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We hope you find this annual report informative and useful. There is a glossary of terms at page 65.

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 2014/15.

This year the Pension Fund's investments have delivered excellent returns, and at 31 March 2015 the value of the Pension Fund had exceeded the £5 billion milestone, at a total value of £5,137 million. The Pension Fund has achieved an impressive total investment return of 14.9% during 2014/15.

I am pleased to report that Aon Hewitt have been reappointed as the Pension Fund's actuaries, following a competitive tender process. I look forward to working with Aon Hewitt on the 31 March 2016 actuarial valuation, for which preparatory work will begin imminently.

New regulations for Pension Fund Governance were published on 28 January 2015, and the Pension Fund submitted an application to create a combined Pension Fund Panel and Local Pension Board to comply with these new regulations. The application for a Joint Panel and Board was based on the view of the County Council and Pension Fund Panel that a joint committee would:

- Have greater weight in the management and governance of the Fund;
- Offer a more attractive and engaging role to potential members;
- Ensure a deeper understanding of the combined body by exposing members to the complete operation of the Pension Fund; and
- Avoid duplication and confusion in roles between a separate Board and Panel.

In June 2015 the Pension Fund received approval from the Department of Communities and Local Government to form a Joint Panel and Board. This pioneering approach will ensure the continued strong governance of the Pension Fund for the future. The first meeting of the new Joint Panel and Board will be held in September 2015.

There have been developments in pensions administration, and during 2014/15 Pension Services migrated onto a new administration system. I am delighted to report that the new system is now well established and is set to deliver efficiencies by way of cost savings and improved timeliness of processing. I would like to thank Pensions Services staff for their hard work in implementing this challenging project.

2014/15 has been another commendable year for training, and Pension Fund Panel members have continued to benefit from and report back on a number of events, both internal and external. Training will continue to be given high priority by all members of the Panel and Board. Further information on the training received and plans for training over the next year can be found in the training report on page 7.

I would like to thank the members of the Pension Fund Panel for their hard work and dedication during 2014/15, and I look forward to working with the members of the Joint Panel and Board in the future.

I hope you find the following report helpful.



Councillor Mark Kemp-Gee Chairman, Pension Fund Panel September 2015

# Who's Who

# Administering authority and Scheme Manager

Hampshire County Council

# **Treasurer**

Carolyn Williamson, Director of Corporate Resources

# Independent adviser

Carolan Dobson

# **Investment managers**











STATE STREET GLOBAL ADVISORS.



# Custodian

JP Morgan

# **Actuary**

Aon Hewitt Limited

# **Bankers**

The National Westminster Bank plc

# **External auditor**

Ernst & Young LLP

# **AVC** providers

Zurich

Prudential

Equitable Life

# **County Council contacts**

Pensions, Investments Nick Weaver & Borrowing Manager 01962 845588

Legal adviser Paul Hodgson

# Pension Fund Panel

# **County Council members**



Cllr Mark Kemp-Gee (Chairman) 10 years' membership



Cllr Tom Thacker (Vice-Chairman) 6 years' membership



**Cllr Christopher Carter** 6 years' membership



**Employee representative** 

Phillip Reynolds 8 years' membership



**Cllr Criss Connor** 2 years' membership



Cllr Peter Latham 2 years' membership



**Cllr Andrew Gibson** 3 years' membership



Cliff Allen 2 years' membership



**Cllr Andrew Joy** 2 years' membership



**Cllr Tim Rolt** 2 years' membership



**Cllr Bruce Tennent** 6 years' membership

# Unitary authorities' and Hampshire district councils' representatives



Cllr Hugh Mason Portsmouth City Council Membership from July 2014



Cllr Mark Chaloner Southampton City Council Membership from June 2015 (replaced Cllr Stephen Barnes-Andrews)



**CIIr Peter Giddings** Test Valley Borough Council 8 years' membership



Cllr John Leek Basingstoke & Deane Borough Council 4 years' membership

# Pension Fund Panel continued

All members of the Panel have voting rights. Attendance of the Panel members at Panel meetings, internally organised training events, and other external training opportunities is shown in the table below. For Pension Fund Panel meetings, the number of meetings attended is shown against the number of possible meetings for that member.

