



- 3 Foreword by the Chairman of the Pension Fund Panel
- 4 Pension Fund Panel
- 5 Investment report
- 11 Business plar
- 13 Membership report
- 18 Training report
- 19 Statement by the Fund's Actuary
- 21 What the accounts show
- 23 Financial statements
- 51 The Fund's statutory statements
- 51 Section 1 Business Plai
- 53 Section 2 Funding Strategy Statement
- 65 Section 3 Statement of Investment Principles
- 69 Section 4 Governance Policy Statement
- 71 Section 5 Governance Compliance Statement
- 73 Section 6 Communication Policy Statement
- 76 Who's who
- 77 Glossary

We hope you find this annual report informative and useful There is a glossary of terms at page 77.

If you have any comments on the annual report, please call 01962 847054, email the Pensions Services Development Team servdev.pensions@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 2013/14.

The last year has seen positive performance by the Pension Fund's investments. The value of the Pension Fund at 31 March 2014 had reached a record high of £4,536 million, and the Pension Fund has achieved a total investment return of 4.4% during 2013/14.

The actuarial valuation of the Pension Fund at 31 March 2013 has now been completed and shows good results for the Fund. The funding ratio at 31 March 2013 is now 80%, which is an increase from 72% at the previous valuation in 2010. This means that the recovery is on track to achieve a full funding level over the next 22 years as planned.

In April 2014, the Government's new Local Government Pension Scheme (LGPS 2014) was introduced. A key feature of LGPS 2014 is that it is a Career Average Revalued Earnings (CARE) scheme, replacing the previous final salary scheme. All past service benefits will be protected.

The coming years will be an interesting time for the Pension Fund, as the Government consults on proposals for making cost savings and efficiencies in the LGPS, and changes to governance of funds, including the introduction of pension boards from 1 April 2015. The Hampshire Pension Fund is pleased that the Government has steered away from merging local pension funds and hopes the Government will continue to allow funds to exercise discretion in the investment of their assets. I believe individual funds are best placed to make investment decisions for which they remain accountable to local scheme members and employers.

The Hampshire Pension Fund has worked hard to improve the overall governance of the scheme, for example ensuring it adopts all the Myners Principles. The Fund will implement any governance changes the Government introduces, but we are concerned that they may be contrary to the Government's other aims of achieving efficiencies and cost reductions to the LGPS.

I am pleased to report that during 2013/14, Pension Fund Panel members have continued to show their boundless commitment to training by attending both internal and external training sessions covering a wide range of topics. It is important that Panel members continue to improve their level of knowledge concerning pensions matters. Further information on the training received and plans for training over the next year can be found in the training report on page 18.

I would like to thank members of the Pension Fund Panel, our external advisers, and all the investment and administration staff for their continuing efforts, which provide a quality service to all the scheme members and employers.

I hope you find the following report helpful.

Councillor Mark Kemp-Gee Chairman, Pension Fund Panel

Mark W. Kemp-Gee

September 2014



Pension Fund Panel

County Council members



Cllr Mark Kemp-Gee (Chairman) 9 years' membership



Cllr Tom Thacker (Vice-Chairman) 5 years' membership



Cllr Christopher Carter 5 years' membership



Employee representative

Phillip Reynolds7 years' membership

Cllr Criss Connor

1 year's membership



Cllr Peter Latham
1 year's membership



Cllr Andrew Gibson 2 years' membership



Cliff Allen
1 year's membership



Clir Andrew Joy1 year's membership



Cllr Tim Rolt

1 year's membership



Cllr Bruce Tennent 5 years' membership

All Panel members take part in a full training programme covering the range of knowledge and skills required for their membership of the Panel, as summarised on page 18.

Unitary authorities' and Hampshire district councils' representatives



Cllr Gerald Vernon-Jackson Portsmouth City Council Membership from November 2013 to July 2014*



Cllr Stephen Barnes-Andrews Southampton City Council 1 year's membership



Cllr John Leek
Basingstoke & Deane
Borough Council
3 years' membership



Cllr Peter Giddings
Test Valley Borough Council
7 years' membership

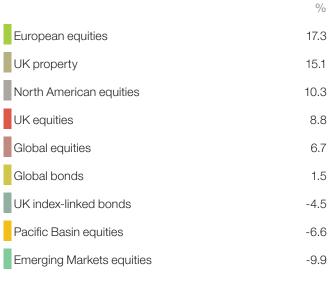
*Cllr Hugh Mason is the Portsmouth City Council representative from July 2014.

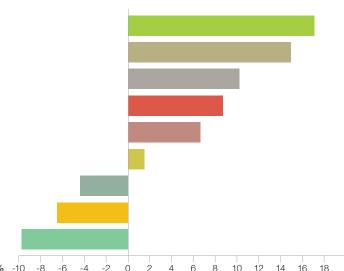
Investment report

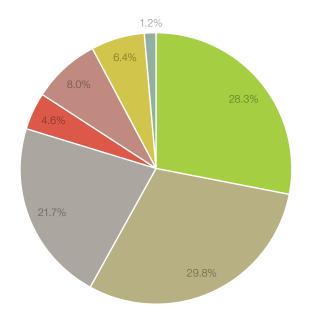
During 2013/14, stock markets delivered positive returns, as the UK stock market grew by 8.8% and world stock markets returned 6.7% overall.

The UK commercial property market has had a marked improvement during 2013/14 with a return of 15.1% for the year, in comparison to a return of 1.4% for 2012/13.

Market returns in 2013/14







Breakdown of the Hampshire Pension Fund's investments on 31 March 2014

	%
UK equities	28.3
Overseas equities	29.8
UK bonds	21.7
Overseas bonds	4.6
UK and European property	8.0
Alternative investments	6.4
Cash held pending investment	1.2
Total	100.0

 $^{\scriptscriptstyle \dagger}$ portfolio is being run down as the investments mature.

Investment report continued

Pension Fund	l investment	management	structure
--------------	--------------	------------	-----------

Tactical asset allocation Aon Hewitt	16.0	_	_
Aberdeen Asset Management	10.0	-	+8% to 11% gross
Alternative investments			
		of Consumer Prices (HICP)	
European property Aberdeen Property Investors	2.0 [†]	Eurozone Harmonised Index	+5% net
CBRE Global Investors	8.0	Retail Prices Index (RPI)	+4.5% net
UK property			
State Street Global Advisors	8.5	As above	
Legal & General	10.5	FT British Government Over Five Years Index-Linked Gilts In	dex
Passive index-linked bonds			
Western Asset Management	5.0	Barclays Capital Global Aggregate Bonds Index	+1.5% gross
Active global bonds			
Newton Investment Management	12.0	MSCI All Countries World	+3% gross
High-performance global equities Aberdeen Asset Management	14.0	MSCI All Countries World	+3% gross
-	1 110	T TOE 7 III OTICIO	
Low-risk active UK equities Schroder Investment Management	14.0	FTSE All Share	+1.25% gross
	portfolio size %	Benchmark	performance gross/ net of fees
Tonoiom and invocament management on	Target		Annual target

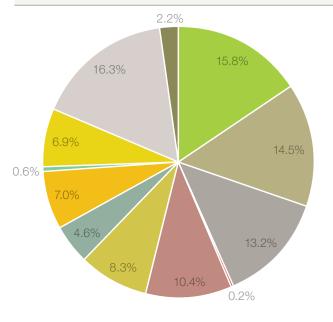
The Fund has appointed investment managers responsible for several specialist portfolios. In July 2014 the Pension Fund Panel considered its Strategic Asset Allocation, changes will be implemented in 2014/15.

100.0

Total

The value of the investments held by each of the Fund's managers on 31 March 2014 is shown in the following table.

	Value of invest on 31 Marc		
Manager	£	million	%
Schroders (UK equity por	rtfolio)	717	15.8
Aberdeen (global equity p	oortfolio)	657	14.5
Newton (global equity po	rtfolio)	601	13.2
Aberdeen (frontier marke	ts fund)	11	0.2
Legal & General (index-lir	nked bond portfo	lio) 470	10.4
State Street (index-linked	bond portfolio)	378	8.3
Western (global bond por	rtfolio)	207	4.6
CBRE (UK property)		316	7.0
Aberdeen (European pro	perty)	27	0.6
Alternative investments		311	6.9
Tactical asset allocation		739	16.3
Held centrally (for pension	n payments,		
investment, etc.)		102	2.2
Total		4,536	100.0



Performance of the managers

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

Both global and UK markets have delivered positive returns for the year. Aside from European property and the passively managed portfolios of UK index-linked bonds, the managers have shown positive performance returns during 2013/14. The Pension Fund Panel 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 2013/14 was 4.4%. This compares with a weighted benchmark return of 4.2%. The investment managers are set targets to outperform their benchmark indices. The weighted return of these targets for 2013/14 was 5.8%. The Fund's investment return was 12.6% a year over the five years to March 2014.

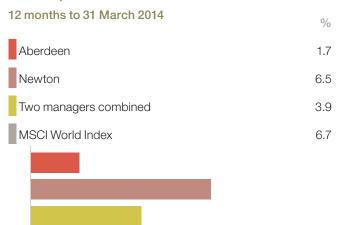
Total investment returns for the Fund 12 months to 31 March 2014



Global equities

The global stock markets returned 6.7% in 2013/14, as measured by the MSCI All Countries World Index. Although both global equities portfolio managers have provided positive returns, neither has outperformed their benchmark index in 2013/14. Over the longer term, Newton have underperformed compared with the benchmark index over the five year period to 31 March 2014, while Aberdeen have outperformed over this period.

Global equities



The Fund's global equity managers' performance results against the MSCI Index benchmark over the last five years are shown below.

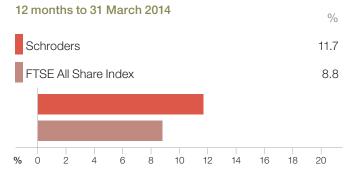
Global equities



UK equities

The UK stock market returned 8.8% during 2013/14 as measured by the FTSE All Share Index, and the Fund's UK equity manager, Schroders, outperformed the FTSE All Share Index over this period, and over the last five years.

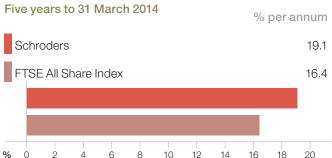
UK equities



The Fund's UK equity manager's performance results against the FTSE All Share Index benchmark over the last five years are shown below.

UK equities

10

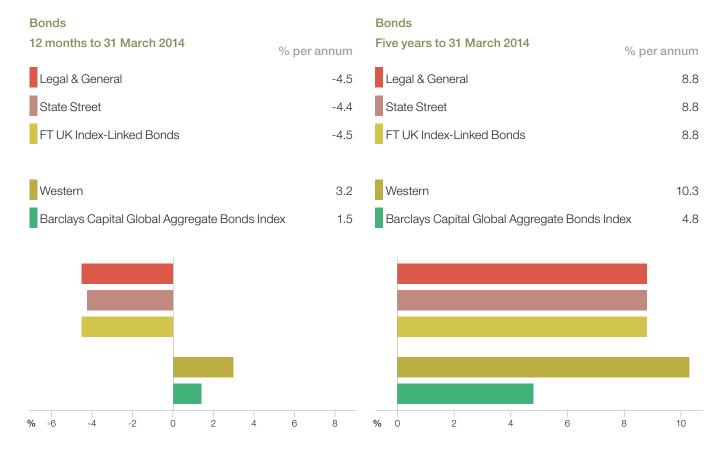


Bonds

Legal & General and State Street passively manage portfolios of UK index-linked bonds. Both managers delivered returns that matched their target index during 2013/14.

The Barclays Capital Global Aggregate Bonds Index has returned 1.5% during 2013/14, and the Fund's active global bonds manager, Western, has outperformed the benchmark index over this period, and the last five years.

Shown below are the performance results of the Fund's UK bond managers against the FT Index-Linked Bonds benchmark, and those of the global bond manager against the Barclays Capital Bond Index benchmark.



Property

CBRE Global Investors manage a portfolio of UK properties.
CBRE Global Investors returned a performance of 18.0% in 2013/14 which was higher than the Investment Property
Databank (IPD) benchmark, which returned 15.1% during
2013/14. The IPD benchmark reflects the returns achieved by similarly sized property portfolios. CBRE Global Investors' target is the Retail Price Index (RPI) plus 4.5%, over seven to 10 years.

CBRE have performed well in the last year in a rising property market, and this has turned their five year performance figures to exceed their RPI plus 4.5% target, as well as continuing to outperform the IPD index of comparative UK property portfolios.

Aberdeen Property Investors' target for their portfolio of European property funds is to achieve a return of the Eurozone Harmonised Index of Consumer Prices (HICP) plus 5%. The European property market has in general performed poorly since January 2007, with the recovery lagging behind the UK. As opportunities arise, Aberdeen will reduce the size of the portfolio over the next few years.

Shown below are the performance results of the Fund's UK property manager against the IPD benchmark and their benchmark of RPI plus 4.5%, and those of the European property manager against the Eurozone HICP plus 5% benchmark.

Property Property 12 months to 31 March 2014 Five years to 31 March 2014 % % per annum CBRE Global Investors – UK property 18.0 CBRE Global Investors – UK property 12.2 RPI plus 4.5% RPI plus 4.5% 7.0 8.3 IPD benchmark IPD benchmark 15.1 9.8 Aberdeen – European property Aberdeen – European property -2.2 -6.3 Eurozone HICP plus 5% 5.5 Eurozone HICP plus 5% 6.8

Business plan

The Myners principles require pension funds to draw up a forward-looking business plan, including a training plan for both the trustees and officers involved in their management and administration.

The Hampshire Pension Fund's business plan includes a commitment to review and revise the plan annually, and to evaluate

performance against the action plan. The Panel last reviewed the plan, a copy of which is at page 51, in November 2013.

The previous business plan approved by the Pension Fund Panel in December 2012 included several actions for completion by March 2014. Progress against these action points are summarised below.

