	–
Private equity and other alternatives				
Aberdeen Standard Investments	5.0	3.9	–	+9% to 11.5% net
Hedge funds				
Morgan Stanley	0.0	1.7*	–	+5.5% to 8.0% net
Income				
Multi-asset Credit				
Alcentra	5.5	5.0	3 month GBP LIBOR	+3.0%
Barings	4.5	4.1	3 month GBP LIBOR	+3.0%
Private debt				
JP Morgan	5.0	0.0†	3 month GBP LIBOR	+4.0%
Infrastructure				
GCM Grosvenor	5.0	2.6	–	+7.5% to 10.0% net
European property				
Aberdeen Standard Investments	0.0	0.0*	Eurozone Harmonised Index of Consumer Prices (HICP)	+5% gross
UK property				
CBRE Global Investors	10.0	7.5	Retail Prices Index (RPI)	+3.5% net

Investment Overview continued

Pension Fund investment management structure (continued)

	Target portfolio size %	Actual allocation at 31 March 2019 %	Benchmark	Annual target performance gross/ net of fees
Income (continued)				
Protection				
Passive index-linked bonds				
UBS	22.0	20.8	FT British Government Over Five Years Index-Linked Gilts Index	–
Cash				
Managed in house	0.0	1.1	–	–
Total	**100.0**	**100.0**		

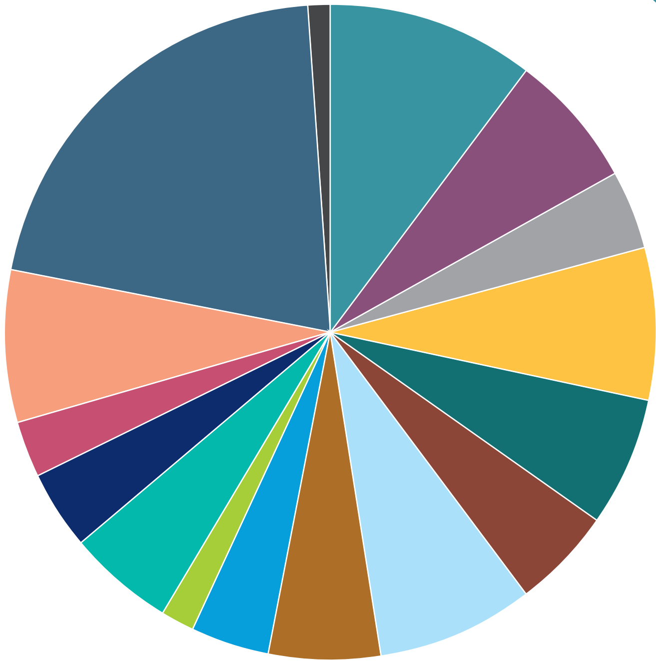
* portfolio no longer forms part of the Investment Strategy and positions are being exited
† new allocation where investments will begin to be made during 2019/20

The value of the investments held by each of the Fund's managers on 31 March 2019 is shown in the following table.

Value of investments on 31 March 2019

Manager	£million
Growth	
LF ACCESS UK Equity Fund (Schroders)	742
Acadian (global equity portfolio)	476
Baillie Gifford (global equity portfolio)	290
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	543
LF ACCESS Global Stock Fund (Dodge & Cox)	455
UBS (passive UK equities portfolio)	349
UBS (passive global equities portfolio)	575
UBS (passive alternative beta portfolio)	393
Aberdeen Standard (private equity and other alternatives)	284
Morgan Stanley (hedge funds)	120*
Income	
Alcentra (Multi-asset Credit)	362
Barings (Multi-asset Credit)	295
GCM Grosvenor (infrastructure)	184
Aberdeen Standard (European property)	1*
CBRE (UK property)	537
Protection	
UBS (index-linked bond portfolio)	1,497
Protection	
Held centrally (for pension payments, investment, etc.)	79
Total	**7,182**

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



Performance of the managers

All of the managers have been set targets to achieve over three to five-year periods.

Global and UK equity markets, UK index linked bonds, and global bond markets all delivered positive returns for the year, and the Pension Fund's investment managers have similarly all delivered positive returns for 2018/19, with the exception of Western, whose mandate ceased during 2018/19 and who delivered a small negative return. The strongest performing fund was the pooled Long Term Global Growth fund (Baillie Gifford), returning 17.5%. The Pension Fund Panel and Board will continue to monitor the investment managers' performance against their targets on a rolling three and five-year basis.

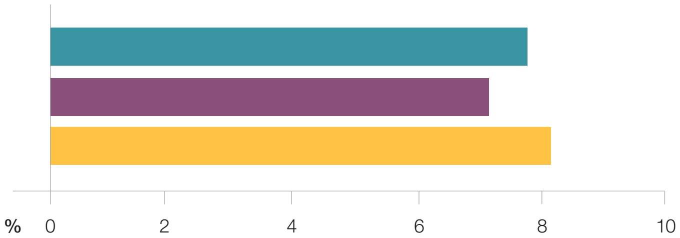
The Fund in total

The total investment return for the Hampshire Pension Fund in 2018/19 was 7.7%. This compares with a weighted benchmark return of 7.0%. The investment managers are set targets to outperform their benchmark indices. The weighted return of these benchmark indices plus targets for 2018/19 was 8.1%. The Fund's investment return was 10.7% per annum over the three years to March 2019, and 9.7% per annum over the five years to March 2019. All performance figures are shown net of fees for the periods covering one and three years to 31 March 2019 but are shown gross of fees over the five year period due to the performance data available.

Investment Overview continued

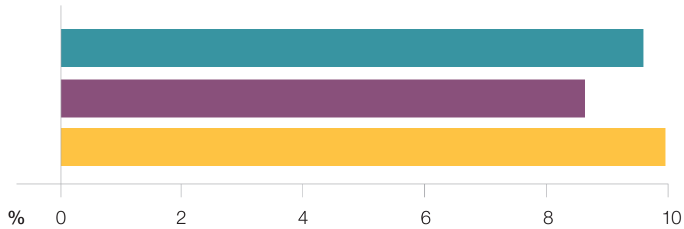
Total investment returns for the Fund
12 months to 31 March 2019

	%
Total Fund return	7.7
Weighted benchmark indices	7.0
Weighted benchmarks plus targets	8.1



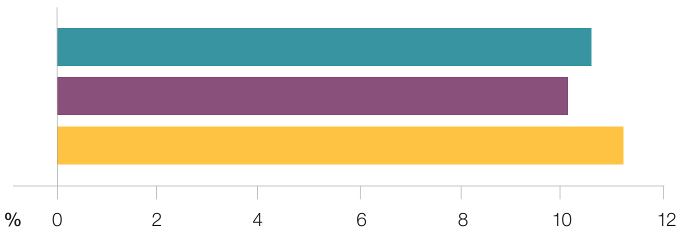
Total investment returns for the Fund
Five years to 31 March 2019

	% per annum
Total Fund return	9.7
Weighted benchmark indices	8.7
Weighted benchmarks plus targets	10.0



Total investment returns for the Fund
Three years to 31 March 2019

	% per annum
Total Fund return	10.7
Weighted benchmark indices	10.1
Weighted benchmarks plus targets	11.3



Global equities

The Pension Fund's existing mandate with Baillie Gifford transitioned to the ACCESS pool during 2018/19 and is now invested in the ACCESS Long Term Global Growth fund. Following the cessation of investment management arrangements with Aberdeen Standard and Newton and updates to the Investment Strategy, the Pension Fund invested in two new actively managed mandates, one within ACCESS (Global Stock fund – Dodge & Cox) and a second Baillie Gifford portfolio to complement the existing strategy, as well as a third passive mandate with UBS (alternative beta).