Panel member	Pension Fund Panel	Internal training	External training
	meetings attended	sessions attended	sessions attended
Cllr Kemp-Gee	6/6	5	2
Cllr Thacker	5/6	2	1
Cllr Carter	6/6	5	1
Cllr Connor	5/6	2	8
Cllr Gibson	3/6	2	2
Cllr Joy	6/6	5	1
Cllr Latham	4/6	1	0
Cllr Rolt	5/6	4	0
Cllr Tennent	5/6	5	0
Cllr Barnes-Andrews	3/6	2	0
Cllr Mason*	4/4	2	0
Cllr Giddings	5/6	4	1
Cllr Leek	6/6	4	0
Phillip Reynolds	4/6	4	3
Cliff Allen	5/6	5	1

<sup>\*</sup>Cllr Mason became a member of the Panel in July 2014

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

In June 2015 the Pension Fund received approval from the Department of Communities and Local Government to form a Joint Panel and Board. The new Joint Panel and Board will be made up of 9 County Councillors, 3 scheme member representatives (1 pensioner representative, 1 employee representative and 1 deferred representative) and 3 employer representatives (1 Unitary Authority representative (rotated between Southampton and Portsmouth), 1 District Council representative nominated by Hampshire and Isle of Wight Local Government Association and 1 other employer representative). The first meeting of the new Joint Panel and Board will be held in September 2015.

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 7.

# 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/arrange 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 2014/15

Two internal training half-days were arranged for Panel members in Winchester during July and November 2014. These training sessions covered procurement and the roles and responsibilities of the Pension Fund Panel (provided by Hampshire County Council legal services), a session on investment performance and risk management provided by Schroders, one of the Pension Fund's investment managers, and a session on energy economy opportunities in oil and gas provided by Newton, another of the Pension Fund's investment managers. These training half-days were supplemented by an additional short session on the investment strategy review, provided by Aon Hewitt, and a training session on treasury management, which was open to all County Councillors as well as the Pension Fund Panel, and was provided by Arlingclose, the County Council's advisers on treasury management.

These training half-days followed a similar programme of in-house training in previous years which has been designed to cover the full range of knowledge and skills required by Panel members.

In early 2015 individual members of the Panel 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 need 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 2015/16 and 2016/17. 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 2014/15 provided by the Pension Fund's investment managers and other external organisations, as follows:

**Global Infrastructure Investors Summit** 

**Fundamentals Course** 

**LAPFF Round Table Discussion** 

Aberdeen Asset Management 2014 Property Conference

SPS Adding Value in Bonds for Pension Funds

The Future of the Local Government Pension Scheme

**LGC Investment Summit** 

SPS Investment Strategies and Current Issues for **Local Authority Pension Funds** 

Schroders Autumn Conference

Schroders trustee training - Risk management on equity investments

330 Consulting Elected Member Educational Event

# **Evaluation of training**

Training logs are completed on an on-going 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 2015/16**

The training plan for 2015/16 was approved by the Pension Fund Panel in June 2015. Proposed training included further in-house training sessions in July 2015 and November 2015, external training events, use of online learning tools, briefing information in reports to the Panel from officers, and background reading as appropriate.

# Investment Policy and Performance Report

# **Custody of assets**

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

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

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

JP Morgan have custody of all the Pension Fund's active equity portfolios and the global bonds portfolio. All other assets are held directly by the Pension Fund. JP Morgan report on the performance of the entire portfolio.

# Social, environmental and ethical considerations

The Pension Fund's policy regarding social, environmental and ethical considerations is set out in the Statement of Investment Principles, available via the following link: www.hants.gov.uk/pensions-reportsandaccounts

The relevant extract is shown below:

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.

As set out in the Statement of Investment Principles, the Pension Fund's instructions to managers on voting are in line with the UK Stewardship Code in order to achieve effective engagement with companies.

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

# Matters relating to implementation of the Funding Strategy Statement

There were no employer contribution increases in the year. No bonds or other secured funding arrangements were entered into during 2014/15.