Planned action	Deadline	Progress
Monitor the Fund's investment managers' performance, including the effectiveness of the Tactical Asset Allocation (TAA) portfolio.	Ongoing	Up-to-date performance information is reported to each meeting of the Panel and is closely monitored by officers on a monthly basis. The future of the TAA portfolio was considered as part of the Investment Strategy Review by the Pension Fund Panel in July 2014.
Keep Panel members' training needs under review and provide any extra training considered necessary, for example to any new members of the Panel.	Ongoing	In June 2013, the Panel approved the training plan for 2013/14, bespoke training events for Panel members were arranged for September and November 2013 and Panel members have attended a number of pension industry events. At this meeting it was agreed that Panel members would complete a Training Needs Analysis form that would enable more effective training.
Continue to build up the Pension Fund's portfolio of alternative investments.	Ongoing	The Panel have set Aberdeen, the advisers on the alternative investments portfolio, an increased target allocation of £375 million. Aberdeen have continued to bring forward recommendations for additions to the portfolio and for redemptions
Monitor Government announcements on investments in infrastructure assets.	Ongoing	The Panel noted the Government's change to the LGPS regulations doubling the limit for partnerships (which would include infrastructure investments) to 30%.
Review the Fund's Statement of Investment Principles	December 2013	Update of the Statement approved by the Pension Fund Panel in November 2013.
Review the Fund's Funding Strategy Statement	December 2013	Update of the Statement approved by the Pension Fund Panel in November 2013.
Review the Governance Policy and Governance Compliance Statements	December 2013	Update of the Statements approved by the Pension Fund Panel in November 2013.
Review this business plan, including progress against the action plan	December 2013	Approved by the Pension Fund Panel in November 2013.
Review the Fund's management fees and transaction costs	December 2013	Reported to the Pension Fund Panel in November 2013.



Planned action	Deadline	Progress
Complete the actuarial valuation of the Pension Fund at 31 March 2013, in conjunction with the Fund Actuary.	March 2014	The actuarial valuation was completed by the statutory deadline of 31 March 2014.
Assess the implications of the actuarial review at 31 March 2013 for the Pension Fund's Investment Strategy.	March 2014	The Investment Strategy review has been carried out and options presented to the Pension Fund Panel in July 2014.
Retender the contract for the Pension Fund's Global Custodian, which expires on 31 July 2013.	July 2013	The contract was awarded to JP Morgan and started from 1 August 2013.
Implement any changes that are made to the Local Government Pension Scheme, such as the current proposals for LGPS 2014.	March 2014	LGPS 2014 has been implemented. The Pension Fund Panel has been updated on further changes to the scheme proposed by the Government.

Actions to March 2015

New actions:

Agree a revised investment strategy for the Pension Fund following the outcome of the actuarial valuation 2013.

Following the actuarial valuation at 31 March 2013 and review of the Pension Fund's investment strategy, produce a timetable for the retendering of the Pension Fund's investment manager contracts.

Retender the contract for the Pension Fund's actuary (the current contract expires 31 March 2015).

Implement the requirement for a Pension Board from 1 April 2015 in line with the LGPS Regulations 2013, following further clarification from Government and the Pensions Regulator.

Ongoing actions:

Monitor the Fund's investment managers' performance.

Consider and, if appropriate, agree any alternative investments the Fund's advisers recommend.

Complete the following annual reviews – deadline December 2014:

- the Fund's Statement of Investment Principles
- the Fund's Funding Strategy Statement (if necessary)
- the Governance Policy and Governance Compliance statements
- this Business Plan, including reviewing progress against the action plan
- the Fund's management fees and transaction costs.

Keep Panel members' training needs under review and provide any extra training considered necessary, for example to any new members of the Panel.

Membership 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 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 'community admission bodies', which are voluntary organisations that the County Council has admitted to the Scheme under its discretionary powers. Employees of contractors for jobs transferred from scheduled bodies since March 2002 can also be accepted into the Scheme as transferee bodies.

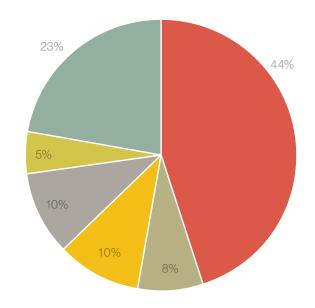
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years. The implementation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

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

Further information on automatic enrolment can be found on the Pensions Regulator website www.thepensionsregulator.gov.uk

In March 2014 the Government announced the outcome of the consultation on councillor access to the LGPS. No new councillors were allowed to join the LGPS after 31 March 2014 and existing councillor members cease to be eligible for membership once their current term of office has ended. It has been confirmed that a councillor can request payment of their pension benefits from age 60 if they are no longer eligible for the LGPS, even if they are still in office at that date.

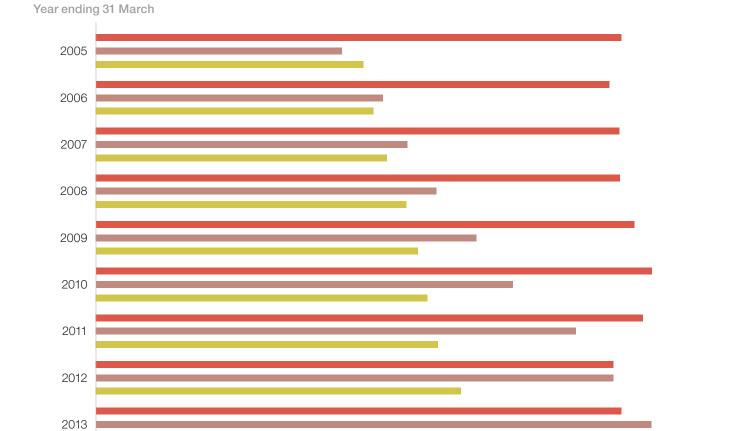
On 31 March 2014 there were 33,286 pensioners, 52,417 deferred members, and 50,551 contributors, a total of 136,254 Scheme members.



Number of contributors		%
Hampshire County Cour	cil 22,395	44
Southampton City Coun	cil 3,944	8
Portsmouth City Council	5,055	10
District councils	5,133	10
Hampshire Police Author	ity 2,407	5
Other organisations	11,617	23
Totals	50,551	100

A full listing of contributing employers to the Hampshire Pension Fund is available at: http://www3.hants.gov.uk/pensions/pensionsreportsandaccounts.htm





20,000

30,000

The number of contributors has reached its highest point to date due to automatic enrolment from 1 April 2014. The number of pensioners has remained static, and deferred members in the Fund have continued to increase.

10,000

2014

Ó

No. of Contributors

No. of Deferred

No. of Pensioners

50,000

40,000

What does membership cost and what are the benefits?

The Scheme is contracted out of the state second pension (S2P), and contributing employees and employers pay reduced national insurance. The Scheme operates tiered employee contribution rates. Employees pay a rising percentage depending on their pay band. The rates that apply from 1 April 2014 are set out in the following table:

Full-time	Contribution rate
equivalent salary	per year
Up to £13,500	5.5%
£13,501 – £21,000	5.8%
£21,001 – £34,000	6.5%
£34,001 – £43,000	6.8%
£43,001 – £60,000	8.5%
£60,001 – £85,000	9.9%
£85,001 – £100,000	10.5%
£100,001 – £150,000	11.4%
More than £150,000	12.5%

Every three years the Fund's actuary, Aon Hewitt Limited, 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 2013. The actuarial position of the Fund is explained in more detail on pages 19 to 20.

Following the 2010 valuation, the employer contribution rate was split into two elements. This approach has continued with the 2013 valuation:

- 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 is 13.1% for employers in the Scheduled Body group and 15.6% 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 $\mathfrak{L}12$ for every $\mathfrak{L}1$ 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.

At 31 March 2014, 11 of the total 136,254 members in the Scheme had earned pension rights valued in excess of the standard lifetime allowance, which was £1.5 million for 2013/14.

The average annual pension paid in 2013/14 was £4,994.

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. AVCs can also be paid to Equitable Life, but only if they are invested in its building society fund or for an additional death-in-service grant. The AVCs are invested separately from the Fund's main assets and are used to buy extra pension benefits on retirement.

Retirement age

The normal retirement age 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 1,704 Scheme members retired during 2013/14, with an average retirement age of 61.8 years. Of this number, 287 (or 16.8%) took some form of early retirement, mainly due to redundancy or ill-health.



The money that contributors paid the Fund in 2013/14 was $\mathfrak{L}17.5$ million more than the amount paid out to pensioners. In other words, there was a positive cash flow. This net inflow of cash was greater than the 'net additions from dealings with members and employers' budget for 2013/14 of $\mathfrak{L}13.2$ million, by 33.0%. This was due to an increase in contributions, as described in more detail on page 21.

New LGPS 2014 scheme

The new LGPS came into effect from 1 April 2014. The key features of the new 2014 scheme are:

- a Career Average Revalued Earnings (CARE) scheme (previously final salary)
- an accrual rate of 1/49th (previously 1/60th)
- pension age of the later of 65 or an individual's state pension age (previously 65 for all members)
- average member contributions of 6.5%, but those earning above £43,000 will pay between 8.5% and 12.5% (previously the highest rate was 7.5%)
- an option to pay 50% less contributions in return for 50% pension benefits (expected to be taken up by those considering opting out for a short period)
- protection for benefits accrued to 31 March 2014 and full protection for members who were within 10 years of age 65 in April 2012.

Further information for members, including a contribution rate and CARE benefit calculator can be found at www.LGPS2014.org

Annual allowance

HM Revenue and Customs (HMRC) set a limit on the amount a pension can increase each year without incurring tax charges, known as the annual allowance.

The annual allowance was reduced from £50,000 in 2013/14 to £40,000 from 6 April 2014.

Members who exceed the annual allowance can use unused allowances from the preceding three years to offset the chargeable amount. Members with a tax charge greater than £2,000 can ask for the scheme to pay the tax over to HMRC on their behalf, in exchange for a reduction in their pension benefits.

The lifetime allowance (which is a measure of the total value of an individual's pension rights, above which tax charges apply) was reduced to £1.25 million from 6 April 2014. Members can apply for individual protection from August 2014. Further information can be found on the HMRC website www.hmrc.gov.uk

Administration performance

Pensions Services aims to be top quartile for performance, while remaining bottom quartile for costs. Throughout the

Total

Total	8,644	2,211	2,213	1,535	1,534	16,137
New Pensioners	2,536	60	17	16	0	2,629
Other leavers	91	3	1	0	0	95
Divorce	351	27	3	0	0	381
Transfers from / to private pension schemes	1,196	115	28	2	0	1,341
Transfers between LGPS schemes	531	46	35	8	2	622
Joining up of multiple pension benefits	314	221	188	65	1	789
Leavers not yet able to take pension	772	710	1,503	1,423	1,531	5,939
Estimate of pension benefits	770	338	192	9	0	1,309
People who retire	2,083	691	246	12	0	3,032
Areas of work	0-5 days	6-10 days	11-15 days	16-20 days	4-8 weeks	on target
,	Working a	ays to complet	.6			completed

Working days to complete

year, Pensions Services has achieved this objective with 100% delivery against published service standards for all key areas of administration.

Pensions Services has held Customer Service Excellence, the Government standard for excellence in customer service, since April 2009. In April 2014, Pensions Services retained the standard in a light touch assessment and was praised for extensive continuous improvement activities across a wide range of areas.

The annual internal audit opinion for Pensions Services was that the section has a sound framework of governance, risk management and management control that is operating in practice.

Member and employer support

The focus of employer and member communication in the year was on the new LGPS 2014. A project team was set up to ensure that staff, employers and scheme members received sufficient information about the changes to allow a smooth transition. Pensions Services ran several employer workshops and employer focus group meetings which were well received and provided an opportunity for employers to discuss the changes and share best practice. Employer presentations on the scheme were attended by over 140 different employers.

Employee presentations on the new scheme were held at locations across the county, in conjunction with Prudential. These were well attended with positive feedback about the accessibility of the information being presented.

Pensions Services continued to offer employer training at themed workshops, which were attended by over 200 employer representatives in the year.

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

During 2013/14 three formal complaints were received about the level of service provided by Pensions Services to members. When complaints are received, Pensions Services review processes in order to identify the cause and avoid recurrence.

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.

During 2013/14, two cases were heard at the first stage and two at the second stage. In addition, two cases which had been rejected at both stages appeal process were passed to the Pensions Ombudsman to investigate. None of the cases have been upheld. delivery against published service standards for all key areas of administration.

Training 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 the financial management and decision making with regard to 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 it will provide training for staff and members of the pension decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

A formal training plan is prepared every year to identify and meet the training needs for the Panel as a whole and for individual members. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

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

Training received in 2013/14

Two internal training half-days were arranged for Panel members in Winchester during September and November 2013. This included a half-day provided by the Pensions Training Manager from the Local Government Association, and an asset management firm. They provided training on the Local Government Pension Scheme which included the history, legal duties and responsibilities of committee members, CIPFA principles, and the benefit framework. The other half-day included two sessions: one provided by an asset management firm on infrastructure investment; the second was provided by a senior executive from the City, who gave guidance on the current and future market.

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 members.

In December 2013 individual members of the Pension Fund Panel reviewed their knowledge and skills against a Training Needs Analysis. The purpose of this exercise was to allow Panel members to consider their current level of knowledge and where they needed to have additional training. The Training Needs Analysis was designed around the CIPFA Pensions Finance Knowledge and Skills Framework, in order to ensure the Panel meet the requirements. As a result of the Training Needs Analysis, relevant internal training sessions were arranged for 2013/14 and 2014/15, and personalised training plans were put together for the Panel members which endeavoured to meet any remaining training needs identified. The Training Needs Analysis is also provided to all new Panel members to enable them to identify any training requirements.

Individual Panel members also attended a range of training events in 2013/14 provided by the Pension Fund's investment managers and other external organisations, as follows:

Schroders Trustee Training	Aberdeen Asset Management Property Conference
SPS Local Authority Pension Conference	Schroders Autumn Conference
SPS Alternative Investment Strategies for Pension Funds Conference	Newton Annual Investment Conference
LGA Fundamentals Course	Aberdeen Annual Investment Conference
LGC Investment Summit	Aon Hewitt Local Government Pension Scheme Seminar
Local Government Pension	SPS Investment Strategies for

Evaluation of training

Training logs are completed on an ongoing basis for each member of the Panel to record the training undertaken during the year, including details of all relevant training courses, seminars and events attended. The training logs include 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 2014/15

The training plan for 2014/15 was approved by the Pension Fund Panel in June 2014. Proposed training included further in-house training sessions in July 2014 and November 2014, external training events, use of online learning tools, briefing information in reports to the Panel from officers, and background reading as appropriate.

Hampshire County Council Pension Fund Statement of the Actuary

for the year ended 31 March 2014

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 County Council 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 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial position

- The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £4,340.6 million) covering 80% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
- The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 is:
 - 14.1% 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.

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 22 years from 1 April 2014, amounting to £60.7 million in 2014/15, and increasing by 3.9% p.a. thereafter.
- 3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (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 is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.
- 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 and subsumption bodies	5.5% p.a.
Orphan bodies	5.2% p.a.