Full details of the investment management arrangements are on page 19 and performance data is only shown where 12 months of data is available.

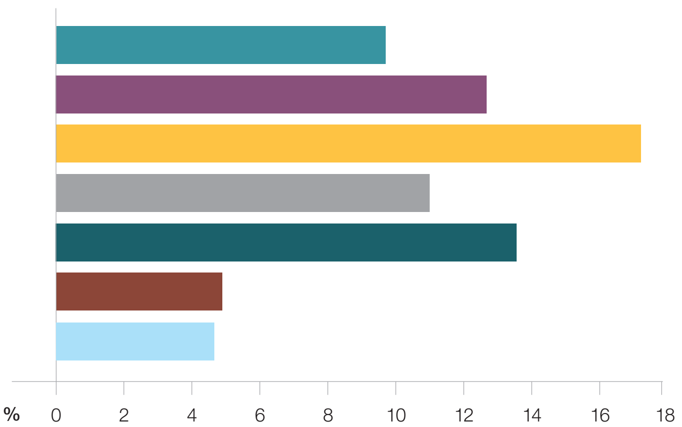
Global stock markets returned 11.1% in 2018/19, as measured by the MSCI All Countries World Index and 12.6% when emerging market stocks were excluded (MSCI World).

The Baillie Gifford Long Term Global Growth fund greatly outperformed the MSCI ACWI due to a concentrated holding of technology related growth stocks which have performed well in recent years. Acadian produced strong positive returns but underperformed the MSCI World benchmark because the aim of the portfolio is to invest in low volatility stocks.

Global equities

12 months to 31 March 2019

	%
Acadian	9.6
MSCI World	12.6
ACCESS Long Term Global Growth (Baillie Gifford)	17.5
MSCI All Countries World Index	11.1
All active global investment managers	13.6
UBS Global Equities	5.0
FTSE All World Equity Index	4.8

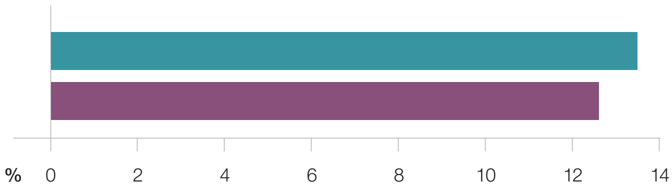


The table above only shows portfolios where a full year's data is available, excluding portfolios that have ended or begun in the year. None of the Fund's current global equity managers have a track record of three years or more. The graphs below show the Fund's previous global equity managers' performance in aggregate against the MSCI ACWI benchmark over the previous 3 and 5 year periods where available.

Global equities

Three years to 31 March 2019

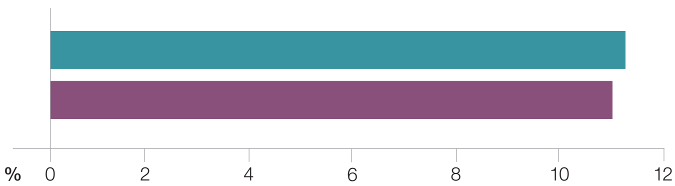
	% per annum
All active global investment managers	13.6
MSCI All Countries World Index	12.6



Global equities

Five years to 31 March 2019

	% per annum
All active global investment managers	11.4
MSCI All Countries World Index	11.0



UK equities

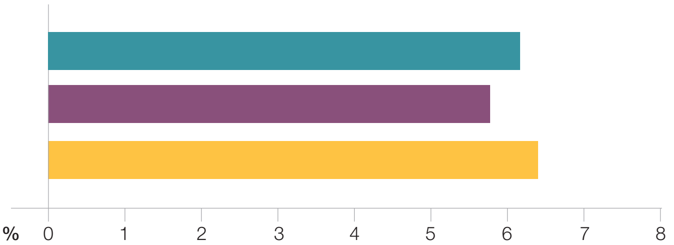
The Pension Fund's existing mandate with Schroders transitioned to the ACCESS pool during 2018/19 and is now invested in the ACCESS UK Equity Fund.

The UK stock market returned 6.4% during 2018/19 as measured by the FTSE All Share Index. The ACCESS UK Equity Fund and the Fund's active UK equity manager, Schroders, underperformed the FTSE All Share index over the last one year and three year periods, but has outperformed over the last five years. Underperformance in 2018/19 was partly due to some unsuccessful individual stock picks, but also due to Schroders' preference for undervalued stocks not being favoured by the market over this time period. The passive mandate with UBS slightly underperformed the index in 2018/19 but has slightly overperformed over the last three years.

Investment Overview continued

UK equities
12 months to 31 March 2019

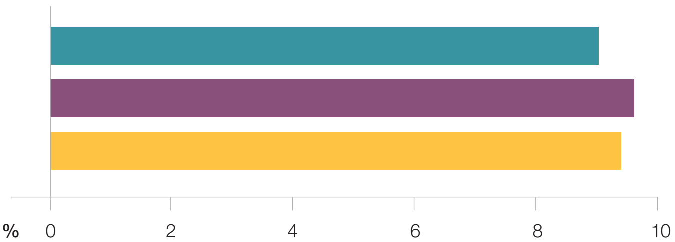
	%
ACCESS UK Equity	6.1
UBS UK equities	5.9
FTSE All Share Index	6.4



The Fund's active and passive UK equity managers' performance results against the FTSE All Share Index benchmark over the last three year and five year periods are shown below.

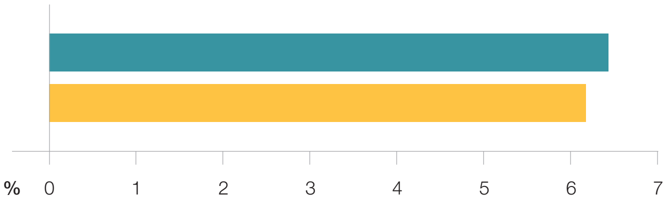
UK equities
Three years to 31 March 2019

	% per annum
Schroders	9.0
Passive UK equities	9.7
FTSE All Share Index	9.5



UK equities
Five years to 31 March 2019

	% per annum
Schroders	6.4
FTSE All Share Index	6.1



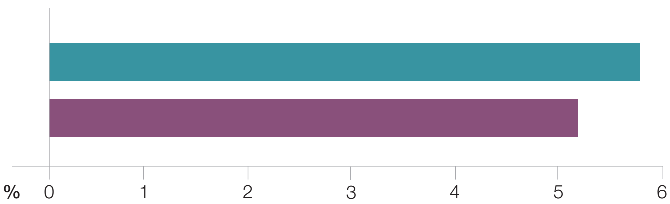
Bonds

During January 2018, the UK index-linked bonds mandate was transferred to UBS and this is therefore the first year with meaningful performance data. The Fund had disinvested from the active mandate managed by Western by the end of March 2019.

The FTSE British Government Over Five Years Index-Linked Gilts Index returned 5.19% during 2018/19 and UBS has outperformed this benchmark, with performance shown below against the benchmark.

Bonds
12 months to 31 March 2019

	%
UBS	5.8
FTSE index linked gilts index	5.2



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 4.5% in 2018/19 was below their target. Over the longer term CBRE Global Investors have slightly underperformed their RPI plus 3.5% target over the last three year period but have outperformed over the last 5 years.