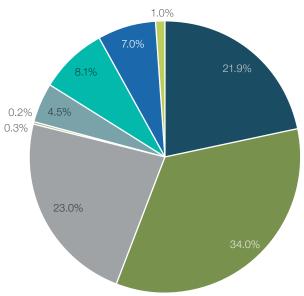
All admission bodies were managed in accordance with the funding strategy statement.

# Investment Overview

During 2014/15, stock markets delivered positive returns, as the UK stock market grew by 6.6% and world stock markets returned 19.0% overall. UK index-linked bonds have benefitted from the continued low interest rate environment, and have delivered a high return of 21.1% in 2014/15.

The UK commercial property market has continued the strong performance seen in 2013/14 with a return of 17.3% for 2014/15.







The Fund has appointed investment managers responsible for several specialist portfolios. In July 2014 the Pension Fund Panel considered its Strategic Asset Allocation, and changes were implemented in 2014/15. These changes involved terminating the tactical asset allocation portfolio, and investing the funds in passive equities and UK index-linked gilts.

# Investment Overview continued

# Pension Fund investment management structure

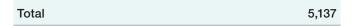
	Target	Actual allocation		Annual target
portfo	lio size %	at 31 March 2015 %	Benchmark	performance gross, net of fees
	70	70	Delicilitation	Het of fees
Low-risk active UK equities	440	10.0	ETOE All Ob and	4.050/
Schroder Investment Management	14.0	13.6	FTSE All Share	+1.25% gross
High-performance global equities				
Aberdeen Asset Management	14.0	13.5	MSCI All Countries World	+3% gross
Newton Investment Management	12.0	12.9	MSCI All Countries World	+3% gross
Aberdeen Frontier Markets Equity	0.0	0.2	MSCI Frontier Markets Index	-
Passive equities				
State Street (UK equities)	5.0	5.8	FTSE All Share Index	_
State Street (global equities)	9.0	10.7	FTSE All World Equity Index	-
Active global bonds				
Western Asset Management	5.0	5.0	Barclays Capital Global Aggregate Bonds Index	+1.5% gross
Passive index-linked bonds				
Legal & General	10.5	11.2	FT British Government Over Five Years	
			Index-Linked Gilts Index	_
State Street Global Advisors	10.5	11.2	As above	-
UK property				
CBRE Global Investors	10.0	7.4	Retail Prices Index (RPI)	+4.5% net
European property				
Aberdeen Property Investors	$0.0^{\dagger}$	0.5	Eurozone Harmonised Index of	
			Consumer Prices (HICP)	+5% gross
Alternative investments				
Aberdeen Asset Management	10.0	7.0	-	+8% to 11% gross
Cash				
Managed in house	0.0	1.0	-	-
		100.0		

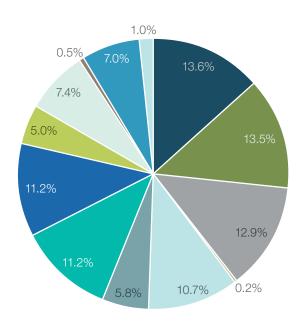
<sup>†</sup>portfolio is being run down as the investments mature

The value of the investments held by each of the Fund's managers on 31 March 2015 is shown in the following table.

### Value of investments on 31 March 2015

Manager	£million
Schroders (UK equity portfolio)	695
Aberdeen (global equity portfolio)	687
Newton (global equity portfolio)	659
Aberdeen (frontier markets fund)	12
State Street (passive global equities portfolio)	547
State Street (passive UK equities portfolio)	294
Legal & General (index-linked bond portfolio)	570
State Street (index-linked bond portfolio)	578
Western (global bond portfolio)	253
CBRE (UK property)	377
Aberdeen (European property)	25
Alternative investments	362
Held centrally (for pension payments,	
investment, etc.)	78





# Performance of the managers

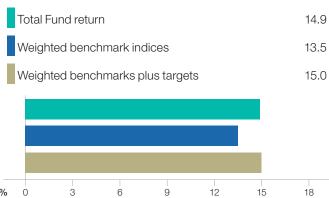
All of the managers have been set targets to achieve over three to five-year periods.