Discount rate for periods after leaving service

Scheduled and subsumption bodies	5.5% p.a.
Orphan bodies	3.9% p.a.
Rate of pay increases	3.9% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment	
(in excess of Guaranteed Minimum Pension)	2.4% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were 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 2013. 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 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016.

Statement of the actuary continued

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, 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 2013. 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 Hewitt Limited 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.

 The report on the actuarial valuation as at 31 March 2013 is available from the Pensions Services team at Hampshire County Council at http://www3.hants.gov.uk/hampshire-2013-valuation-report.pdf

Aon Hewitt Limited

29 May 2014



What the accounts show

The accounts show that the Fund was worth £4,536 million at 31 March 2014. This was an increase in value of 4.5% compared with the previous year.

Employees' contributions in 2013/14 were £55 million. This is a 4.2% increase on 2012/13 employees' contributions; this is due to an increase in members which is a result of auto-enrolment. As auto-enrolment was implemented by employers at different stages during the year, only a part-year effect of this increase is reflected in the contributions received.

Employers' contributions in 2013/14 of $\mathfrak{L}168.1$ million were 2.5% higher than in 2012/13. This reflects the fact that employers pay a fixed amount based on their employee payroll at the last valuation date in 2010, plus a percentage of pensionable pay (13.1% for scheduled bodies, and 15.6% for those in the admitted body group).

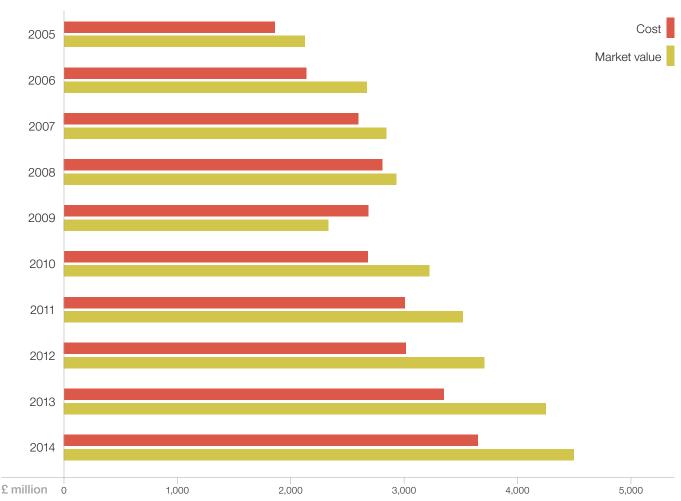
Pensions paid totalled £166.2 million. As required by the Scheme regulations, pensions were increased in April 2013 by 2.2% reflecting the increase in the Consumer Price Index (CPI) in September 2012.

Lump sum benefits remained stable in 2013/14 and the amount paid fell by a small reduction of 2.6% to £37.2 million. The number of lump sums paid during the year was 1,826, resulting in an average lump sum payment of approximately £20,400.

How the Fund has grown

The value of the Fund increased slightly during 2013/14, as the diagram below shows. This was due to positive investment performance throughout the year. The value of the Pension Fund's investments had risen to an all-time high of $\mathfrak{L}4,536$ million at 31 March 2014.

Year ending 31 March

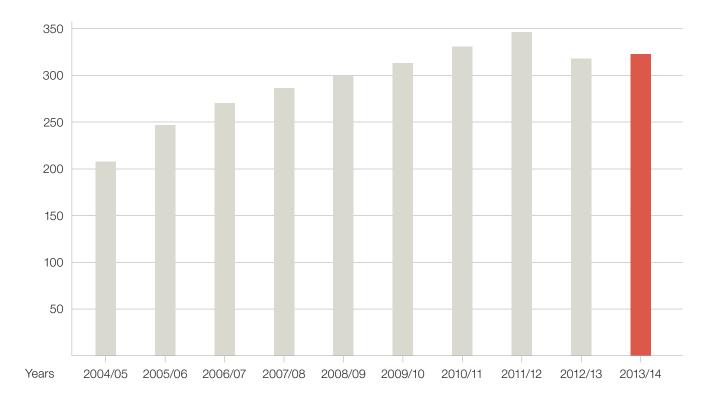


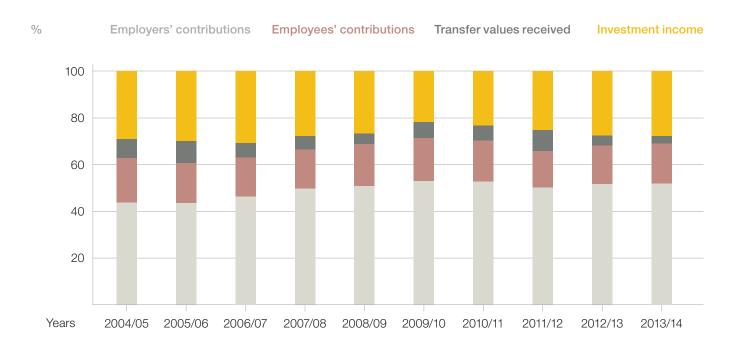
What the accounts show continued

Annual income

The Fund's income has increased compared with last year's figure, due to an increase in contributions, as well as an increase in investment income.

Annual income £ million





Financial statements

Pension Fund Accounts

Fund Account		2012/13	2013/14
	See note	£'000	£'000
Dealings with members, employers and others directly involved in	the Fund		
Contributions	7	216,739	223,101
Transfers in from other pension funds	8	14,138	10,667
		230,877	233,768
Benefits	9	-197,429	-203,468
Payments to and on account of leavers	10	-20,037	-9,836
Administration expenses	11	-2,782	-2,972
		-220,248	-216,276
Net additions from dealings with members		10,629	17,492
Returns on investments			
Investment income	12	88,742	91,249
Taxes on income	13	-954	-1,299
Profits and losses on disposal of investments and			
changes in the market value of investments	15a	474,193	98,399
Investment management expenses	14	-9,233	-10,742
Net return on investments		552,748	177,607
Net increase in the net assets available for benefits during the year	r	563,377	195,099
Net Assets Statement		31 March	31 March
		2013	2014
	See note	£'000	£'000
Investment assets		4,180,476	4,317,821
Cash deposits		17,090	52,345
	15	4,197,566	4,370,166
Long term debtors	22	10,649	10,649
Investment liabilities	15	-5,660	-1,162
Current assets	20	151,474	168,878
Current liabilities	21	-13,411	-12,814
Net assets of the Scheme available to fund benefits at the period e	end	4,340,618	4,535,717

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 2013/14 and the underlying statutory powers underpinning the Scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions)
 Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme 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 Pension Fund Panel, 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 303 employer organisations within the Hampshire Pension Fund including the County Council itself, detailed as below:

Hampshire Pension Fund	31 March 2013	31 March 2014
Number of employers with active members	oers 273	303
Number of employees in Scheme		
County Council	21,279	22,395
Other employers	25,040	28,156
Total	46,319	50,551
Number of pensioners		
County Council	14,668	14,363
Other employers	18,781	18,923
Total	33,449	33,286
Deferred pensioners		
County Council	24,398	26,126
Other employers	24,572	26,291
Total	48,970	52,417

The increase in employer organisations is partially a result of additional state schools converting to academy status during 2013/14, which are subsequently treated as separate employers to the three Local Education Authorities (the County Council and Portsmouth and Southampton City Councils).

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. During 2013/14, employer contribution rates for most employers ranged from 19.1% to 20.6% of pensionable pay.

d) Benefits

	Service pre 1 April 2008	Service post 31 March 2008	Service post 31 March 2014
Basis	Final salary	Final salary	Career average revalued earnings (CARE)
Pension	Each year worked is worth 1/80× final pensionable salary.	Each year worked is worth 1/60× final pensionable salary.	Each year worked is worth 1/49x CARE.
Lump sum	Automatic lump sum of $3 \times $ 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.	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.

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised above.

The Government has published regulations to change the LGPS with effect from 1 April 2014.

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: http://www3.hants.gov.uk/pensions

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position at year-end at 31 March 2014. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in the United Kingdom 2013/14 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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 19 of these accounts.

3. Summary of significant accounting policies

Fund Account - revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

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 (see Notes 8 and 10).

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 (see Note 8).

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. 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.

Properties held in the UK property portfolio are generally subject to leases with upward-only rent reviews every five years.

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

f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

g) 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 their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Net Assets Statement

h) 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 by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs
- Securities subject to takeover offer the value of the consideration offered under the offer, less estimated realisation costs
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager
- Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with standardised methods developed by the British Venture Capital Association and European Venture Capital Association (who have subsequently harmonised their valuation guidelines into the International Private Equity and Venture Capital Valuation (IPEV) guidelines).

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

vi) Freehold and leasehold properties

The properties were valued on 31 March 2014 by an external valuer, Paul Willis, BSc MRICS of Colliers International.

The valuations were in accordance with the requirements of the Royal Institute of Chartered Surveyors' Valuation

– Professional Standards and the International Valuation

Standards. The valuation of each property was on the basis of fair value, as defined by the International Accounting

Standards Board. All the properties are held for investment purposes and were valued on the assumption that the properties would be sold subject to any existing leases.

The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arms length terms.

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.

i) 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.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to

the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the investment manager using generally accepted option-pricing models with independent market data.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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.

I) 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 IAS 26, 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 19).

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 if

they 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 section 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

o) Events after the balance sheet date

Events after the balance sheet date (disclosed in Note 6) are those events that occur (both favourable and non-favourable) between the date of the Balance Sheet (31 March) and the date the accounts are authorised for issue (30 September). There are two types of event:

- Adjusting events those that provide evidence of a condition that existed at the Balance Sheet date – for this type of event the accounts are adjusted to reflect such events.
- Non-adjusting events those that are indicative of conditions
 that arose after the Balance Sheet date for this type of
 event the accounts are not adjusted to reflect such events.
 However, where the event would have a material effect,
 disclosure is made in the notes to the accounts of the nature
 and estimated effect of the event.

Events taking place after the date authorised for issue are not reflected in the Statement of Accounts

4. Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. The convention for valuing unquoted private equities uses standardised methods developed by the British Venture Capital Association and European Venture Capital Association (who have subsequently harmonised their valuation guidelines into the International Private Equity and Venture Capital Valuation (IPEV) guidelines). The value of unquoted private equity investments at 31 March 2014 was £175 million (£152 million at 31 March 2013).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2014 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	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 £580 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £70 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £120 million.
Debtors	At 31 March 2014, the Fund had a balance of debtors and prepayments of £51 million. A review of debtor balances suggested that an impairment of £0.004 million was appropriate. However, in the current economic climate, it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.004 million to be set aside as an allowance.
Private equity	Private equity investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation (IPEV) 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 £175 million. There is a risk that this investment may be under- or overstated in the accounts.
Hedge funds	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 £136 million. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 5% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £6.8 million.

6. Events after the Balance Sheet date

As part of the Ministry of Justice's Transforming Rehabilitation Programme the employees and pensioners of the Hampshire Probation Trust will be transferring out of the Hampshire Pension Fund on 1 June 2014. As this event has taken place after the balance sheet date the Fund's financial statements have not been amended. There will be a bulk transfer out of the Fund to be paid in the financial year 2014/15, which the Government Actuary's Department's initial estimate is £70 million. There will also be associated reductions in the Fund's contributions received and benefits paid in relation to the Probation Trust staff and pensioners that have left the Fund.

7. Contributions receivable

Total	216,739	223,101
Resolution bodies	971	1,091
Transferee admission bodies	2,568	3,914
Community admission bodies	1,248	1,046
Admitted bodies	4,126	4,189
Scheduled bodies	207,826	212,861
By type of employer	2012/13 £'000	2013/14 £'000
Total	216,739	223,101
Members	52,777	54,999
Employers	163,962	168,102
By category	2012/13 £'000	2013/14 £'000
7. Continuations receivable		

8. Transfers in from other pension funds

Total	14,138	10,667
Individual transfers	11,957	10,667
Group transfers	2,181	0
	2012/13 £'000	2013/14 £'000

9. Benefits payable

By category	2012/13 £'000	2013/14 £'000
Pensions	159,213	166,231
Commutation and lump sum retirement benefits	34,530	32,526
Lump sum death benefits	3,686	4,711
Total	197,429	203,468
By type of employer	2012/13 £'000	2013/14 £'000
Scheduled bodies	188,418	194,815
Admitted bodies	5,196	5,045
Community admission bodies	1,584	1,322
Transferee admission bodies	1,577	1,613
Resolution bodies	654	673
Total	197,429	203,468

10. Payments to and on account of leaver

Total	20,037	9,836
Individual transfers	11,551	9,825
Group transfers	8,475	0
Payments for members joining State scheme	ne -5	-7
Refunds to members leaving service	16	18
2	2012/13 £'000	2013/14 £'000
10. Payments to and on account of lea	avers	

11. Administration expenses

Total	2,782	2,972
Other	43	46
Actuarial fees	45	98
Internal audit fees	25	36
External audit fees	29	28
Pension administration costs	2,640	2,764
·	2012/13 £'000	2013/14 £'000

12. Investment income	0040/40	0040/44	15. Investments		
	2012/13 £'000	2013/14 £'000		Market value	Market value
Fixed interest securities	6,079	6,820		31 March 2013	31 March 2014
Equity dividends	52,893	55,973		£'000	£'000
Pooled property investments	3,278	2,132	Investment assets		
Pooled investments – unit trusts and			Fixed interest securities	211,893	212,592
other managed funds	904	452	Equities	1,747,732	1,853,541
Property (see note 12a)	15,439	17,622	Pooled investments	1,597,401	1,617,743
Interest on cash deposits	952	608	Pooled property investments	61,504	46,860
Alternative investment income	8,268	7,409			
Stock lending	281	204	Alternative investments	297,819	281,507
Other	648	29	Property	259,160	302,845
Total	88,742	91,249	Derivative contracts:		
			– Futures	322	90
12a) Property income	2012/13	2013/14	- Forward currency contracts	2,978	2,567
	£'000	£'000	- Purchased/written options	459	74
Rental income	15,439	17,622	 Spot foreign exchange contracts 	1	2
Direct operating expenses	-1,562	-2,422	 Adjustment to variation margins 	1,207	0
Net income	13,877	15,200	, agastrion to variation margino	1,201	O
			Cash deposits	17,090	52,345
13. Taxes on income	2012/13 £'000	2013/14 £'000	Total investment assets	4,197,566	4,370,166
Withholding tax – equities	954	1,299	Investment liabilities		
Total	954	1,299	Derivative contracts:		
		,	- Futures	-1,529	-435
14. Investment management expe	enses		- Forward currency contracts	-3,898	-367
	2012/13 £'000	2013/14 £'000	- Purchased/written options	-233	-351
Management fees	6,811	7,611	- Spot foreign exchange contracts	0	-9
Property managers' expenses	1,762	2,574	- Adjustment to variation margins	0	0
Custodian fees	310	86	Total investment liabilities	-5,660	-1,162
		00	Net investment assets	4,191,906	4,369,004
Investment consultancy	0	32			
Investment consultancy Other	350	439			