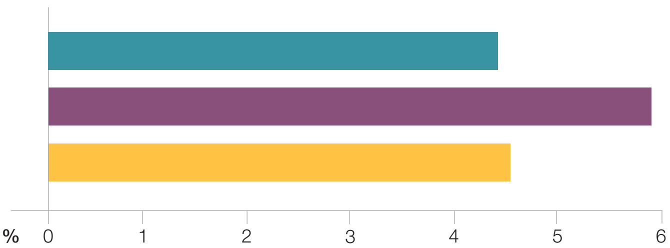
CBRE Global Investors underperformed the Investment Property Databank (IPD) benchmark return of 4.6% during 2018/19 and over the previous 3 and 5 year periods, however the portfolio has outperformed the IPD benchmark over the longer term. The IPD benchmark reflects the returns achieved by similarly sized 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 2019

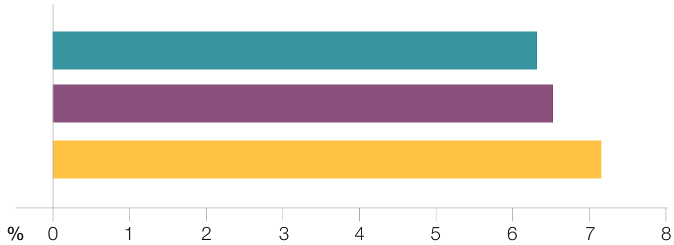
	%
CBRE Global Investors – UK property	4.5
RPI plus 3.5%	5.9
IPD benchmark	4.6



Property

Three years to 31 March 2019

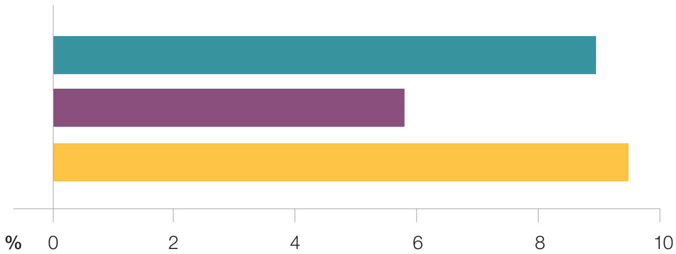
	% per annum
CBRE Global Investors – UK property	6.3
RPI plus 3.5%	6.5
IPD benchmark	7.1



Property

Five years to 31 March 2019

	% per annum
CBRE Global Investors – UK property	8.8
RPI plus 3.5%	5.8
IPD benchmark	9.4



Alternative investments

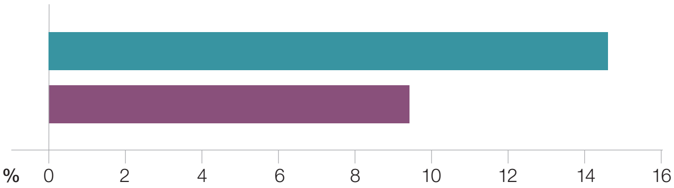
The Pension Fund's private equity and infrastructure portfolios are managed by Aberdeen Standard Investments and GCM Grosvenor respectively. Following changes to the Investment Strategy, the Pension Fund is in the process of disinvesting from the hedge funds portfolio (Morgan Stanley) and has established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

Investment Overview continued

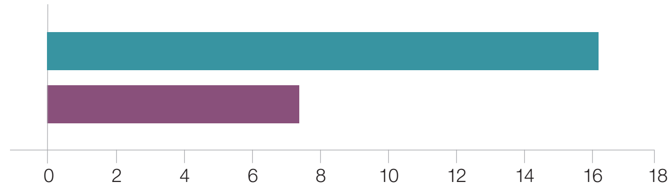
Private equity and other
12 months to 31 March 2019

	%
Aberdeen Standard Investments	14.7
Absolute target 9.5% p.a	9.5



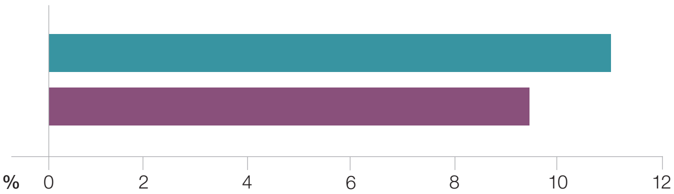
Infrastructure
12 months to 31 March 2019

	%
GCM Grosvenor	16.1
Absolute target 7.5% p.a	7.5



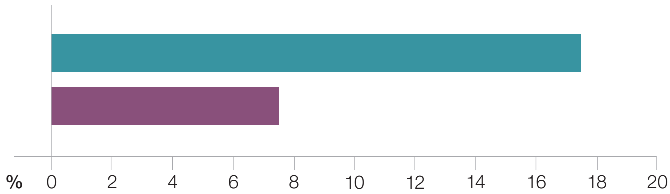
Private equity and other
Three years to 31 March 2019

	%
Aberdeen Standard Investments	11.2
Absolute target 9.5% p.a	9.5



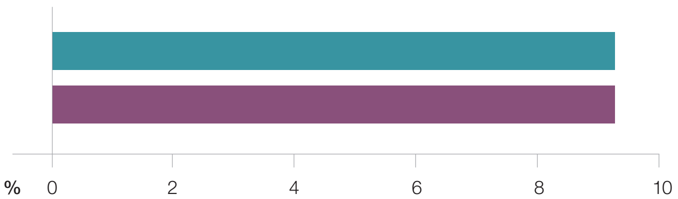
Infrastructure
Three years to 31 March 2019

	%
GCM Grosvenor	17.7
Absolute target 7.5% p.a	7.5



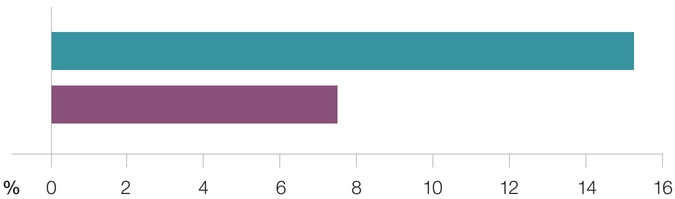
Private equity and other
Five years to 31 March 2019

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



Infrastructure
Five years to 31 March 2019

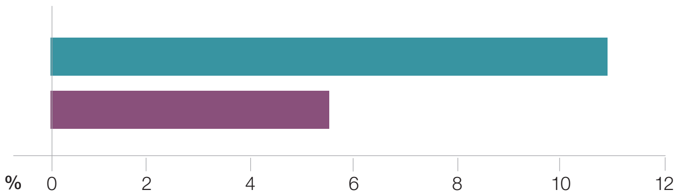
	%
GCM Grosvenor	15.3
Absolute target 7.5% p.a	7.5



The performance of the hedge funds portfolio is shown below.

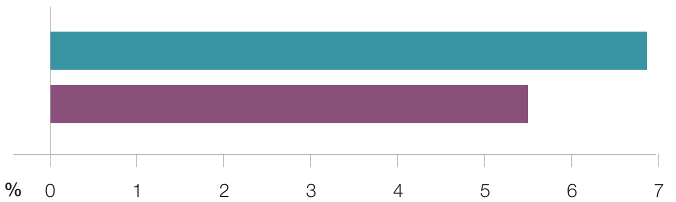
Hedge Funds
12 months to 31 March 2019

	%
Morgan Stanley	10.9
Absolute target 5.5% p.a	5.5



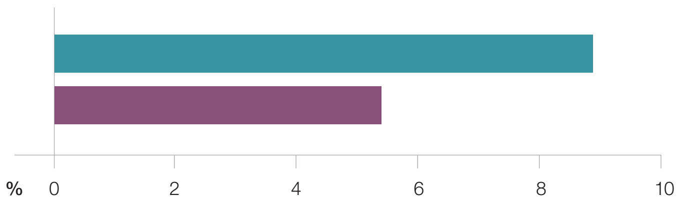
Hedge Funds
Three years to 31 March 2019

	%
Morgan Stanley	6.9
Absolute target 5.5% p.a	5.5



Hedge Funds
Five years to 31 March 2019

	%
Morgan Stanley	8.8
Absolute target 5.5% p.a	5.5



Analysis of Fund Assets and Investment Income

The following tables show an analysis of the fund assets and investment income as at 31 March 2019, split between UK, non-UK and global portfolios. Not all of the Fund's investments distribute income and in such cases any gains contribute to the overall value of the asset.