Both global and UK markets have delivered positive returns for the year, and all the Pension Fund's investment managers have shown positive performance returns during 2014/15. 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 2014/15 was 14.9%. This compares with a weighted benchmark return of 13.5%. The investment managers are set targets to outperform their benchmark indices. The weighted return of these benchmark indices plus targets for 2014/15 was 15.0%. The Fund's investment return was 11.3% per annum over the three years to March 2015, and 6.6% per annum over the period since January 2007, which was when new investment management arrangements were put in place.

# Total investment returns for the Fund 12 months to 31 March 2015



%

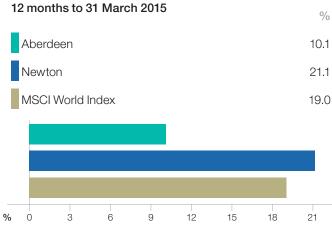
# Investment Overview continued



# Global equities

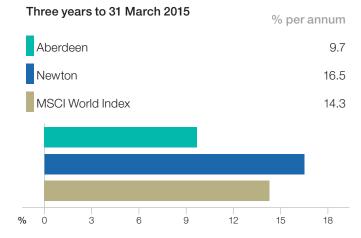
The global stock markets returned 19.0% in 2014/15, as measured by the MSCI All Countries World Index. Although Aberdeen have delivered a positive return, they have underperformed against the index, due to being underweight in US stocks, which have shown strong performance over the year. Newton have outperformed the index although they have not met their outperformance target. Over the longer term, both managers have outperformed their benchmark index over the period since January 2007.

# Global equities



The Fund's global equity managers' performance results against the MSCI Index benchmark over the last three years and since January 2007 are shown below.

# Global equities

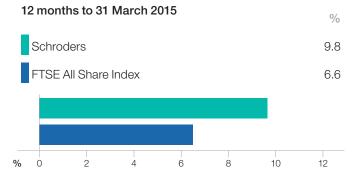


# Global equities Since January 2007 % per annum Aberdeen 8.4 Newton 8.4 MSCI World Index 7.8

# **UK** equities

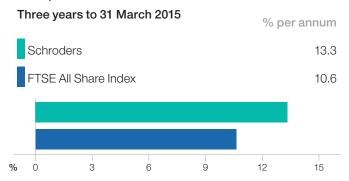
The UK stock market returned 6.6% during 2014/15 as measured by the FTSE All Share Index, and the Fund's UK equity manager, Schroders, have consistently outperformed the FTSE All Share index over the last year, the last three years, and the period since January 2007.

# **UK** equities

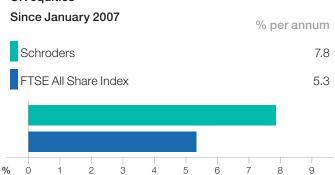


The Fund's UK equity manager's performance results against the FTSE All Share Index benchmark over the last three years and since January 2007 are shown below.

# **UK** equities



# **UK** equities



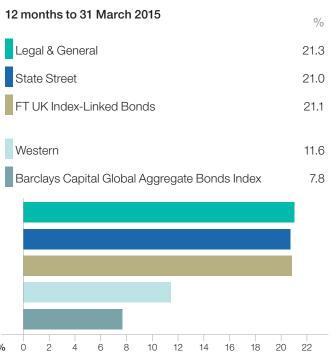
### **Bonds**

Legal & General and State Street passively manage portfolios of UK index-linked bonds. Both managers delivered returns that matched their target index during 2014/15.

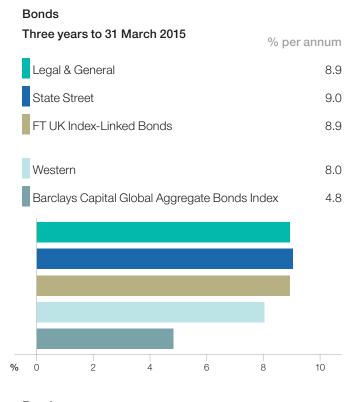
The Barclays Capital Global Aggregate Bonds Index has returned 7.8% during 2014/15, and the Fund's active global bonds manager, Western, has outperformed the benchmark index over the last year, the last three years, and the period since January 2007.