15a) Reconciliation of movements in investments and derivatives

	Market value 1 April 2013	Purchases during the year and	Sales during the year and	Change in market value	Market value 31 March 2014
	1710111 2010	derivative payments			01 11101 2011
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	211,893	644,890	-625,392	-18,799	212,592
Equities	1,747,732	516,204	-472,134	61,739	1,853,541
Pooled investments	1,597,401	77,311	-73,928	16,959	1,617,743
Pooled property investments	61,504	3,558	-17,081	-1,121	46,860
Alternative investments	297,819	62,079	-73,221	-5,170	281,507
Property	259,160	20,351	-5,340	28,674	302,845
	4,175,509	1,324,393	-1,267,096	82,282	4,315,088
Derivative contracts:					
- Futures	-1,207	4,170	-3,808	500	-345
- Forward currency contracts	-920	34,400	-44,908	13,628	2,200
- Purchased/written options	226	-673	-1,819	1,989	-277
	-1,901	37,897	-50,535	16,117	1,578
Other investment balances:					
Cash deposits	17,090				52,345
 Spot foreign exchange contra 	acts 1				-7
 Adjustment to variation margi 	n 1,207				0
Net investment assets	4,191,906			98,399	4,369,004
	Market value	Purchases during	Sales during the	Change in	Market value
	1 April 2012	the year and	year and	market value	31 March 2013
			derivative receipts		
	£'000	derivative payments		during the year	£'000
Fixed interest securities	£'000 175.963	£'000	£'000	£'000	£'000 211.893
Fixed interest securities Equities	175,963	£'000 489,474	£'000 -466,718	£'000 13,174	211,893
Equities	175,963 1,736,856	£'000 489,474 316,461	£'000 -466,718 -565,371	£'000 13,174 259,786	211,893 1,747,732
Equities Pooled investments	175,963 1,736,856 1,180,216	£'000 489,474 316,461 435,259	£'000 -466,718 -565,371 -205,692	£'000 13,174 259,786 187,618	211,893 1,747,732 1,597,401
Equities	175,963 1,736,856 1,180,216 69,152	£'000 489,474 316,461 435,259 1,779	£'000 -466,718 -565,371 -205,692 -3,956	£'000 13,174 259,786 187,618 -5,471	211,893 1,747,732 1,597,401 61,504
Equities Pooled investments Pooled property investments Alternative investments	175,963 1,736,856 1,180,216 69,152 206,874	£'000 489,474 316,461 435,259 1,779 96,306	£'000 -466,718 -565,371 -205,692 -3,956 -46,553	£'000 13,174 259,786 187,618 -5,471 41,192	211,893 1,747,732 1,597,401 61,504 297,819
Equities Pooled investments Pooled property investments	175,963 1,736,856 1,180,216 69,152	£'000 489,474 316,461 435,259 1,779	£'000 -466,718 -565,371 -205,692 -3,956	£'000 13,174 259,786 187,618 -5,471	211,893 1,747,732 1,597,401 61,504
Equities Pooled investments Pooled property investments Alternative investments	175,963 1,736,856 1,180,216 69,152 206,874 208,790	£'000 489,474 316,461 435,259 1,779 96,306 71,091	£'000 -466,718 -565,371 -205,692 -3,956 -46,553 -5,424	£'000 13,174 259,786 187,618 -5,471 41,192 -15,297	211,893 1,747,732 1,597,401 61,504 297,819 259,160
Equities Pooled investments Pooled property investments Alternative investments Property	175,963 1,736,856 1,180,216 69,152 206,874 208,790	£'000 489,474 316,461 435,259 1,779 96,306 71,091	£'000 -466,718 -565,371 -205,692 -3,956 -46,553 -5,424	£'000 13,174 259,786 187,618 -5,471 41,192 -15,297	211,893 1,747,732 1,597,401 61,504 297,819 259,160
Equities Pooled investments Pooled property investments Alternative investments Property Derivative contracts: - Futures	175,963 1,736,856 1,180,216 69,152 206,874 208,790 3,577,851	£'000 489,474 316,461 435,259 1,779 96,306 71,091 1,410,370	£'000 -466,718 -565,371 -205,692 -3,956 -46,553 -5,424 -1,293,714	£'000 13,174 259,786 187,618 -5,471 41,192 -15,297 481,002	211,893 1,747,732 1,597,401 61,504 297,819 259,160 4,175,509
Equities Pooled investments Pooled property investments Alternative investments Property Derivative contracts:	175,963 1,736,856 1,180,216 69,152 206,874 208,790 3,577,851	£'000 489,474 316,461 435,259 1,779 96,306 71,091 1,410,370	£'000 -466,718 -565,371 -205,692 -3,956 -46,553 -5,424 -1,293,714	£'000 13,174 259,786 187,618 -5,471 41,192 -15,297 481,002	211,893 1,747,732 1,597,401 61,504 297,819 259,160 4,175,509
Equities Pooled investments Pooled property investments Alternative investments Property Derivative contracts: - Futures - Forward currency contracts	175,963 1,736,856 1,180,216 69,152 206,874 208,790 3,577,851	£'000 489,474 316,461 435,259 1,779 96,306 71,091 1,410,370 61 34,167	£'000 -466,718 -565,371 -205,692 -3,956 -46,553 -5,424 -1,293,714 -1,459 -30,588	£'000 13,174 259,786 187,618 -5,471 41,192 -15,297 481,002	211,893 1,747,732 1,597,401 61,504 297,819 259,160 4,175,509 -1,207 -920
Equities Pooled investments Pooled property investments Alternative investments Property Derivative contracts: - Futures - Forward currency contracts	175,963 1,736,856 1,180,216 69,152 206,874 208,790 3,577,851 26 2,864 -241	£'000 489,474 316,461 435,259 1,779 96,306 71,091 1,410,370 61 34,167 5,904	£'000 -466,718 -565,371 -205,692 -3,956 -46,553 -5,424 -1,293,714 -1,459 -30,588 -5,826	£'000 13,174 259,786 187,618 -5,471 41,192 -15,297 481,002 165 -7,363 389	211,893 1,747,732 1,597,401 61,504 297,819 259,160 4,175,509 -1,207 -920 226
Equities Pooled investments Pooled property investments Alternative investments Property Derivative contracts: - Futures - Forward currency contracts - Purchased/written options	175,963 1,736,856 1,180,216 69,152 206,874 208,790 3,577,851 26 2,864 -241	£'000 489,474 316,461 435,259 1,779 96,306 71,091 1,410,370 61 34,167 5,904	£'000 -466,718 -565,371 -205,692 -3,956 -46,553 -5,424 -1,293,714 -1,459 -30,588 -5,826	£'000 13,174 259,786 187,618 -5,471 41,192 -15,297 481,002 165 -7,363 389	211,893 1,747,732 1,597,401 61,504 297,819 259,160 4,175,509 -1,207 -920 226
Equities Pooled investments Pooled property investments Alternative investments Property Derivative contracts: - Futures - Forward currency contracts - Purchased/written options Other investment balances:	175,963 1,736,856 1,180,216 69,152 206,874 208,790 3,577,851 26 2,864 -241 2,649	£'000 489,474 316,461 435,259 1,779 96,306 71,091 1,410,370 61 34,167 5,904	£'000 -466,718 -565,371 -205,692 -3,956 -46,553 -5,424 -1,293,714 -1,459 -30,588 -5,826	£'000 13,174 259,786 187,618 -5,471 41,192 -15,297 481,002 165 -7,363 389	211,893 1,747,732 1,597,401 61,504 297,819 259,160 4,175,509 -1,207 -920 226 -1,901
Equities Pooled investments Pooled property investments Alternative investments Property Derivative contracts: - Futures - Forward currency contracts - Purchased/written options Other investment balances: - Cash deposits	175,963 1,736,856 1,180,216 69,152 206,874 208,790 3,577,851 26 2,864 -241 2,649 60,421 acts -19	£'000 489,474 316,461 435,259 1,779 96,306 71,091 1,410,370 61 34,167 5,904	£'000 -466,718 -565,371 -205,692 -3,956 -46,553 -5,424 -1,293,714 -1,459 -30,588 -5,826	£'000 13,174 259,786 187,618 -5,471 41,192 -15,297 481,002 165 -7,363 389	211,893 1,747,732 1,597,401 61,504 297,819 259,160 4,175,509 -1,207 -920 226 -1,901

Transaction costs are included in the cost of purchases and in sale proceeds.

These include costs charged directly to the Fund, such as commissions, stamp duty and other fees.

31 March 31 March

15b) Analysis of investments (excluding derivative contracts)

	31 March 2013	31 March 2014
	£'000	£'000
Fixed interest securities		
UK		
Public sector quoted	5,777	16,367
Corporate quoted	8,964	6,213
Corporate unquoted	0	528
Overseas		
Public sector quoted	152,309	140,966
Public sector unquoted	0	7,422
Corporate quoted	44,843	41,096
	211,893	212,592
Equities		
UK		
Quoted	744,859	795,735
Overseas		
Quoted	1,002,873	1,057,806
	1,747,732	1,853,541
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	928,598	923,340
Unit trusts	545,613	440,050
Overseas		
Fixed income unit trusts		
Fixed income unit trusts	0	7,934
Unit trusts	0 123,190	7,934 246,419
	123,190	246,419
Unit trusts	123,190 1,597,401	246,419
Unit trusts Pooled property investments	123,190 1,597,401 61,504	246,419 1,617,743 46,860
Unit trusts Pooled property investments Alternative investments	123,190 1,597,401 61,504 297,819	246,419 1,617,743 46,860 281,507

Analysis of derivatives

Objectives and policies for holding derivatives

The Fund's investments in derivatives are to hedge liabilities or exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements agreed between the Fund and the various investment managers.

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.



i) Futures

Outstanding exchange traded futures contracts are as follows:

Туре	Expires	Economic	Market	Economic	Market
		exposure	value	exposure	value
			31 March		31 March
		01000	2013	01000	2014
		£'000	£'000	£'000	£'000
Assets					
UK fixed income futures	Less than one year	10,809	104	1,200	4
Overseas fixed income futures	Less than one year	27,389	127	33,833	86
Overseas cash futures	Less than one year	18,051	91	0	0
Total assets			322		90
Liabilities					
Overseas fixed income futures	Less than one year	-117,233	-1,529	-31,544	-435
Total liabilities			-1,529		-435
Net futures			-1,207		-345

ii) Open forward currency contracts

At 31 March 2014, the Fund had open forward currency contracts in place with a net unrealised profit of £2.2 million.

Settlements	Currency	Local	Currency	Local	Asset	Liability
	bought	value	sold*	value	value	value
		000		000		000
Up to one month	BRL	2,307	USD	-965	30	0
Up to one month	CNY	19,730	USD	-3,238	30	-56
Up to one month	INR	166,190	USD	-2,645	66	0
Up to one month	JPY	126,217	GBP	-743	0	-8
Up to one month	JPY	476,632	GBP	-2,774	2	0
Up to one month	ZAR	9,138	GBP	-517	4	0
One to six months	AUD	2,560	GBP	-1,397	23	0
One to six months	CAD	734	GBP	-403	0	-5
One to six months	EUR	1,000	USD	-1,395	0	-10
One to six months	GBP	4,021	AUD	-7,412	0	-89
One to six months	GBP	4,048	CAD	-7,335	65	0
One to six months	GBP	67,205	EUR	-80,793	401	-4
One to six months	GBP	28,397	JPY	-4,745,623	742	0
One to six months	GBP	2,329	PLN	-11,797	0	-7
One to six months	GBP	74,695	USD	-122,507	1,189	0
One to six months	GBP	3,080	ZAR	-56,465	0	-120
One to six months	JPY	70,070	USD	-685	0	-3
One to six months	MXN	6,680	GBP	-304	2	0
One to six months	USD	1,727	BRL	-4,040	3	-33
One to six months	USD	3,395	EUR	-2,480	7	-20
One to six months	USD	1,727	MXN	-22,820	3	-12
Open forward currency contracts at 31	March 2014				2,567	-367

Net forward currency contracts at 31 March 2014

2,200

Prior year comparative:

Open forward currency contracts at 31 March 2013

2,978

-3,898

Net forward currency contracts at 31 March 2013

-920

*List of currencies

AUD	Australian Dollar	INR	Indian Rupee
BRL	Brazilian Real	JPY	Japanese Yen
CAD	Canadian Dollar	MXN	Mexican Peso
CNY	Chinese Yuan	PLN	Polish Zloty
EUR	Euro	USD	United States Dollar
GBP	British Pound	ZAR	S Africa Rand

Investment underlying option contract Expires		Put/call	Notional holding	Market value	Notional holding	Market value
				31 March		31 March
				2013		2014
			£'000	£'000	£'000	£'000
Assets						
Overseas fixed interest purchased	One to three months	Call	1	159	0	62
Overseas cash purchased	One to three months	Put	11,949	40	0	0
Overseas cash purchased	One to three months	Call	15,430	260	0	0
Overseas cash purchased	More than three months	Put	0	0	4,133	7
Overseas cash purchased	More than three months	Call	0	0	4,079	5
Total assets				459		74
Liabilities						
Overseas fixed interest written	written One to three months		0	-14	0	-129
Overseas fixed interest written	One to three months	Call	0	-34	-1	-193
Overseas cash written	One to three months	Put	0	0	-4,133	-29
Overseas cash written	One to three months	Call	-14,250	-185	0	0
Total liabilities				-233		-351
Net purchased/written options			226		-277	

Investments analysed by fund manager

	Market		Market	
	value		value	
	31 March		31 March	
	2013		2014	
	£'000	%	£'000	%
Aberdeen	702,072	16.2	695,956	15.3
Schroders	641,853	14.8	715,884	15.8
Newton	564,354	13.0	601,267	13.2
Legal & General	491,272	11.3	469,822	10.3
State Street	1,096,817	25.3	1,116,362	24.6
Western	200,199	4.6	207,208	4.6
CBRE Global				
Investors	271,547	6.2	315,680	7.0
	3,968,114		4,122,179	
Other investments	255,925	5.9	311,237	6.9
Other net assets	116,579	2.7	102,301	2.3
Total	4,340,618	100.0	4,535,717	100.0

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

Concentration of investments

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

The following investment was more than 5% of the total of its asset class:

Asset	Security	Market		Market	% of
class		value	asset	value	asset
	3	1 March	class	31 March	class
		2013		2014	
		£'000		£'000	
Fixed interest	Treasury bonds 5%				
securities	09/07/2014	0	0	12,362	5.8
Property	Property x*	22,950	8.9	23,850	7.9

^{*}The Pension Fund does not disclose the individual valuations of its property assets to protect the commercial sensitivity of this information.