Fund Assets at 31 March 2019*

	UK £m	Non-UK £m	Global £m	Total £m
Equities	1,151.5	–	2,658.0	3,809.5
Bonds	2,154.1	–	0.2	2,154.3
Property	537.4	1.0	–	538.4
Alternatives	27.0	–	558.6	585.6
Cash and cash equivalents	0.0	–	–	0.0
Total	**3,870.0**	**1.0**	**3,216.8**	**7,087.8**

Investment income received in 2018/19

	UK £m	Non-UK £m	Global £m	Total £m
Equities	31.9	–	23.1	55.0
Bonds	0.3	–	7.5	7.8
Property	27.3	0.1	–	27.4
Alternatives	1.3	–	16.9	18.2
Cash and cash equivalents	–	–	0.5	0.5
Other (including stock lending)	–	–	6.6	6.6
Total	**60.8**	**0.1**	**54.6**	**115.5**

** Excludes accounting adjustments for long term debtors, current assets and current liabilities (notes 18 to 20 in the accounts)*

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.

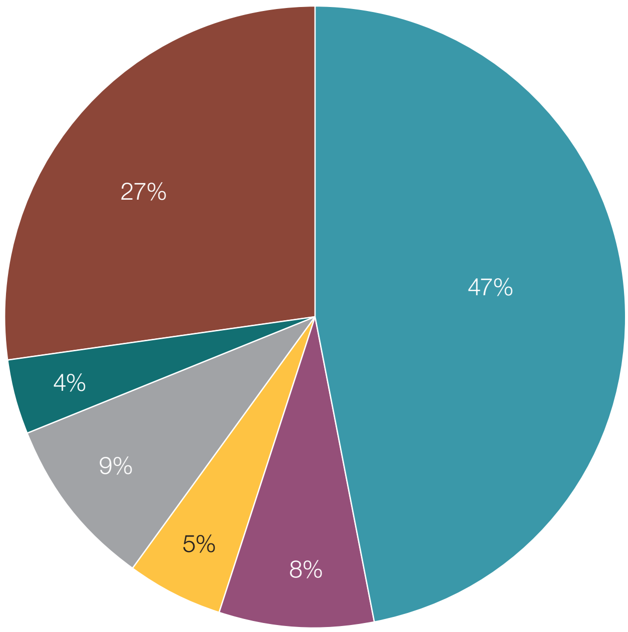
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years.

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 2019 there were 41,714 pensioners, 72,050 deferred members, and 58,055 contributors, a total of 171,819 Scheme members.

	Number of contributors	%
Hampshire County Council	27,191	47
Portsmouth City Council	4,535	8
Southampton City Council	2,800	5
District and Borough Councils	4,958	9
Office of Police and Crime Commissioner and Chief Constable	2,494	4
Other organisations	16,077	27
Totals	**58,055**	**100**



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	56,210	69,927	39,178
Resolution	58	290	183	190
Admitted	62	1,382	959	1,021
Community admitted	17	79	337	340
Transferee admitted	21	94	278	220
Councillors (no active members)	10	0	96	126
Ceased (no active members)	52	0	270	639
Total	**400**	**58,055**	**72,050**	**41,714**

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 50 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 2019, with compliance plus passes in seven areas:

- 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 how the insight and experience of customer-facing staff is incorporated into internal processes, policy development and service planning.
- We use reliable and accurate methods to measure customer satisfaction on a regular basis.
- 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.

Pensions Services ran 12 training events in the year which were attended by 142 people representing 82 employers and two Employer Focus Group meetings. In addition Pensions Services staff attended various employer liaison meetings throughout the year.

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. Approximately 26,886 members have registered so far.

Key performance data

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

100% of targets were met during 2018/19 for all key processes other than the production of divorce quotes. Six cases missed the target of 15 days and were instead produced within 20 working days of request.

			% cases completed against service standard			
Area of work	**Service Standard**	**Number of Cases**	Q1 %	Q2 %	Q3 %	Q4 %
Retirement	15 days	950	100	100	100	100
Deferred Retirement	15 days	1,153	100	100	100	100
Estimate	15 days	1,884	100	100	100	100
Deferred	15 days	6,776	100	100	100	100
Transfer Out	15 days	78	100	100	100	100
Transfer In	15 days	166	100	100	100	100
Divorce	15 days	394	96.43	97.37	100	100
Refund	15 days	1,614	100	100	100	100
Death	20 days	911	100	100	100	100

Benefit statements were produced by 31 August for 99.27% of active members. Of the 424 members who did not receive a statement, over half did not have CARE pay provided for the year and are likely to be leavers that have not been notified by employers. Statements were produced for 99.24% of deferred members, with 38 statements requiring follow up due to data issues on the record.

Pension savings statements were produced for the 188 members who exceeded the HMRC annual allowance in 2018/19. Of these, 39 had a tax charge. The number of statements required has doubled from the previous year, as more members start to exceed the reduced annual limit.

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 2018/19 have been received. The latest were credited on 1 May 2019, which was 9 days after the deadline.

A total of £3.203m was paid late (£1.298m in 2017/18) which was 1.06% of the total contributions received. The average delay on all late payments received during 2018/19 was 11 days (25 days in 2017/18). Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2018/19.

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 2017/18 and is summarised in the following table:

	2017/18		2016/17	
	Hampshire	All Funds	Hampshire	All Funds
Administration cost per member	£11.96	£20.85	£12.00	£20.73
Governance cost per member	£3.27	£8.96	£3.92	£9.50
Investment cost per member	£228.42	£175.44	£178.04	£155.06

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.

Value for money statement

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

- The GMP reconciliation exercise has been carried out by Intellica, (partnering with Civica) and was completed in the year. The work required to rectify benefits and update pension records will be done in 2019/20.
- During the year, West Sussex County Council chose to partner with Hampshire County Council to provide an LGPS and Fire pension administration service through Pension Services. Work to migrate the data from the previous provider was successfully completed and the service went live in March 2019.
- Pension Services implemented a new online service for Members, which went live in January 2019. The Member Portal increases the available functionality for members as well as offering an improved look and feel.

Common and conditional data scores were reported to the Pensions Regulator for the first time in November 2018. The Fund Actuary was commissioned to report on the data supplied as part of the valuation exercise. The score for common data was measured as 94% and for conditional data it was 87%. A data cleansing programme has been established to identify and correct data issues throughout the year, as well as this work being a key part of bulk data exercises such as running pension increase or annual benefit statement calculations. In addition, Pension Services are going to implement a data reporting module which will provide daily management information on data quality.

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 2019 are set out in the following table:

Band	Actual salary	Contribution rate per year Main Section	50:50 Section
1	Up to £14,100	5.50%	2.75%
2	£14,101 to £22,500	5.80%	2.9%
3	£22,501 to £36,500	6.50%	3.25%
4	£36,501 to £46,200	6.80%	3.4%
5	£46,201 to £64,600	8.50%	4.25%
6	£64,601 to £91,500	9.90%	4.95%
7	£91,501 to £107,700	10.50%	5.25%
8	£107,701 to £161,500	11.40%	5.7%
9	£161,501 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 2016. 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 fixed cash amount based on a percentage of employer payroll for past service
- a percentage of contributor's pay for future service.