15c) Stock lending

The LGPS (Management & Investment of Funds) Regulations 2009 allow the Fund to lend stock provided that the total value of the stock to be transferred does not exceed 25% of the total market value of the stock held within the Fund at any time.

The Fund lends stock to third parties under a stock-lending agreement with its custodian, JP Morgan. The total amount of stock on loan at the year-end was £111 million, and this value is included in the Net Assets Statement to reflect the Fund's continuing economic interest in the stock on loan. The table below summarises the value of stock lent out by the Fund:

Total	132,725	111,301
Fixed interest – overseas	46,934	0
Fixed interest – UK	1,423	2,786
Equities – overseas	45,937	31,444
Equities – UK	38,431	77,071
	£'000	£'000
	2013	2014
	31 March	31 March

As security for the stock on loan, the Fund received collateral at 31 March 2014 valued at $\mathfrak{L}126$ million. This represented 113% of the value of stock on loan and comprised 82% equities and 18% government fixed interest bonds.

The income received from stock-lending activities was £0.204 million net of administrative fees for the year ending 31 March 2014 and is included in the 'Investment income' figure in the Pension Fund Account. This is a slightly lower income figure than the £0.281 million net of administrative fees generated in 2012/13.

15d) Property holdings

Closing Balance	259,160	302,845
Net change in market value	-15,297	28,674
Disposals	-5,424	-5,340
Additions	71,091	20,351
Opening balance	208,790	259,160
	Year ending 31 March 2013 £'000	
13d) i Toperty 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, construct or develop 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. These costs are shown in Note 12a under direct operating costs.

16. Financial instruments

16a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

	3	1 March 2013			31	March 2014
Designated as fair value through profit and loss £'000	Loans and receivables	Financial liabilities at amortised cost £'000	t	Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
			Financial assets			
211,893	_	_	Fixed interest securities	212,592	_	_
1,747,732	_	_	Equities	1,853,541	_	_
1,597,401	_	_	Pooled investments	1,617,743	_	_
61,504	_	_	Pooled property investments	46,860	_	_
297,819	_	_	Private equity/infrastructure	281,507	_	_
259,160	_	_	Property	302,845	_	_
4,967	_	_	Derivative contracts	2,733	-	_
-	113,593	_	Cash	_	180,442	_
-	65,620	_	Debtors	_	51,430	_
4,180,476	179,213	0		4,317,821	231,872	0
			Financial Liabilities			
-5,660	_	_	Derivative contracts	-1,162	-	_
-	_	-13,411	Creditors	_	_	-12,814
-5,660	0	-13,411		-1,162	0	-12,814
4,174,816	179,213	-13,411		4,316,659	231,872	-12,814

16b) Net gains and losses on financial instruments

31 March		31 March
2013		2014
£'000		£'000
481,002	Financial assets: Fair value through profit and loss	82,282
-6,809	Financial liabilities: Fair value through profit and loss	16,117
474,193	Total	98,399

16c) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 M	March 2013	31 N	/larch 2014
Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
		Financial assets	
4,180,476	4,180,476	Fair value through profit and loss 4,317,821	4,317,821
179,213	179,213	Loans and receivables 231,872	231,872
4,359,689	4,359,689	Total financial assets 4,549,693	4,549,693
		Financial liabilities	
-5,660	-5,660	Fair value through profit and loss -1,162	-1,162
-13,411	-13,411	Financial liabilities at amortised cost -12,814	-12,814
-19,071	-19,071	Total financial liabilities -13,976	-13,976

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

16d) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments 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.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments 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 and where these techniques use inputs that are based significantly on observable market data, such as for property investments.

Level 3

Financial instruments 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.

Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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 2014	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	3,675,925	360,389	281,507	4,317,821
Loans and receivables	231,872	_	-	231,872
Total financial assets	3,907,797	360,389	281,507	4,549,693
Financial liabilities				
Financial liabilities at fair value through profit and loss	_	-1,162	-	-1,162
Financial liabilities at amortised cost	-12,814	_	_	-12,814
Total financial liabilities	-12,814	-1,162	0	-13,976
Net financial assets	3,894,983	359,227	281,507	4,535,717
Values at 31 March 2013				
Financial assets				
	2 557 006	225 621	207.910	4190 476
Financial assets at fair value through profit and loss	3,557,026	325,631	297,819	4,180,476
Loans and receivables	179,213			179,213
Total financial assets	3,736,239	325,631	297,819	4,359,689
Financial liabilities				
Financial liabilities at fair value through profit and loss	_	-5,660	_	-5,660
Financial liabilities at amortised cost	-13,411	_	-	-13,411
Total financial liabilities	-13,411	-5,660	0	-19,071
Net financial assets	3,722,828	319,971	297,819	4,340,618

17. 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. 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.

17a) 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 is 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, in consultation with WM Company plc, the Pension Fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset type	Potential market movements (+/-)
UK equities	12.3%
Overseas equities	11.2%
UK index-linked gilts	8.8%
UK fixed interest bonds	5.5%
Overseas index-linked gilt	s 4.6%
Overseas fixed interest bo	onds 2.5%
Property	2.7%
Alternative investments	3.8%
Cash	0.0%

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:

Asset type	Value at 31 March 2014	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
UK Equities	1,235,784	12.3	1,387,293	1,084,278
Global Equities	1,304,226	11.2	1,450,560	1,157,892
UK index-linked gilts	887,941	8.8	966,435	809,447
UK fixed interest bonds	58,508	5.5	61,708	55,307
Overseas index-linked gilts	5,055	4.6	5,287	4,824
Overseas fixed interest bonds	193,933	2.5	198,839	189,026
Property	349,705	2.7	359,287	340,124
Alternatives	281,507	3.8	292,288	270,725
Cash	52,345	0.0	52,355	52,334
Total assets	4,369,004		4,774,052	3,963,957
Asset type	Value at	Percentage	Value on	Value on
	31 March 2013 £'000	change %	increase £'000	decrease £'000
UK Equities		0		
UK Equities Global Equities	£'000	%	£'000	£'000
	£'000 1,290,472	% 12.3	£'000 1,448,684	£'000 1,132,260
Global Equities	£'000 1,290,472 1,126,063	% 12.3 11.2	£'000 1,448,684 1,252,407	£'000 1,132,260 999,719
Global Equities UK index-linked gilts	£'000 1,290,472 1,126,063 928,598	% 12.3 11.2 8.8	£'000 1,448,684 1,252,407 1,010,686	£'000 1,132,260 999,719 846,510
Global Equities UK index-linked gilts UK fixed interest bonds	£'000 1,290,472 1,126,063 928,598 14,741	% 12.3 11.2 8.8 5.5	£'000 1,448,684 1,252,407 1,010,686 15,547	£'000 1,132,260 999,719 846,510 13,935
Global Equities UK index-linked gilts UK fixed interest bonds Overseas index-linked gilts	£'000 1,290,472 1,126,063 928,598 14,741 4,562	% 12.3 11.2 8.8 5.5 4.6	£'000 1,448,684 1,252,407 1,010,686 15,547 4,771	£'000 1,132,260 999,719 846,510 13,935 4,353
Global Equities UK index-linked gilts UK fixed interest bonds Overseas index-linked gilts Overseas fixed interest bonds	£'000 1,290,472 1,126,063 928,598 14,741 4,562 192,590	% 12.3 11.2 8.8 5.5 4.6 2.5	£'000 1,448,684 1,252,407 1,010,686 15,547 4,771 197,463	£'000 1,132,260 999,719 846,510 13,935 4,353 187,717
Global Equities UK index-linked gilts UK fixed interest bonds Overseas index-linked gilts Overseas fixed interest bonds Property	£'000 1,290,472 1,126,063 928,598 14,741 4,562 192,590 320,664	% 12.3 11.2 8.8 5.5 4.6 2.5 2.7	£'000 1,448,684 1,252,407 1,010,686 15,547 4,771 197,463 329,450	£'000 1,132,260 999,719 846,510 13,935 4,353 187,717 311,878

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 the financial year end is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2013	31 March 2014
	£'000	£'000
Cash & cash equivalents	96,503	128,097
Cash deposits	17,090	52,345
Fixed interest securities	1,140,491	1,143,865
Total	1,254,084	1,324,307

Interest rate risk sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and 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:

Asset type	Carrying amount as at 31 March 2014 £'000	the	e in year in net assets vailable to ay benefits -1% £'000
Cash & cash equivalents	128,097	1,281	-1,281
Cash deposits	52,345	523	-523
Fixed interest securities	1,143,865	11,439	-11,439
Total change in assets available	1,324,307	13,243	-13,243
Asset type	Carrying amount as at 31 March 2013	the	e in year in net assets vailable to ay benefits -1%
	£'000	£'000	£'000
Cash & cash equivalents	96,503	965	-965
Cash deposits	17,090	171	-171
Fixed interest securities	1,140,491	11,405	-11,405
Total change in assets available	1,254,084	12,541	-12,541

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.

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous period end:

	Asset	Asset
	value at	value at
	31 March	31 March
	2013	2014
	£'000	£'000
Overseas quoted securities	1,002,873	1,057,806
Overseas unit trusts	123,190	175,215
Alternative investments	266,349	281,507
Overseas pooled property investments	46,900	34,025
Overseas public sector bonds	152,309	149,959
Overseas corporate bonds	44,843	41,096
Total overseas assets	1,636,464	1,739,608

In consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 5.67%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 5.67% 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:

	set value as at 31 March	3	
	2014 £'000	+5.67% £'000	-5.67% £'000
Total change in			
assets available	1,739,608	98,636	-98,636
	set value as at 31 March 2013 £'000	Change to r available to pay +5.67% £'000	y benefits
Total change in assets available	1,636,464	92,788	-92,788

17b) 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 rating 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. The Fund's cash holding under its treasury management arrangements at 31 March 2014 was £89.320 million (31 March 2013: £51.230 million). This was held with the following institutions:

	Rating as at	Balances	Balances
	31 March	as at	as at
	2014		
		2013	2014
		£'000	£'000
Money market funds			
Ignis	AAA	4,800	9,000
Federated Investors UK	AAA	4,800	8,740
Insight	AAA	4,800	9,000
Deutsche	AAA	4,800	9,000
Goldman Sachs	AAA	3,000	3,080
Bank deposit accounts			
NatWest	A-	7,500	0
HSBC	AA-	7,030	5,000
Lloyds	А	7,500	7,000
Santander UK	А	0	7,000
Barclays	А	7,000	9,000
Nationwide Building Socie	ety A	0	8,500
Svenska Handelsbanken	AA-	0	9,000
Close Brothers	A-	0	5,000
Total		51,230	89,320

17c) 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.

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows.

All financial liabilities at 31 March 2014 are due within one year.

Refinancing risk

The key risk is 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. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Funding arrangements

In line with the LGPS (Administration) Regulations 2008, 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 2013. The next valuation will take place at 31 March 2016.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. 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 22 years from 1 April 2014 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 2013 actuarial valuation, the Fund was assessed as 80% funded (72% at the March 2010 valuation). This corresponded to a deficit of £1,087 million (2010 valuation: £1,256 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 13.1% of Pensionable Pay. In addition, most Scheduled Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2013/14, but increasing at 8.8% p.a. with effect from 1 April 2014 for 6 years and increasing by 3.9% p.a. thereafter. Employers in the Admission Body Group are required to pay 15.6% of Pensionable Pay. In addition, most Admission Body

employers will continue to pay shortfall contributions based on the amounts being paid over in 2013/14, but increasing at 20.0% p.a. with effect from 1 April 2014 for 4 years and increasing by 3.9% p.a. thereafter.

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 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 increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

The main actuarial assumptions used for the March 2013 actuarial valuation were as follows:

Discount rate for periods

In service

Scheduled and subsumption bodies	5.50% a year
Orphan bodies	5.20% a year
After leaving service	
Scheduled and subsumption bodies	5.50% a year
Orphan bodies	3.90% a year
Rate of price inflation (RPI)	3.30% a year
Rate of price inflation (CPI)	2.40% a year
Rate of general pay increases	3.90% a year
Rate of revaluation of pension accounts	2.40% a year
Rate of increase to pensions in payment	2.40% a year
Rate of deferred pension increases	2.40% a year
Valuation of assets	Market value

A 65 year old male pensioner in normal health is now assumed on average to live to 89.3 (rather than 88.7 at the previous valuation). And a 65 year old female pensioner in normal health is assumed on average to live to 91.0 (rather than 89.7).

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.

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.

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 18). 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 2013 was £6,565 million (31 March 2010: £5,827 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2013 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The principal financial assumptions used by the Fund's actuary for the March 2013 IAS 19 calculation were:

Discount rate	4.4%
RPI inflation	3.4%
CPI inflation / pension increase rate assumption	2.4%
Salary increase rate	3.9%

20. Current assets		
	31 March	31 March
	2013	2014
	£'000	£'000
Debtors:		
 Contributions due 	20,969	23,196
- Sundry debtors	21,724	17,585
	42,693	40,781
Prepayments	12,278	0
Cash balances	96,503	128,097
Total	151,474	168,878
Analysis of debtors	31 March	31 March
	2013	2014
	£'000	£'000
Central government bodies	2,339	2,465
Other local authorities	19,921	20,595
NHS bodies	1	8
Public corporations and trading funds	3,284	3,741
Other entities and individuals	17,148	13,972
Total	42,693	40,781
21. Current liabilities		
	31 March 2013	31 March 2014
	£'000	£'000
Sundry creditors	13,411	12,814
Total	13,411	12,814
Analysis of creditors		
		31 March
	2013 £'000	2014 £'000
		2.000
		00.4
Central government bodies Other local authorities	302 8,597	234 9,792

11

4,501

13,411

0

2,788

12,814

NHS bodies

Total

Other entities and individuals

22. 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 $\mathfrak{L}15.213$ million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over ten instalments commencing April 2012. The total amount of the remaining debt is $\mathfrak{L}12.170$ million, of this the following year's instalment ($\mathfrak{L}1.521$ million) is classified as a debt repayable in one year, and the remaining balance $\mathfrak{L}10.649$ million is a long term debtor.

Total	10,649	10,649
government body	10,649	10,649
settlement due from central		
Magistrates Courts – agreed liability		
	£'000	£'000
	2013	2014
	31 March	31 March

23. Additional voluntary contributions

Total	10,693	11,647
Equitable Life	1,409	1,375
Zurich	7,785	7,686
Prudential	1,499	2,586
	£'000	£'000
	2013	2014
	31 March	31 March
	value	value
	Market	Market

During the year, AVC contributions of £1.550 million were paid directly to Prudential (2012/13: £1.366 million), £0.844 million to Zurich (2012/13: £0.907 million), and £0.015 million to Equitable Life (2012/13: £0.014 million).



24. 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 incurred costs of £2.800 million (2012/13: £2.665 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The County Council is also the single largest employer of members of the Pension Fund and contributed £82.108 million to the Fund in 2013/14 (2012/13 £81.420 million).

The role of Treasurer to the Pension Fund is provided by the Director of Corporate Resources of Hampshire County Council whose remuneration package is disclosed by the County Council. The charge for the Treasurer by the County Council to the Pension Fund is included in the figure for the County Council's administration costs above.

25. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2014 totalled £97.926 million (31 March 2013: £66.978 million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds (£85.260 million) and hedge funds (£12.666 million) both 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. The amounts relating to hedge funds commitments to add to existing hedge fund investments that were made in March 2014 but did not take place until April 2014.

The Fund had no contingent liabilities on 31 March 2014.

26. Contingent assets

The Fund had no contingent assets on 31 March 2014.

27. Impairment losses

During 2013/14, the Fund has recognised an impairment loss for bad and doubtful debt of $\mathfrak{L}0.004$ million (2012/13: $\mathfrak{L}0.005$ 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 2014.

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 2013/14 ('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 23 to 48 presents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Carolyn Williamson CPFA

Director of Corporate Resources

Independent Auditor's Statement to the Members of Hampshire County Council on the Pension Fund financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 27.

This report is made solely to the members of Hampshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 49, 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 2013/14.

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 only Investment Report, Membership Report, Statement of the Fund Actuary and What the Accounts Show.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

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 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Baldeep Singh

for and on behalf of Ernst & Young LLP, Appointed Auditor Reading

29 September 2014

The Fund's statutory statements Business Plan

Mission and objectives

The County Council, as administering authority for the Hampshire Pension Fund, has delegated responsibility for managing the Fund's investments to the Pension Fund Panel through its Audit Committee. The Panel consists of nine county councillors, two representatives of the unitary city councils of Portsmouth and Southampton, two representatives of the 11 district / borough councils in the Hampshire county area, a representative of the Fund's pensioners and a representative of the Fund's contributors. All Panel members have voting rights. An independent adviser to the Panel attends all Panel meetings, but does not have voting rights.

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

The Panel's objectives:

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

The funding level and employers' contribution rate

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

• drafting and maintaining a Funding Strategy Statement,

in partnership with the Fund's actuary and participating employers. This sets out the background and parameters the actuary must use when carrying out actuarial valuations, and the duties of the County Council as administering authority and the Fund's other employers,

- commissioning a full actuarial valuation of the Fund every three years as required by law to determine employers' contribution levels. The actuary will complete the latest actuarial valuation of the Fund at 31 March 2013 in March 2014,
- arranging interim actuarial valuations if developments mean that the funding level can be expected to have changed,
- commissioning an asset/liability study following valuations or as necessary to help determine the best asset allocation needed to meet the Fund's liabilities,
- where an actuarial valuation reveals a past service deficit, agreeing employers' contributions with the actuary to recover the deficit.

Investment of the Fund

The Panel seeks a return on the Fund's investments which will enable 100% funding to be achieved and its liabilities to be met with a stable employers' contribution rate. Following the actuarial valuation at 31 March 2010, the actuary advised that the Pension Fund should aim to achieve an overall investment return 2.3% a year above that on a low-risk portfolio (defined as a portfolio invested 95% in index-linked gilts and 5% in fixed-interest gilts). The Panel aims to achieve this by:

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

Business Plan continued

 delegating to the Director of Corporate Resources responsibility for monitoring the managers' performance between Panel meetings.

Arrangements for investing additional voluntary contributions (AVCs)

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

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

Legislative changes

The Panel aims to respond promptly to legislative changes with implications for managing and administering the Fund by:

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

Consultation papers

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

Best practice

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

Decision-making

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

Advice is provided as necessary by:

- the Director of Corporate Resources and her staff,
- the actuary,
- the Fund's external investment managers,
- the Fund's independent adviser,
- other consultants.

Developments and training plan

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

A training plan has been prepared for the Pension Fund Panel and training logs are maintained for individual Panel members. As part of the Panel's training plan, bespoke training sessions delivered by external speakers have been arranged in September and November 2013 giving an overview of the LGPS and infrastructure investment.

The Panel also expects the Director of Corporate Resources and relevant members of the department (who are the Panel's main advisers) to keep up to date with developments in pensions and investments and to undertake training as required.

Communications with participating employers and Fund members

The Panel will arrange to keep the Fund's participating employers and members fully informed about anything affecting them by publishing:

- an annual report on the Fund for each financial year, to be available for an Annual Employers Meeting of the Fund's employers held the following October,
- an annual summary of the accounts, investment management and administrative arrangements that is made available online to current, pensioner, and deferred members,
- an annually updated employees' guide to the Scheme,
- an annual newsletter to pensioners.

Review and evaluation of business plan

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

The latest action plan for the period to March 2015 is on page 12.

Funding Strategy Statement

The Fund's Pension Fund Panel has recently undertaken a review of the Funding Strategy Statement (FSS). The Statement was reviewed and updated in December 2011 to reflect emerging policies in relation to grouping of employers for funding purposes, and has further been updated in conjunction with the actuarial valuation of the Fund as at 31 March 2013 to reflect the details of the Fund's risk based funding strategy. The FSS has been prepared in accordance with the updated guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2012.

Introduction

The Local Government Pension Scheme (Administration)
Regulations 2008 (the Administration Regulations) require the
Hampshire Pension Fund to prepare and publish a FSS. The
Fund's actuary must have regard to this statement when setting
employers' contribution rates.

As required by Administration Regulation 35(3)(a), the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in March 2004 and updated guidance published by CIPFA on 3 October 2012.

This FSS should be read in the context of the Fund's Statement of Investment Principles (SIP), which sets out in detail the Fund's investment arrangements and strategy. The current version of the SIP is available at pages 65 to 68 of this annual report. The administering authority has had regard to the SIP in preparing this Funding Strategy Statement.

Consultation

In accordance with Administration Regulation 35(3)(b), all Fund employers have been consulted on the contents of this Statement and their views have been considered in formulating it. However, the Statement describes a single strategy for the Fund as a whole.

The Fund's actuary, Aon Hewitt Limited, has also been consulted on the content of this Statement.

Purpose of the Funding Strategy Statement

The purposes of this Funding Strategy Statement are to set out the processes by which the administering authority:

 establishes a clear and transparent funding strategy, specific to the Fund, to meet employer's pension liabilities going forward,

- aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a common rate of contributions as possible,
- takes a prudent longer-term view of funding the Fund's liabilities noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the Funding Strategy Statement its focus should at all times be on those actions which are in the best long term interests of the Fund.

Aims of the Fund

The Fund has three main aims:

- to manage the employers' liabilities effectively,
- to enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers,
- to maximise the income from investments within reasonable risk parameters.

The main aims of the Fund are explained in more detail below.

To manage the employers' liabilities effectively

The County Council as administering authority makes sure that the Fund's liabilities are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law. These determine the employers' contribution rates required to make sure liabilities can be managed effectively. The administering authority also commissions additional work in relation to the specific issues described below.

The Fund's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term.

The Fund is deemed to be solvent when the assets held are equal to 100% of the Solvency Target.

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

The administering authority operates a group funding framework. Most employers are grouped for the purpose of determining employers' contributions in respect of the liabilities and more details are given later in this statement.

Cessation of participation – subsumed liabilities

Where an employer is leaving the Fund and will no longer have any contributing members, another employer, or group of employers in the Fund may agree to provide future funding in respect of any emerging deficiencies.

In such circumstances the liabilities are known as subsumed liabilities, as responsibility for them is subsumed by the accepting employer or group. The administering authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer or group. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Cessation of participation – orphan liabilities

Where an employer is leaving the Fund and will no longer have any contributing members, and the residual liabilities are not subsumed, the administering authority will act on the basis that it will have no further access for funding from that employer once any cessation valuation, carried out in accordance with Regulation 38 of the Administration Regulations, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The administering authority will seek to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities. To achieve this, the administering authority will seek sufficient funding from the outgoing employer to match the liabilities with low risk investments, generally Government fixed-interest and indexlinked bonds.

Cessation of participation – valuations

Where an employer ceases participation, a cessation valuation will be carried out in accordance with Regulation 38(1) of the Administration Regulations. That valuation will take account of any activity as a consequence of cessation of participation

regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the funding target in the cessation valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the cessation valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's (or group of employers') liabilities.

The valuation will further take account of a number of other factors such as whether the ceasing employer is a going concern or is ceasing to exist, and whether there is a Guarantor.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer (or Guarantor if the employer is unable to pay) will be expected to make good the funding obligation revealed in the cessation valuation. In other words, the fact that liabilities may become subsumed liabilities does not necessarily remove the possibility of a cessation payment being required.

For those employers who are grouped with other employers for funding purposes, the cessation valuation may also include allowance for any cross subsidies anticipated from other employers with which it is grouped. This would allow the employer to take immediate credit for contributions expected to be paid over the long term from other group employers in respect of the outgoing employer's share of any group deficiency.

Interim reviews for admission bodies

Regulation 38(4) of the Administration Regulations provides the administering authority with the power to carry out valuations in respect of admission bodies and other employers which are expected to cease at some point in the future, and for the Fund's actuary to certify revised contribution rates, between triennial valuation dates.

The administering authority's overriding objective at all times is that, where possible, the funding target for that body is clear, and that contribution rates payable are appropriate for that

funding target. However, this is not always possible as any date of cessation may be unknown (for example, participation may be assumed at present to be indefinite), and because market conditions change daily.

The administering authority's general approach in this area is as follows:

- Where the date of cessation is known, and is more than three
 years away, or is unknown and assumed to be indefinite,
 interim valuations will generally not be required by the
 administering authority.
- For transferee admission bodies falling into the above category, the administering authority sees it as the responsibility of the Relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the Relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, for example the date of cessation becoming known, material membership movements or material financial information coming to light may cause the administering authority to review the situation informally and subsequently request a formal interim valuation.
- Where an employer is due to leave the Fund within the next three
 years, the administering authority will monitor developments and
 may see fit to request an interim valuation at any time in order to
 try to effect a smoother transition to cessation.

In addition, the administering authority reserves the right to request an interim valuation of any employer at any time in accordance with Regulation 38(4).

Inter-valuation funding valuations

In order to monitor developments, the administering authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate update of the asset and liability values, and liabilities calculated using assumptions consistent with the latest valuation. It is unlikely that the liabilities would be calculated using individual membership data, or that the demographic assumptions would be reviewed.

Guarantors

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The administering authority maintains a list of employers and their Guarantors. For any new admission body wishing to join the Fund, the administering authority will

require a Guarantor. The administering authority, unless notified otherwise, sees the role of a Guarantor to include the following:

- If an employer leaves the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide the Fund with the amount certified by the Fund's actuary as due, including any interest payable.
- If the Guarantor is also an employer in the Fund and is judged by the administering authority to have suitable financial security, the Guarantor may clear some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the employer a Guarantor may at any time agree to the future subsumption of any residual liabilities of that employer. That action may reduce the funding target for the employer which may, in turn, lead to reduced contribution requirements.

In extreme circumstances the Guarantor may be permitted to subsume all assets and liabilities of an employer including the inheritance of any deficiency. However, where the Guarantor is a grouped employer, the administering authority may insist upon the Guarantor meeting the contributions required to clear the deficiency inherited by the Guarantor, to protect the other employers in the Guarantor's group from this element of the group's deficiency.

Bonds and other securitisation

Regulation 7 of the Administration Regulations creates a requirement for a new admission body to carry out to the satisfaction of the administering authority (and the Relevant Scheme Employer in the case of a transferee admission body admitted under Regulation 6(2)(a) of the Admission Regulations) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the administering authority from an organisation who either funds, owns or controls the functions of the admission body.

The administering authority's approach in this area is as follows:

- In the case of transferee admission bodies admitted under Regulation 6(2)(a) of the Regulations, and other admission bodies with a Guarantor, so long as the administering authority judges the Relevant Scheme Employer or Guarantor to have suitable financial security, any bond exists purely to protect the Relevant Scheme Employer or Guarantor against default of the admission body. It is entirely the responsibility of the Relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The administering authority can supply some standard calculations provided by the Fund's actuary to aid the Relevant Scheme Employer or Guarantor, but this should in no way be taken as advice to those bodies on this matter. Levels of required bond cover can fluctuate and the administering authority recommends that Relevant Scheme Employers review required cover regularly, at least once a year.
- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(a) of the Admission Regulations, where the administering authority does not judge the Relevant Scheme Employer or Guarantor to have suitable financial security, the administering authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the administering authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the administering authority will require the Relevant Scheme Employer to review required cover jointly with it regularly, at least once a year.
- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(b) of the Admission Regulations, the administering authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the administering authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the administering authority will review required cover regularly, at least once a year.

To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers (subject to the administering authority not taking undue risks) whilst achieving and maintaining solvency

Achieving stability in employers' contribution rates requires

investment in assets that 'match' the Fund's liabilities. In this context, 'match' means behaving in a similar way to the liabilities as economic conditions alter. Of the main strategic asset classes, index-linked and fixed-interest investments would tend to be the best match for the Fund's liabilities.

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

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

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

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

The administering authority recognises that a balance needs to be struck regarding the financial demands made of community admission bodies. On the one hand, the administering authority requires all admission bodies to be fully self funding (either on a grouped or an individual basis), such that other employers in the Fund are not subject to expense as a consequence of the participation of those admission bodies. On the other hand, requiring contributions to target full funding at all times, without further smoothing, may cause failure of the body in question in periods of extreme economic conditions, leading to significant costs for other participating employers.