The percentage of contributor's pay for 2019/20 is 16.1% for employers in the Scheduled Body group and 18.6% for employers in the Admission Body group.

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 2018/19 was £5,023 (£4,987 in 2017/18).

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 2,413 Scheme members retired during 2018/19, with an average retirement age of 62 years. Of this number, 1,124 (or 46.6%) took some form of early retirement, of which 96 were on ill health grounds and 830 were where individuals chose 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 Fund has two AVC providers, Prudential and Zurich. Members with existing AVCs with Equitable Life can continue to make payments to these contracts, but only if they are invested in its building society fund or for an additional death-in-service grant. The AVCs are invested separately from the Fund's main assets and are used to buy extra pension benefits on retirement.

Membership information

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

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

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

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 six formal complaints made in 2018/19. 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 Corporate Resources if it is against Pensions Services.

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

The Fund considered three stage one Internal Dispute Resolution Procedure (IDRP) appeals against the Pension Fund during 2018/19. One was upheld, two were partially upheld. All three went on to stage two of the IDRP process, the outcome agreeing with the stage one decision.

There were four stage two appeals against employer decisions on ill health.

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 2018/19:
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/joint-pension-fund-panel/annual-report

Risk Management Report

The management of risk is part of the control framework managed by the staff of the 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 details how funding risk is mitigated for different employer types. The Administering Authority maintains a knowledge base on scheme employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the Funding Strategy Statement. 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.

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

Risk	Description	Likelihood	Impact	Mitigation
Employer risk (continued)	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.			The Pension Fund's Funding Strategy Statement 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.
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), either effecting the Pension Fund directly or one of its key suppliers.	L	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

Risk Management Report continued

Risk	Description	Likelihood	Impact	Mitigation
Administration risk (continued)	• 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 certain principles, including: • to provide a high quality pension service to members • to take responsibility to provide accurate and timely information • that 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.
	• 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.

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

Risk	Description	Likelihood	Impact	Mitigation
	• 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 any 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.

Risk Management Report continued

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 Sterling.
	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. The Pension Fund's stock lending programme is protected by collateral managed by the Fund's custodian.
	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 to 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.
	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
Investment risk (continued)	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 – that these factors materially reduce long-term returns.			As set out in the Fund's Responsible Investemnt Policy, the Fund's external investment managers are required to consider ESG factors in their investment decisions 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 affecting 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.

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.	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.
	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 action to ensure solvency **Amber** – highlights a possible risk **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.			

Risk	Description	Likelihood	Impact	Mitigation
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 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.	L	M	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.

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

Financial Performance Report

Shown below is the Pension Fund's budget for 2018/19 compared to actual expenditure, and the budget for 2019/20.

	Budget 2018/19 £'000	Actual 2018/19 £'000	Budget 2019/20 £'000
Contributions received – Employers – normal	146,700	160,065	176,600
Contributions received – Employers – deficit	80,600	81,736	86,900
Contributions received – Employers – total	227,300	241,801	263,500
Contributions received – Members	64,800	66,161	68,500
Transfer values	0	–1,313	0
Benefits paid	– 247,200	–251,664	–258,800
Net additions from dealings with members	**44,900**	**54,985**	**73,200**
Investment management fees	40,900	37,576	41,300
Staff	1,510	1,475	1,560
Premises	60	60	60
IT	260	339	280
Supplies & Services	220	543	230
Other	0	0	0
Administrative Costs	2,050	2,417	2,130
Staff	305	319	330
Premises	5	5	5
IT	5	5	5
Supplies & Services	265	302	350
Other	5	1	5
Oversight & Governance Costs	585	632	695
Management Expenses	**43,535**	**40,625**	**44,125**

Dealings with members

Normal employer contributions received were greater than the budgeted figure which did not completely account for the annual stepped percentage increase in contributions. Member contributions and benefits paid were also both slightly greater than forecast, but the variance in normal contributions was the principle reason in the overall increase in the net additions from dealings with members.

Management expenses

The Pension Fund pays its investment managers a percentage fee based on the value of investments. Investment management fees were lower than forecast, primarily due to the cost of the Pension Fund's alternative investments (Private Equity and Infrastructure) being lower than estimated.

Administration costs were higher than budgeted with an additional £150,000 of IT costs to upgrade the Members Portal with improved online functionality and an additional £335,000 of supplies and services costs for the Guaranteed Minimum Pension (GMP) reconciliation which all LGPS funds have been required to undertake following Central Government's decision not to maintain their systems after December 2018.

Governance costs were higher than forecast due to the cost of Hampshire's contribution to the ACCESS pool being higher than the original year's budget. The subsequent budget increases were agreed by the ACCESS Joint Committee and reported to the Hampshire Pension Fund Panel and Board.

Statement of the Actuary

for the year ended 31 March 2019

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 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £5,213.4M) covering 81% 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.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 is:

   - 17.1% 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

   - 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 19 years from 1 April 2017 (the secondary rate), equivalent to 7.5% of pensionable pay (or £73.6M in 2017/18, and increasing by 3.5% p.a. thereafter).

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 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer or Group is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods were agreed with the Administering Authority reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main 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 *	4.5% p.a.
Intermediate employers (low and medium risk)	4.3% p.a.
Intermediate employers (higher risk)	4.1% p.a.
Ongoing Orphan employers	4.1% p.a.

Discount rate for periods after leaving service	
Scheduled body group employers *	4.5% p.a.
Intermediate employers (low and medium risk)	4.3% p.a.
Intermediate employers (higher risk)	4.1% p.a.
Ongoing Orphan employers	2.5% p.a.

Rate of pay increases	3.5% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

** The scheduled body group discount rate was also used for employers whose liabilities will be subsumed after exit by an employer in the scheduled body group. It was also used for employers in the admission body group at the 2016 valuation.*

In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a. in service and left service.

The assets were valued at market value.

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

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Other than as agreed or otherwise permitted or required by the Regulations, contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS):

    - **Increases to GMPs:**
      HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, announced an extension of the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, on 26 October 2018 the High Court ruled in the Lloyds Banking Group case that schemes are required to equalise male and female members' benefit for the effect of unequal GMPs. Our understanding is that this will not alter HM Treasury's approach to GMP equalisation in the LGPS.

    - **Cost Management Process and McCloud judgement:**
      Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014.

9. The actuarial valuation of the Fund as at 31 March 2019 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions commencing from 1 April 2020 to be signed off by 31 March 2020. Asset values have increased in value since 2016, on its own leading to an improvement in the funding level due to higher than assumed investment returns. Liability values and employer contributions, as well as being affected by the items listed in paragraph 8 above, will depend upon membership factors, changes to expectations of future returns and other assumptions (including allowance for the slow-down in longevity improvements) and any changes to funding strategy made as part of the 2019 valuation.

10. This Statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. 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.

11. The report on the actuarial valuation as at 31 March 2016 is available from the Pension Services team at Hampshire County Council, at pensions@hants.gov.uk

Aon Hewitt Limited
May 2019

Pension Fund Accounts

Fund Account

	See note	2017/18 £'000	2018/19 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	280,919	307,962
Transfers in from other pension funds		12,285	12,744
		293,204	**320,706**
Benefits	8	-239,202	-251,664
Payments to and on account of leavers		-13,992	-14,057
		-253,194	**265,721**
Net additions from dealings with members		**40,010**	**54,985**
Management expenses	9	-40,732	-40,625
Net additions/withdrawals inc. fund management expenses		-722	14,360
Returns on investments			
Investment income	10	112,321	115,530
Taxes on income		-826	-1,043
Profits and losses on disposal of investments and changes in the market value of investments	11a	165,252	439,795
Net return on investments		**276,747**	**554,282**
Net increase in the net assets available for benefits during the year		**276,025**	**568,642**
Opening net assets of the scheme		**6,337,214**	**6,613,239**
Closing net assets of the scheme		**6,613,239**	**7,181,881**

Net Assets Statement for the year ending 31 March 2019

	See note	31 March 2018 £'000	31 March 2019 £'000
Investment assets		6,432,182	7,087,835
Cash deposits		15,954	86
Investment liabilities		-5,320	-43
Total net investments	**11**	**6,442,816**	**7,087,878**
Long term debtors	20	4,564	3,043
Current assets	18	172,001	99,940
Current liabilities	19	-6,142	-8,980
Net assets of the Fund available to fund benefits at the period end		**6,613,239**	**7,181,881**

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 2018/19 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 338 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2018	31 March 2019
Number of employers with active members	333	338
Number of employees in Scheme		
County Council	26,719	27,191
Other employers	31,158	30,864
Total	**57,877**	**58,055**
Number of pensioners		
County Council	17,344	18,171
Other employers	22,452	23,543
Total	**39,796**	**41,714**
Deferred pensioners		
County Council	34,334	35,557
Other employers	35,169	36,493
Total	**69,503**	**72,050**
Total members in the Pension Fund	**167,176**	**171,819**

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 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016. Currently employer contribution rates for most employers range from 15.1% to 17.6% 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 2018/19 financial year and its position at year end at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* 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.

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 market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2018/19 £4.8 million of fees is based on such estimates (2017/18 £3.5 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 2019 by an external valuer, Mark White, BSc MRICS of Colliers International, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Global Standards 2017; 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 Equitable Life, but only by legacy Equitable Life AVC contributors (closed to new members) who are invested in its building society fund or for an additional death-in-service grant. 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 private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities 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 at 31 March 2019 was £465 million (£291 million at 31 March 2018).

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 119 years (based on current leases). The Fund has determined that these contracts all constitute operating leases 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 2019 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 £760 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £60 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £230 million.
Private equity investments (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 £465 million. The investment manager recommends a tolerance of +/- 10% around the net asset values on which the private equity valuation is based. This equates to a tolerance of +/- £46.5 million.
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 £121 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 +/- £6.0 million.

6. Events after the reporting date

On 27 June 2019 the Government was denied leave to appeal the McCloud and Sargeant cases, which had shown that the protections for those within ten years of retirement is age discriminatory. It is now expected that this verdict will be applied to the LGPS and the underpin will be extended to all members that were in service on 1 April 2014. 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).

As stated in Note 17 the Pension Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date (31 March 2016) so there is no adjustment to make to the Accounts for the additional liability that may result from applying the McCloud and Sargeant judgements.

7. Contributions receivable

By category

	2017/18 £'000	2018/19 £'000
Employees' contributions	63,029	66,161
Employers' contributions		
Normal contributions	141,749	160,065
Deficit recovery contributions	76,141	81,736
Total Employers' contributions	217,890	241,801
Total	**280,919**	**307,962**

By authority

	2017/18 £'000	2018/19 £'000
Administering authority	104,587	117,275
Scheduled bodies	161,667	175,155
Admitted bodies	14,665	15,532
Total	**280,919**	**307,962**

8. Benefits payable

By category

	2017/18 £'000	2018/19 £'000
Pensions	198,454	209,547
Commutation and lump sum retirement benefits	36,008	36,335
Lump sum death benefits	4,740	5,782
Total	**239,202**	**251,664**

By authority

	2017/18 £'000	2018/19 £'000
Administering authority	88,476	93,791
Scheduled bodies	138,686	144,837
Admitted bodies	12,040	13,036
Total	**239,202**	**251,664**

9. Management expenses

	2017/18 £'000	2018/19 £'000
Administrative costs	2,000	2,417
Investment management expenses	38,186	37,576
Oversight and governance costs	546	632
Total	**40,732**	**40,625**

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

In additional to these costs, indirect 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

	2017/18 £'000	2018/19 £'000
Management fees	28,161	27,915
Custody fees	238	255
Transaction costs	9,787	9,406
Total	**38,186**	**37,576**

10. Investment income

	2017/18 £'000	2018/19 £'000
Income from bonds	7,048	7,526
Income from equities	58,698	55,021
Pooled property investments	1,479	1,651
Pooled investments – unit trusts and other managed funds	808	259
Rents from property	26,351	25,765
Interest on cash deposits	245	557
Alternative investment income	16,305	18,145
Stock lending	939	935
Other	448	5,671
Total	**112,321**	**115,530**

Notes to the Pension Fund Accounts continued

11. Investments

	31 March 2018 £'000	31 March 2019 £'000
Bonds		
UK		
Public sector quoted	1,530	0
Corporate quoted	9,949	0
Overseas		
Public sector quoted	184,525	0
Public sector unquoted	12,167	159
Corporate quoted	48,525	0
	256,696	**159**
Equities		
UK – Quoted	860,122	30,378
Overseas – Quoted	1,792,145	724,736
	2,652,257	**755,114**
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	1,438,587	1,496,970
Unit trusts	365,028	1,089,532
Overseas		
Fixed income unit trusts	13,517	657,184
Unit trusts	724,328	1,964,853
	2,541,460	**5,208,539**
Pooled property investments	49,270	51,160
Alternative investments	497,470	585,565
Property	433,070	487,255
Derivative contracts:		
– Futures	950	0
– Forward currency contracts	945	43
– Purchased/written options	0	0
– Spot foreign exchange contracts	64	0
	981,769	**1,124,023**
Cash deposits	15,954	86
Total investment assets	**6,448,136**	**7,087,921**
Investment liabilities		
– Futures	–1,187	0
– Forward currency contracts	–4,045	-43
– Purchased/written options	0	0
– Spot foreign exchange contracts	–88	0
Derivatives	**–5,320**	**-43**
Total investment liabilities	**–5,320**	**-43**
Net investment assets	**6,442,816**	**7,087,878**

11a) Reconciliation of movements in investments and derivatives

Period 2018/19

	Market value 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'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**

Notes to the Pension Fund Accounts continued

Period 2017/18 as prior year comparative figures	Market value 1 April 2017 £'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 2018 £'000
Bonds	244,402	395,308	-366,883	-16,131	256,696
Equities	2,468,116	1,104,887	-1,023,775	103,029	2,652,257
Pooled investments	2,546,862	2,569,913	-2,614,201	38,886	2,541,460
Pooled property investments	30,726	20,825	-4,777	2,496	49,270
Alternative investments	445,974	291,930	-248,284	7,850	497,470
Property	377,915	43,277	-3,648	15,526	433,070
	6,113,995	**4,426,140**	**-4,261,568**	**151,656**	**6,430,223**
Derivative contracts:					
– Futures	-125	7,889	-6,391	-1,610	-237
– Forward foreign exchange	-326	20,036	-39,445	16,635	-3,100
– Purchased/written options	-4	58	-40	-14	0
	-455	**27,983**	**-45,876**	**15,011**	**-3,337**
Other investment balances:					
– Cash deposits	19,806			-1,415	15,954
– Spot foreign exchange contracts	0				-24
Net investment assets	**6,133,346**			**165,252**	**6,442,816**