Under economic circumstances which the administering authority judges to be extreme, the administering authority may determine that the contribution pattern required to target full funding can be temporarily relaxed for community admission bodies to enable contributions to remain affordable in the short term. Effectively the contribution pattern can be back-end loaded to a greater extent than would otherwise be permitted. However, should a community admission body leave the Fund during the relaxation period, that body would be required to make good its funding deficiency including any underpayment on account of contributions having been relaxed. Only if that body is unable to meet any cessation deficiency and there is no Guarantor would other solutions to the ongoing funding of the body's liabilities be sought (such as the Scheduled Bodies group providing future funding for any deficiency which cannot be met by the outgoing community admission body).

At subsequent valuations the position will be reassessed with a view to returning admission bodies to paying contributions which target full funding.

To maximise the income from investments within reasonable risk parameters

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

However, investment is restricted as specified in the LGPS investment regulations.

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

The Fund's funding strategy requires the assets to deliver a long-term return of 2.3% a year above a low-risk portfolio. This is defined as a portfolio invested 95% in index-linked gilts and 5% in fixed-interest gilts. An investment management structure has been developed and managers appointed to deliver this long-term return within an acceptable level of risk. Details of the structure and managers are in the Statement of Investment Principles.

Purposes of the Fund

The purposes of the Fund are:

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

Responsibilities of the key parties

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

The County Council's obligations as administering authority

- to administer the Fund,
- to collect investment income and other amounts due to the Fund as set out in the Administration Regulations including employers' and employees' contributions and, as far as possible, make sure they are paid by the due date as specified in the LGPS regulations,
- to invest surplus money in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations),
- to pay from the Fund the relevant entitlements as set out by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (the Benefits Regulations),
- to make sure that cash is always available to meet the Fund's liabilities when they are due,
- to manage the valuation process in consultation with the Fund's actuary, agreeing appropriate timescales and providing accurate data,
- to monitor regularly the Fund's investment performance and funding level,
- to prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement,
- to notify the Fund's actuary of any material events which could affect funding strategy or funding levels,
- to effectively manage any potential conflicts of interest arising from its dual role as both administering authority and as a Scheme Employer.

Individual employers' obligations

- to deduct contributions from employees' pay, and make employers' contributions at the rates specified by the Fund's actuary, paying both to the administering authority by the due date.
- to develop a policy on certain discretions and exercise discretions allowed to employers within the LGPS regulations,
- to pay for agreed additional costs not covered by the employers' normal contributions,
- to keep the administering authority fully informed of all changes to membership, or other changes that could affect future funding.

The Fund actuary's obligations

The Fund's actuary will prepare advice and calculations and provide advice on:

- funding strategy and the preparation of the Funding Strategy Statement and will prepare actuarial valuations every three years, as required by law, or more frequently if required, including the setting of employers' contribution rates and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement. Actuarial valuations will be carried out and reported on in accordance with the Technical Actuarial Standards as issued by the Financial Reporting Council as appropriate,
- bulk transfers,
- individual benefit-related matters,
- valuations on the cessation of admission agreements or when an employer ceases to employ any active members
- bonds and other forms of security for the administering authority against the financial effect on the Fund of the employers default,
- the Fund's actuary will also assist the administering authority in assessing whether employer contributions need to be revised between actuarial valuations as required by the Regulations, and
- ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the administering authority.

Such advice will take account of the funding position and Funding Strategy Statement, as well as other relevant matters when instructed to do so.

Funding Strategy

Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective where the administering authority wants the Fund to get to),
- the Trajectory Period (how quickly the administering authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the administering authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by risk modelling carried out by the Fund's actuary, define the appropriate levels of contribution payable now and, by extension, the appropriate valuation approach to adopt now. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and 'Funding Success'

The administering authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim, and is the value of the Fund's liabilities evaluated using appropriate actuarial methods and assumptions.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

For Scheduled Bodies, and certain other bodies of sound covenant whose participation is indefinite in nature, appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund's financial

position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be a chance of at least 80% that the Fund would continue to be 100% funded after a period of 25 years. The level of funding implied by this is the Solvency Target. For the purpose of this Statement, the required level of chance is defined as the Probability of Maintaining Solvency. The administering authority will generally assume indefinite investment in a broad range of assets of higher risk than risk-free assets for scheduled bodies and certain other bodies.

For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after cessation, the required Probability of Maintaining Solvency will be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after cessation.

Probability of Funding Success

The administering authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers.

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

The administering authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period. The administering authority will not adopt assumptions which, in its judgement and on the basis of actuarial advice received, mean that it is less than 55% likely that the strategy will deliver funding success. Where the Probability of Funding Success is less than 65% the

administering authority will not adopt assumptions which lead to a material reduction in the aggregate employer contribution rate.

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the triennial actuarial valuation exercise and is not necessarily the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible:

- contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period,
- for employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.
- for admission bodies the administering authority will take into account the potential for participation to cease, the potential timing of such cessation, and any likely change in investment strategy regarding the assets held in respect of the admission body's liabilities at the date of cessation.

Recovery and Trajectory periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date which solvency is targeted to be achieved. A Trajectory Period of 22 years has been adopted at the 2013 valuation.

When an actuarial valuation shows that the Fund is in deficiency, employers' contribution rates will be adjusted to achieve a 100% funding ratio over a period of years (the Recovery Period), while ensuring that the probability of achieving solvency over the Trajectory Period remains acceptable. In consultation with the Fund's actuary, the administering authority has set a common maximum recovery period of 30 years for all employers in the Fund. The actual recovery period within this maximum of 30 years is determined at each actuarial valuation by balancing the Fund's solvency requirements against the financial strength of the Fund's main scheduled employers.

The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the administering authority has agreed a recovery period of 22 years for scheduled bodies in the 2013 actuarial valuation. This is consistent with keeping employers' contribution rates as stable as possible. Were any employers to participate in the Fund for a short period only, the administering authority and Fund's actuary would be unlikely to agree to their having a recovery period longer than their remaining term of participation.

Grouping of Employers

In some circumstances it is desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reducing the volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. Where employers are grouped together for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together regarding the risks associated with payment of lump sum benefits on death in service. The cost of such benefits is shared across the employers in the Fund. This is because the Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally.

Group Funding Framework

Within the Fund there are two large groups of employers for funding purposes. Employers within these two groups share all risks of participation, with the exception of liability for lump sum benefits payable on death in service, with other employers in the group. A small number of employers sit outside of the groups.

One of the two large groups primarily includes scheduled bodies, and can also include Transferee Admission Bodies where there is a pass through arrangement with a Relevant Scheme Employer which is itself a grouped scheduled body, and the other primarily includes community admission bodies. Common employers' contribution rates are set for each of these groups, instead of individual contribution rates for each employer. The administering authority accepts that this can give rise to cross-subsidies between employers. However, employers in the Fund are required to make upfront contributions determined by the Fund's actuary to cover the costs of early retirements, which is a major distinction between employers over time. The administering authority and the Fund's actuary periodically review whether separate rates for individual employers or groups of employers are required.

The two large employer groups share risk according to a set of clearly defined principles which are as follows:

- the group exists to produce a common contribution rate for employers in the group,
- only the group funding target is relevant when producing a common contribution rate, and
 - o an employer's cash contribution depends on its level of payroll, and any special arrangements put in place in relation to being a Relevant Scheme Employer for a grouped Transferee Admission Body,
 - o while an employer has contributing members in the Fund, the employer will share a responsibility to

contribute towards any emerging deficiency within the relevant funding group, or will benefit from an emerging surplus within the relevant funding group through a deduction against previous deficiency obligations.

- unless it is a Transferee Admission Body the employer is assumed to belong to the group indefinitely
 - o as an employer can always be called upon to pay its share of any group deficiency, a flow of new entrants to the employer is required to finance this,
 - o funding targets used to assess ongoing contributions at the triennial valuation are set using an ongoing actuarial basis that assumes participation is indefinite.
- employers are liable to fund deficiencies emerging at each valuation in proportion to their own payroll at the time of the valuation. Relevant Scheme Employers in relation to a grouped Transferee Admission Body will also be liable in respect of payroll transferred to the Transferee Admission Body, to the extent that the contributions are not fully covered by those made by the Transferee Admission Body,
- streams of deficiency contributions, once certified at a
 valuation will normally remain in place for the duration of the
 relevant recovery period. New streams of such contributions
 will be certified at subsequent valuations in respect of new
 surplus or deficiency emerging at the relevant valuation. In
 certain circumstances, contribution streams set at a previous
 valuation may be modified at subsequent valuations if the
 administering authority and the Fund's actuary agree,
- employers will pay a common future service contribution rate.
 Relevant Scheme Employers in relation to a grouped Transferee
 Admission Body will also be liable in respect of any increased rate payable in respect of the Transferee Admission Body by virtue of the admission agreement being a closed agreement,
- when employers leave the group the funding target adopted at that time will be assessed in light of the employer's circumstances and, in particular whether its liabilities will be subsumed (i.e. another employer or group will be responsible for the future funding of those liabilities) or will become orphan (where the Fund has no access to any further funding for those liabilities).

For most purposes, each employer in a group is assumed to have the same funding level as the group as a whole, based on the value of benefits accrued to date for the group as a whole and notional assets held in respect of the group. The funding level of the group is expressed as a percentage and calculated as:

notional assets held in respect of the group divided by value of benefits accrued to date for the group as a whole.

Further aspects of funding strategy that may be relevant from time to time are described below:

Notional sub-funds

In order to establish contribution rates for individual employers or groups of employers it is convenient to subdivide the Fund notionally between the employers, as if each employer or group had its own notional sub-fund.

This subdivision is for funding purposes only. It is purely notional and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll forward of sub-funds

The notional sub-fund allocated to each employer or group will be updated allowing for all cashflows associated with that employer's or group's membership, including contribution income, benefits paid, transfers in and out and investment income allocated as set out below.

In some cases there is insufficient information to complete these calculations. In these circumstances:

- where, in the opinion of the Fund's actuary, the unavailable cashflow data is of low materiality, estimated cashflows will be used,
- where, in the opinion of the Fund's actuary, the unavailable cashflow data is material, the Fund's actuary will use an analysis of gains and losses to update the notional subfund. This method is less precise than using cashflows, and involves calculating gains and losses to the surplus or deficiency shown at the previous valuation to determine an expected surplus or deficiency at this valuation. This is compared with the liabilities evaluated at this valuation to calculate an implied notional asset holding.

Attribution of investment income

Where the administering authority has agreed with a scheme employer that the scheme employer will have a tailored

asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed allocation.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

Phasing in of new contribution rates

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

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the administering authority will normally require defined capital streams from employers in respect of any disclosed funding surplus or deficiency.

In certain circumstances, for secure employers considered by the administering authority as being long term in nature, contribution adjustments to correct for any disclosed surplus or deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the administering authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the administering authority will consider requiring defined streams of capital contributions rather than percentages of payroll.

Identification of risks and counter measures

The administering authority recognises that future events and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of events actually matching or being more favourable than the assumed events, and the lower will be the Funding Target calculated using those assumptions.

The administering authority will not adopt assumptions which, in its judgement, and on the basis of actuarial advice received, mean that it is less than 55% likely that the strategy will deliver funding success. Where the probability of funding success is less than 65% the administering authority will not adopt assumptions which lead to a material reduction in the aggregate employer contribution rate.

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

Investment risk

This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance),
- systemic risk with the possibility of interlinked and simultaneous financial market volatility,
- insufficient funds to meet liabilities as they fall due,
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon,
- counterparty failure.

The specific risks associated with assets and asset classes are:

- equities industry, country, size and stock risks,
- fixed income yield curve, credit risks, duration risks and market risks.
- alternative assets liquidity risks, property risk, alpha risk,
- money market credit risk and liquidity risk,
- currency risk,
- macroeconomic risks.

The administering authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisors, Fund Managers and Fund's actuary. The administering authority also annually reviews the effect of market movements on the Fund's overall funding position.

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.

The administering authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The administering authority maintains a knowledge base on their 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.

Liability risk

The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks. The administering authority will make sure the Fund's actuary investigates these matters at each valuation, or more often if necessary. The Fund's actuary will report to the administering authority as appropriate. The administering authority will then agree with the Fund's actuary any necessary changes to the assumptions used in assessing solvency.

If significant liability changes become apparent between valuations, the administering authority will notify all participating

employers of the likely effect on their contributions after the next full valuation, and consider whether any bonds that are in place for admission bodies require review.

Regulatory and compliance risk

Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules. The administering authority will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The administering authority will ask the Fund's actuary to assess the effect of any changes on employers' contribution rates.

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

Liquidity and maturity risk

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the LGPS,
- transfer of responsibility between different public sector bodies,
- scheme changes which might lead to increased opt-outs,
- spending cuts and it's implications.

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.

The administering authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

Governance risk

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



To limit this risk, the administering authority requires the other participating employers to communicate regularly with it on such matters. The administering authority also undertakes to inform the Fund's actuary promptly of any such matters.

Smoothing

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

Recovery period

Allowing surpluses or deficiencies to be eliminated over a recovery period of up to 30 years means there is a risk that too little will be done to restore solvency between successive actuarial valuations. The associated risk is reviewed with the Fund's actuary as part of the three-yearly valuation process, to ensure as far as possible that enough is done to restore solvency. In practice, the smoothing arrangements described above deal with this.

Stepping

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

For admission bodies subject to an underwriting arrangement, up to nine steps will be permitted.

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

The administering authority has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy set out in the Statement of Investment Principles (available from Pensions, Investments and Borrowing, Corporate Services, Hampshire County Council) and is included below.

Both documents are subject to regular review.

Future monitoring

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

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

Statement of Investment Principles

Introduction

Hampshire County Council is the administering authority for the Hampshire Pension Fund, which covers employees of the County Council, two city (unitary) councils, 11 district / borough councils, and 289 other scheduled and admission bodies. The total number of contributors is 50,551 and there are 33,286 pensioners.

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require pension fund administering authorities to prepare and review, from time to time, a written statement setting out the investment policy for their Fund.

This Statement of Investment Principles has been drafted to comply with these regulations.