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 2018 £'000	%	Market value 31 March 2019 £'000	%
Pooled investments (Link)	0	0.0	1,737,878	24.2
Pooled investments (UBS)	2,505,806	37.9	2,813,476	39.2
Pooled investments Subtotal	**2,505,806**	**37.9**	**4,551,354**	**63.4**
Aberdeen-Standard	367,850	5.6	0	0.0
Acadian	433,309	6.5	476,052	6.6
Alcentra	0	0.0	362,273	5.1
Baillie Gifford	709,181	10.7	289,850	4.0
Barings	0	0.0	294,912	4.1
CBRE Global Investors	479,656	7.3	537,270	7.5
Newton	416,024	6.3	0	0.0
Schroders	812,062	12.3	0	0.0
Western	272,154	4.1	0	0.0
	3,490,236	**90.7**	**1,960,357**	**27.3**
Other investments	503,879	7.6	595,098	8.3
Other net assets	113,318	1.7	75,072	1.0
Total	**6,613,239**	**100.0**	**7,181,881**	**100.0**

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

Notes to the Pension Fund Accounts continued

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 £103.9 million (£76.5 million 2017/18). 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 2019, the custodian bank held collateral at fair value of £119.8 million (£84.6 million 2017/18). 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 2018 £'000	Year ending 31 March 2019 £'000
Within one year	23,892	24,200
Between one and five years	71,386	72,356
Later than five years	59,971	176,353
Total future lease payments due under existing contracts	**155,249**	**272,909**

The above disclosures have been reduced by a credit loss allowance of 3% 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

The Fund's investments in derivatives were part of its global bonds portfolio, which was disinvested in March 2019. The use of derivatives in this portfolio was managed in line with the investment management agreement agreed between the Fund and the investment manager. Investments in derivatives were to hedge liabilities, or to hedge exposures to reduce risk in the Fund and/or where it was more efficient to gain exposure to an asset than holding the underlying asset.

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

i) Futures

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

ii) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's portfolio is in foreign currency. To reduce the volatility associated with fluctuating currency rates, derivative contracts are used in some instances.

iii) Options

The Fund wants to benefit from the returns available from investing in fixed interest securities but wishes to minimise the risk of loss of value through adverse price movements. No options were held at 31 March 2019.

Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure £'000	Market value 31 March 2018 £'000	Economic exposure £'000	Market value 31 March 2019 £'000
Assets					
UK fixed income futures	Less than one year	1,808	35	0	0
Overseas fixed income futures	Less than one year	137,025	915	0	0
Total assets			**950**		**0**
Liabilities					
UK fixed income futures	Less than one year	0	0	0	0
Overseas fixed income futures	Less than one year	-76,858	-1,187	0	0
Total liabilities			**-1,187**		**0**
Net futures			**–237**		**0**

Open forward currency contracts

At 31 March 2019, the Fund had open forward currency contracts in place with a net unrealised loss of £0 million.

Settlement	Currency bought	Local value '000	Currency sold*	Local value '000	Asset value £'000	Liability value £'000
Up to 1 month	GBP	65	JPY	-9,502	0	0
1 to 6 months	CAD	40	USD	-30	0	0
1 to 6 months	EUR	280	USD	-319	2	-5
1 to 6 months	SEK	12,580	USD	-1,367	16	-21
1 to 6 months	USD	30	CAD	-40	0	0
1 to 6 months	USD	319	EUR	-280	5	-2
1 to 6 months	USD	1,367	SEK	-12,580	20	-15
Open forward currency contracts at 31 March 2019					**43**	**-43**
Net forward currency contracts at 31 March 2019						**0**
Prior year comparative:						
Open forward currency contracts at 31 March 2018					**945**	**-4,045**
Net forward currency contracts at 31 March 2018						**-3,100**

* List of currencies

CAD = Canadian Dollar	EUR = Euro	GBP = British Pound
JPY = Japanese Yen	SEK = Swedish Krona	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	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required
Freehold and leasehold properties	2	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

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
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	3	Comparable valuation of similar companies in accordance with *International Private Equity Venture Capital Valuation Guidelines.*	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	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 2019.

	Assessed valuation range (+/–)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Alternative Investments – Hedge funds	5%	120,927	126,974	114,881
Alternative Investments – Private equity	10%	464,638	511,102	418,174

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 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	5,306,469	708,546	585,565	6,600,580
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	**5,306,469**	**1,195,758**	**585,565**	**7,087,791**

Values at 31 March 2018	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	5,439,261	62,381	497,470	5,999,112
Non-financial assets at fair value through profit and loss		433,070		433,070
Financial liabilities at fair value through profit and loss	-1,275	-4,045	0	-5,320
Net investment assets	**5,437,986**	**491,406**	**497,470**	**6,426,862**

The table includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included. There were no transfers in classifications in 2018/19.

13b) Reconciliations of fair value measurements within level 3

Period 2018/19	Market value	Purchases during the year and derivative payments 1 April 2018	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Alternative investments	497,470	247,316	-239,379	80,158	585,565

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 2018				31 March 2019	
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			
256,696			Fixed interest securities	159		
2,652,257			Equities	755,114		
2,541,460			Pooled investments	5,208,539		
49,270			Pooled property investments	51,160		
497,470			Alternatives	585,565		
1,959			Derivative contracts	43		
	134,081		Cash	17,820	40,601	
	12,168		Debtors		10,182	
5,999,112	**146,249**	**0**		**6,618,400**	**50,783**	**0**
			Financial Liabilities			
-5,320			Derivative contracts	-43		
		-5,058	Creditors			-8,146
-5,320	**0**	**-5,058**		**-43**	**0**	**-8,146**
5,993,792	**146,249**	**(5,058)**		**6,618,357**	**50,783**	**-8,146**

14b) Net gains and losses on financial instruments

31 March 2018 £'000		31 March 2019 £'000
	Financial assets	
166,667	Fair value through profit and loss	447,575
	Financial liabilities	
-1,415	Fair value through profit and loss	-9,708
165,252	**Total**	**437,867**

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

14c) Transition to IFRS 9

The Pension Fund adopted the IFRS 9 Financial Instruments accounting standard with effect from 1 April 2018. The main change is the earlier recognition of the impairment of financial assets. The Pension Fund has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the impairment is instead shown as additional management expenses (investment management expenses). The changes made on transition to the balance sheet are summarised below:

	IAS 39 31 March 2018 £'000	Reclassification £'000	Reclassification £'000	Impairment £'000	IFRS 9 1 April 2018 £'000
Financial assets					
Investments					
L&R/Amortised cost	0				0
FVPL	5,999,112				5,999,112
Total investments	**5,999,112**	**0**	**0**	**0**	**5,999,112**
Debtors					
L&R/Amortised cost	12,168				12,168
FVPL	0				0
Total debtors	**12,168**	**0**	**0**	**0**	**12,168**
Cash and cash equivalents					
L&R/Amortised cost	134,081	-29		-46	134,006
FVPL	0	29		0	29
Total cash and cash equivalents	**134,081**	**0**	**0**	**(46)**	**134,035**
Total financial assets	**6,145,361**	**0**	**0**	**(46)**	**6,145,315**
Financial liabilities					
FVPL (derivative contracts)	-5,320				-5,320
Amortised cost (creditors)	-5,058				-5,058
Total financial liabilities	**-10,378**	**0**	**0**	**0**	**-10,378**
Management expenses					
Investment management expenses	38,186			46	38,232

L&R: Loans and receivables; FVPL: fair value through profit and loss

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 2018/19 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.

Notes to the Pension Fund Accounts continued

Asset type	Potential market movements (+/-)
UK equities	9.14%
Overseas equities	10.48%
UK bonds	12.46%
Overseas bonds	5.48%
Property	2.78%
Alternative investments	7.57%
Cash	0.11%

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 above, 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 2019	**7,087,878**	**665,565**	**7,753,443**	**6,422,313**
Total assets 2018	6,442,816	621,994	7,064,810	5,820,822

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 2019 and 31 March 2018 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 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**

Assets exposed to interest rate risk	Value as at 31 March 2018 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	118,127	0	118,127	118,127
Cash deposits	15,954	0	15,954	15,954
Bonds	256,697	20,800	235,897	277,497
Total	**390,778**	**20,800**	**369,978**	**411,578**

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**

Income exposed to interest rate risk	Amount receivable as at 31 March 2018 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits / cash & cash equivalents	245	1,585	1,830	-1,340
Bonds	7,048	0	7,048	7,048
Total	**7,293**	**1,585**	**8,878**	**5,708**

Notes to the Pension Fund Accounts continued

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed assets but will reduce their fair value, and vice versa. 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 10.0% (as measured by one standard deviation).

A 10.0% 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 10.0% 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 2019	**2,701,298**	**256,808**	**2,928,106**	**2444,490**
Total assets 2018	2,659,756	265,450	2,925,206	2,394,306

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 over-the-counter 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 2019 was £46.820 million (31 March 2018: £74.591 million). This was held with the following institutions:

	Rating as at 31 March 2019	Balances as at 31 March 2018 £'000	Balances as at 31 March 2019 £'000
Money market funds			
Aberdeen Standard	AAAm	7,390	4,350
Blackrock	AAAm	0	2,200
Deutsche	AAAm	6,560	2,010
Federated Investors UK	AAAm	7,390	4,550
Insight	AAAm	7,390	940
JP Morgan	AAAm	0	3,770
Bank deposits			
Barclays	A	5,580	0
Lloyd	AA-	7,400	1,000
Nationwide Building Society	A	5,000	0
Nordea Bank AB	AA-	5,000	0
Rabobank	AA-	5,000	5,000
Santander UK	A	5,000	5,000
Standard Chartered	A	0	5,000
Svenska Handelsbanken	AA-	4,060	1,000
Toronto-Dominion Bank	AA-	5,000	0
Treasury bills			
UK Government	AA-	3,821	12,000
Total		**74,591**	**46,820**

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 2019 the value of illiquid assets was £1,098 million, which represented 15.5% of the total fund assets (31 March 2018: £955 million, which represented 14.8% 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 2019 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 2016. The next valuation will take place as at 31 March 2019.

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 19 years from 1 April 2017 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 2016 actuarial valuation, the Fund was assessed as 81% funded (80% at the March 2013 valuation). This corresponded to a deficit of £1,240 million (2013 valuation: £1,087 million) at that time.

Contribution schedules have been agreed for the two groups of employers. Generally, employers in the Scheduled Body Group are required to pay 14.1% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for 2 years followed by 16.9% of Pensionable Pay from 1 April 2020. In addition, most Scheduled Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2016/17 but increasing at 8.8% p.a. with effect from 1 April 2017 for 3 years and increasing by 3.9% p.a. thereafter until 31 March 2036. Employers in the Admission Body Group are required to pay 16.6% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for two years followed by 19.1% of Pensionable Pay from 1 April 2020. In addition, most Admission Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2016/17 but increasing at 20.0% p.a. on 1 April 2017 and increasing by 3.9% p.a. thereafter until 31 March 2036.

Contribution schedules have also been agreed for the remaining employers who are not grouped. The contributions for those employers reflect the profiles of their membership, 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.

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 2016 actuarial valuation report and summarised in the Statement of the Actuary.

Generally a common set of assumptions are 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, 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 Scheduled Body Group in the March 2016 actuarial valuation were as follows:

Financial assumptions – discount rate for periods

Discount rate	4.5% a year
Rate of general pay increases	3.5% a year
Rate of increase to pension accounts and deferred pension increases	2.0% a year
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% a year

The assets were valued at market value.

Demographic assumptions:

A 65 year old male pensioner retiring in normal health in 2016 was assumed on average to live to 88.9 (rather than 89.6 under the assumptions adopted at the previous valuation). A 65 year old female pensioner retiring in normal health in 2016 was assumed on average to live to 91.9 (rather than 91.4).

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 are 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 2016 was £7,595 million (31 March 2013: £6,565 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 2016 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 2016 IAS 19 calculation were:

Discount rate	3.4%
RPI inflation	2.9%
CPI inflation / pension increase rate assumption	1.8%
Salary increase rate	3.3%

18. Current assets

	31 March 2018 £'000	31 March 2019 £'000
Debtors:		
– Contributions due - employees	575	173
– Contributions due - employers	34,443	25,508
– Transfer values receivable (joiners)	1,521	1,521
– Tax	5,167	4,221
– Sundry debtors	12,168	10,182
Cash balances	118,127	58,335
Total	**172,001**	**99,940**

Analysis of debtors

	31 March 2018 £'000	31 March 2019 £'000
Central government bodies	6,789	7,309
Other local authorities	17,697	18,006
Other entities and individuals	29,388	16,290
Total	**53,874**	**41,605**

19. Current liabilities

	31 March 2018 £'000	31 March 2019 £'000
Sundry creditors	5,058	8,146
Transfer values payable (leavers)	0	0
Benefits payable	537	184
Tax	547	650
Total	**6,142**	**8,980**

Analysis of creditors

	31 March 2018 £'000	31 March 2019 £'000
Central government bodies	582	650
Other local authorities	773	2,452
Other entities and individuals	4,787	5,878
Total	**6,142**	**8,980**

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 £4.564 million; of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £3.043 million is a long term debtor.

	31 March 2018 £'000	31 March 2019 £'000
Magistrates Courts – agreed liability settlement due from central government body	4,564	3,043
Total	**4,564**	**3,043**

21. Additional voluntary contributions

	Market value 31 March 2018 £'000	Market value 31 March 2019 £'000
Prudential	10,250	13,323
Zurich	7,503	6,930
Equitable Life	1,073	932
Total	**18,826**	**21,185**

During the year, AVCs of £4.194 million were paid directly to Prudential (2017/18: £3.051 million), £0.455 million to Zurich (2017/18: £0.680 million), and £0.007 million to Equitable Life (2017/18: £0.006 million).

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 £117.275 million to the Fund in 2018/19 (2017/18 £104.587 million).

During the reporting period, the County Council incurred costs of £2.935 million (2017/18: £2.458 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 recharge. The charge above for the administration of the Pension Fund includes £0.125m for senior management.

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2019, the Fund had an average cash balance of £64.024 million (year to 31 March 2018: £74.300 million), earning interest of £0.515 million (2017/18 £0.241 million) on these funds.

23. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2019 totalled £326.591 million (31 March 2018: £227.584 million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds held in the alternative investments part of the Fund. The amounts 'called' by private equity funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

24. Contingent assets

The Fund had no contingent assets on 31 March 2019.

25. Impairment losses

During 2018/19, the Fund has recognised an impairment loss for bad and doubtful debt of £0.003 million (2017/18: £0.033 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 2019.

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 Director of Corporate Resources 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.

Director of Corporate Resources' responsibilities

The Director of Corporate Resources is responsible for preparing the Hampshire Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2015/16 ('the Code of Practice').

In preparing this statement of accounts, the Director of Corporate Resources 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 Director of Corporate Resources has also:

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

Director of Corporate Resources' statement

I certify that the statement of accounts as set out on pages 48 to 82 presents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

Carolyn Williamson FCPFA
Director of Corporate Resources

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 2019, 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 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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 2018/19.

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 opinions on those financial statements.

Maria Grindley
Ernst & Young LLP

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
23 July 2019

Glossary

Actuary
A person or firm that analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep the Fund solvent.

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.

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.

Glossary continued

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.

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

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.

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

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

Myners

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

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.

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.

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.

Glossary continued

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.

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.