Types of investments to be held

The Fund can be invested in shares, bonds and other investments to limits defined in Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The main limits are:

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

The Fund's investment management arrangements were comprehensively reviewed in October 2006, and a new specialist management structure was put in place. This took effect on 1 January 2007. The arrangements were reviewed again by the Pension Fund Panel during 2011, as the investment managers' contracts were approaching the end of their initial five-year periods. Some refinements were made to the management arrangements, designed to reduce the level of investment risk.

The Pension Fund Panel has agreed to increase the limit on contributions to private equity and indirect property partnerships from 5% to 10% of the total Fund with effect from 1 March 2008. This was to ensure that investment in the alternative investments of up to 10%, agreed as part of the new investment management structure, went ahead. The decision to increase the limit to 10% complies with the Local Government Pension Scheme (Management and Investment

of Funds) Regulations 2009. The 10% limit on contributions to partnerships will apply until the Fund's overall asset allocation is reviewed following the next full actuarial valuation.

The expected return on investments

The overall objectives when investing the Fund are:

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

Following the actuarial valuation at 31 March 2010, the Fund's actuary, Aon Hewitt advised that the Pension Fund should set a target to achieve a long-term return 2.3% a year above a low-risk portfolio. A low-risk portfolio is defined as a portfolio invested 95% in index-linked gilts and 5% in fixed-interest gilts.

Spread of investments

The Pension Fund Panel agreed a specialist investment management structure, which took effect on 1 January 2007, with the aim of achieving the Pension Fund's overall long-term target return without exposing the Fund to excessive risk. Following the review in 2011, the long-term asset allocation was set as shown in the following table.

Investment sector	Management style	% of Fund
UK equities	Low-risk active	14
Global equities	High-performance active	26
Global bonds	Active	5
UK index-linked bonds	Passive	35
Property	Direct and indirect	10
Alternative investments	Various	10
Total		100

Subsequently a Tactical Asset Allocation portfolio has been created from the allocation to UK index-linked bonds for which the short term allocation is 21% of the Pension Fund.

Eight managers and advisers are currently engaged for ten separate mandates. Contracts will expire in 2016.

Statement of Investment Principles continued



Realisation of investments

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

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

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

The Fund's cash can be invested for periods of up to two years in order to access higher investment returns in the current low interest rate environment.

Social, environmental and ethical considerations

The Hampshire Pension Fund has an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk.

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

The Fund has delegated to the external investment managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments.

Each investment manager is asked to work actively with companies to promote forward-looking social, environmental and ethical standards. This should not, however, deflect from the primary objective of achieving the best possible financial return for the Fund, in accordance with the Fund's fiduciary duty.

Exercise of rights attaching to investments

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

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

The Fund believes that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of shareholders, company employees and consumers. The Fund's managers should cast their votes with this in mind.

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

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

If managers do not follow these guidelines, they must report to the Panel explaining why.

Custody

JP Morgan Chase has been appointed as the Fund's independent global custodian with effect from 1 August 2013 for a five year period ending on 31 July 2018, subject to satisfactory performance, with the option to extend the contract for a further five years.

Stock lending

Since 2006, the Fund has been part of its custodian's stock lending programme, whereby stocks (mainly equities) held by the Fund are loaned to third parties in return for a fee that helps the Fund meet its funding objectives.

In accordance with Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds)

Statement of Investment Principles continued

Regulations 2009, lending restrictions have been placed on JP Morgan to ensure that the proportion of Fund assets that are available to be lent at any time will not exceed 25% of the total market value of Fund assets.

To acknowledge the risks in stock lending, collateral is provided of at least 105% of the market value of the borrowed stock, unless the borrowed stock and collateral are denominated in the same currency, then a collateral level of 102% will apply. The collateral arrangements were tested in September 2008, when, within a few days, the Fund's custodian recovered stock on loan to Lehman Bros at the time of its collapse.

Although the Fund temporarily suspended stock lending in September 2008 as a result of the financial crisis, the Pension Fund Panel agreed that this should be reinstated from December 2009 as market conditions had normalised.

Overall, the Panel considers that the income from stock lending benefits the Fund and that the risks are understood and well managed. The Director of Corporate Resources will continue to monitor the risks and, as in the case of the Lehman Bros collapse, would be able to instruct JP Morgan to suspend the programme with immediate effect.

Review of the Statement of Investment Principles

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

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

Effective decision-making

The County Council has delegated responsibility for managing and administering the Fund to its Pension Fund Panel through its Audit Committee.

Panel members and County Council officers can attend workshops and seminars on investment and pensions.

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

The Director of Corporate Resources provides Panel members with full briefings on investment and pensions. The Panel also takes advice on investment from its independent adviser.

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

The Fund's contract for actuarial and other advice is open to competitive tender periodically. Following a robust challenge process of the approach taken to the commissioning of actuarial work and competitiveness of current fee levels, the option to extend Aon Hewitt's contract for a further three years to its absolute expiry date of 31 March 2015 was exercised.

Investment managers are asked for advice, and new approaches are developed in partnership with them.

Little use is made of other advisers, as the Finance function within Corporate Services has enough expertise, so there is no separate tender process for other advice.

Clear objectives

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

All mandates have clear objectives and timescales for performance assessment.

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

There are no soft commission arrangements.

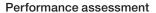
The Fund's overall target return and the managers' individual targets are set out clearly in this Statement of Investment Principles and in the Annex.

Risk and liabilities

Advice from the actuary and other sources was used to determine the strategic asset allocation introduced from 1 January 2007 and the revisions made in 2011, which should enable the Fund to meet its liabilities and maintain stable employers' contribution rates.

Advice was also sought to draw up the benchmarks and constraints within which the fund managers must work.

Statement of Investment Principles continued



Reviews of the managers' performance take place at quarterly intervals, either by the Pension Fund Panel or officers.

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

Responsible ownership

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

Transparency and reporting

This Statement of Investment Principles covers all areas

as proposed by the Myners Committee and subsequently confirmed by the Government.

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

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

Annex - Investment management arrangements

	Benchmark	Annual target performance gross/net of
		fees
Low-risk active UK equities		
Schroder Investment Management	FTSE All Share Index	+1.25% gross
High-performance global equities		
Aberdeen Asset Management	MSCI All Countries World Index	+3.00% gross
Newton Investment Management	MSCI All Countries World Index	+3.00% gross
Active global bonds		
Western Asset Management	Barclays Capital Global Aggregate	+1.50% gross
	Bonds Index	
Passive UK index-linked bonds		
Legal & General	FT British Government Over Five Years	
	Index-Linked Gilts Index	
State Street Global Advisors	As above	
Tactical Asset Allocation		
State Street Global Advisors	_	
Aon Hewitt (advisers)		
UK property		
CBRE Global Investors	Retail Price Index (RPI)	+4.50% net
European property		
Aberdeen Property Investors	Eurozone Harmonised Index of	+5.00% net
	Consumer Prices (HICP)	
Alternative Investments advisers		
Aberdeen Asset Management		+8.00% to +11.00% gross

Governance Policy Statement

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

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

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

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

The Pension Fund Panel normally meets six times a year. Four of these meetings are used mainly for discussions with the Fund's investment managers, using a report on their strategies and performance prepared by the Director of Corporate Resources, any views of the independent adviser, and presentations prepared by the managers themselves. The other meetings are 'business meetings', where the Panel considers reports from the Director of Corporate Resources, the independent adviser and other consultants as necessary on a range of issues, for example reviews of the Statement of Investment Principles, the Fund's business plan, training, and proposals for scheme change.

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

- the County Council as administering authority and the largest employer with 45% of the contributing membership,
- the two city unitary authorities with 18% of the contributing membership,
- the district / borough councils and other employers with 37% of the membership, and
- the Fund's pensioners and contributors.

The Pension Fund Panel consists of:

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

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

Training

Members of the Pension Fund Panel and officers in Corporate Services have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate. The cost of attending is charged to the Pension Fund.

A training plan for members of the Pension Fund Panel has been prepared, and training logs for individual members are maintained.

Use of advisers

The Director of Corporate Resources advises the Panel on all Pension Fund investment and administrative matters.

The Fund's independent adviser advises the Panel on investment matters.

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



Governance Policy Statement continued

Communications with Fund employers and members

Each financial year, an annual report on the Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.

In the autumn, a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members.

The Statement of Investment Principles is published and made available to scheme employers within three months of any amendments.

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

Service standards

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

Governance Compliance Statement

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

Annex - Investment management arrangements

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

Governance Compliance Statement continued

Annex – Investment management arrangements (continued)

Ref	Principles	Compliance and comments
Е	Training/facility time/expenses	
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance. Full training and facilities are made available to all members of the Pension Fund Panel.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.
C.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance. A training plan has been prepared for the Pension Fund Panel and training logs are maintained for individual Panel members.
F	Meetings (frequency/quorum)	
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	No formal secondary committees or panels have been established.
C.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance. The Pension Fund Panel includes lay members. An Annual Employers Meeting of the Pension Fund is held and road shows are arranged for employers.
G	Access	
a.	That, subject to any rules in the County Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance. Equal access is provided to all members of the Pension Fund Panel.
Н	Scope	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance. The Pension Fund Panel deals with fund administration issues as well as fund investment.
I	Publicity	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance. The County Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.

Communication Policy Statement 2014

Introduction

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

We have five key stakeholder groups:

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

We are committed to communicating clearly and effectively and we aim to provide a high quality service to all our stakeholders. Our statement of service standards for employers and scheme members can be found on our website:

http://www3.hants.gov.uk/finance/pensions.htm

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

 $\label{lem:http://www3.hants.gov.uk/pensions/pensionscustomerservice.} \\ \text{htm}$

Methods of communication

Our communication with scheme members

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

Website

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

Scheme literature

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

Member support

We have a general query call centre which operates during office hours. A voice-mail service takes messages out of hours, and we return these calls the next working day. We aim to answer 90% of the incoming queries without the need to refer on to our operational teams. We also have a general email address for all queries.

Correspondence

We use post and email for correspondence with scheme members.

We send details of any scheme changes to the relevant members within three months of the change.

Benefit statements

Each year, we send all current and deferred members an annual benefit statement showing their benefits as at 31 March. We aim to issue these by October each year.

Pay advice slips and P60s

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

Newsletters

An annual newsletter is sent to pensioners each March.

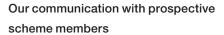
Report and accounts

In the autumn a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members. The annual report and full accounts are available to members on request or from our website.

Life certificates

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

Communication Policy Statement continued



To provide information about the scheme, we give employers relevant information to ensure that eligible staff are aware of their pension options.

Scheme literature

Employers give all new employees a starter pack on appointment containing the Employee's Guide, a starter information and membership option form, a death grant 'expression of wish' form and a pension transfer booklet. Other scheme literature is available direct from us or from our website.

Website

The website contains a dedicated 'New Member' section, which outlines the benefits of the scheme and answers some common questions for prospective members.

Our communication with employing authorities

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

Scheme literature

An Employer Manual is available to all employing authorities. It contains details of procedures and their responsibilities. Copies of leaflets and forms are also available to employers from the website or on request from ourselves.

Correspondence

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

We also send ad hoc email communication to advise employers of any changes or information they should be aware of or would find useful.

Website

The website has a dedicated section for employers, which is password protected. It gives the latest news and an electronic version of the Employer Manual.

Employer training

We hold regular employer training days, and offer targeted training on request from employers, in addition to dealing with simple queries via phone or email.

Administration strategy

We publish an administration strategy which sets out the roles and responsibilities of the Hampshire Pension Fund and the employers.

Employer liaison meetings

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

Reports and accounts

We send a copy of the annual report and accounts to each employer. We publish an updated Statement of Investment Principles and make it available to employers within three months of the Pension Fund Panel approving any significant amendment(s).

Valuation report

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

Pension Fund Annual Employers Meeting (AEM)
We invite all our employing authorities to attend the Pension
Fund Annual Employers Meeting. As well as providing
information on issues such as the annual report, scheme
changes and investment managers' performance results,
the Annual Employers Meeting provides formal and informal
opportunities for employers to ask questions of the Pension
Fund Panel or those presenting.

Our communication with Pensions Services staff

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

Email

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

Communication Policy Statement continued

Internet access

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

Employer contact information

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

Meetings

Regular meetings are held, both informal and formal, within teams and across groups of staff.

Regular section briefings are held to share information across the whole of our section.

Staff training

We undertake regular staff training to ensure that our staff have the relevant knowledge and skills to undertake their role. This includes staff workshops and supporting staff taking any relevant professional qualifications.

Our communication with other bodies

Members' representatives

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

Pension Fund Panel

The Pension Fund Panel receives reports from the Director of Corporate Resources. Although these usually concern investment issues, they will advise the Panel on changes to administrative arrangements or scheme rules where relevant.

Prospective employing authorities

Any prospective employing authority will receive a letter outlining the costs of joining the scheme and a copy of the Employer Manual.

Complaints and appeals

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

http://www3.hants.gov.uk/pensions/lgps/a-z/internal-dispute-resolution-procedures.htm

Publications matrix

Document	Format		Available to	Available to				Published	Reviewed
	Paper	Website	Prospective members	Current members	Deferred members	Pensioners	Employers		
Employee's Guide	✓	~	✓	✓	✓	x	~	Always available	As regulations change
Employer Manual	✓	✓	×	×	x	x	✓	Annually	As regulations change
Reports and accounts	✓	✓	✓	✓	✓	✓	✓	Annually	Annually
Benefit statements	✓	×	×	✓	✓	x	×	Annually	Annually
Pensioners' newsletter	✓	✓	×	×	x	✓	×	Always available	Annually
Service standards	✓	✓	✓	✓	✓	~	✓	Always available	Annually
Complaints and appeals process	✓	v	✓	~	~	✓	✓	Always available	Annually

Who's Who



Administering authority

Hampshire County Council

Pension Fund Panel

Details of the Pension Fund Panel are on page 4 of this annual report.

Administrator

Carolyn Williamson, Director of Corporate Resources

Independent adviser

Carolan Dobson

Investment managers















Custodian

JP Morgan

Actuary

Aon Hewitt Limited

Bankers

The National Westminster Bank plc

External auditor

Ernst & Young

AVC providers

Zurich Prudential

Equitable Life

County Council contacts

Pensions, Investments Nick Weaver & Borrowing Manager 01962 845588

Legal adviser Paul Hodgson



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



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.

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.

Glossary continued

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.

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.

Glossary continued



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.

Tactical Asset Allocation

A separate portfolio which enables the Pension Fund to reflect short to medium term views about the prospects for investment markets in its allocation between asset classes. It is intended to provide some potential protection for the value of the Pension Fund's assets in the event of another major disruption to markets similar to the recent financial crisis.

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.