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.

# Bonds



# Investment Overview continued



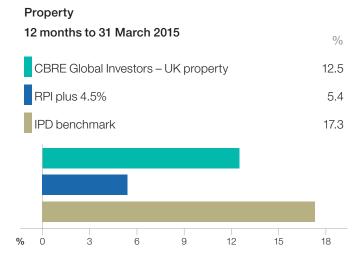
# Bonds Since January 2007 % per annum Legal & General 8.9 State Street 8.9 FT UK Index-Linked Bonds 8.9 Western 6.2 Barclays Capital Global Aggregate Bonds Index 5.3

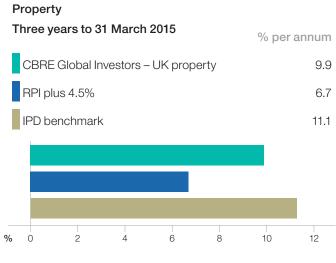
# **Property**

CBRE Global Investors manage a portfolio of UK properties, with a performance target of the Retail Price Index (RPI) plus 4.5%, over seven to 10 years. CBRE Global Investors returned a performance of 12.5% in 2014/15 which was considerably higher than their target. Over the longer term CBRE Global Investors have exceeded their RPI plus 4.5% target over the last three year period, although they have underperformed over the period since January 2007, due to very challenging market conditions for property in 2008 and 2009.

CBRE Global Investors performance was lower than the Investment Property Databank (IPD) benchmark return of 17.3% during 2014/15, due to CBRE Global Investors being underweight in London office properties compared to the IPD benchmark. The IPD benchmark reflects the returns achieved by similarly sized property portfolios.

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%.





# Property Since January 2007 % per annum CBRE Global Investors – UK property 3.5 RPI plus 4.5% 7.4 IPD benchmark 3.0

9

# Analysis of Fund Assets and Investment Income

The following tables show an analysis of the fund assets and investment income as at 31 March 2015, split between UK, non-UK and global portfolios.

# Fund Assets at 31 March 2015

Total	2,662.0	53.5	2,279.9	4,995.4
cash equivalents	49.8	_	-	49.8
Cash and				
Alternatives	_	_	350.5	350.5
Property	354.1	53.5	-	407.6
Bonds	1,162.1	-	230.3	1,392.4
Equities	1,096.0	-	1,699.1	2,795.1
	£m	£m	£m	£m
	UK	Non-UK	Global	Total

# Investment income received in 2014/15

Total	45.3	0.8	49.6	95.7
Other (including stock lending)	0.1	-	0.2	0.3
Cash and cash equivalents	0.7	_	_	0.7
Alternatives	0.5	-	9.9	10.4
Property	19.7	0.8	-	20.5
Bonds	-	-	6.7	6.7
Equities	24.3	-	32.8	57.1
	£m	Non-UK £m	£m	£m

# Scheme Administration Report

# Who belongs to the Hampshire Pension Fund?

The Hampshire Pension Fund provides pensions for employees of Hampshire County Council, the unitary authorities of Southampton and Portsmouth and the 11 district / borough councils in the Hampshire county area. These are 'scheduled bodies', which means their employees have a statutory right to be in the Scheme. Other scheduled bodies include the Office of the Police and Crime Commissioner and the Chief Constable for Hampshire, Hampshire Fire and Rescue Authority, the University of Portsmouth, Southampton Solent University and other colleges that were part of the County Council. Town and parish councils that have opted to join the Fund are known as resolution bodies.

There are also '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 transferree bodies.

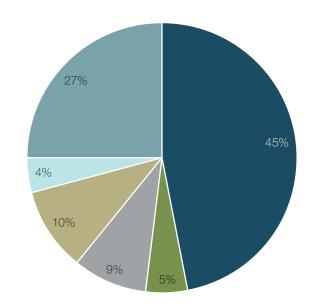
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years. The implementation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

On 31 March 2015 there were 34,364 pensioners, 55,787 deferred members, and 54,679 contributors, a total of 144,830 Scheme members.

Number of cor	ntributors	%
Hampshire County Council	24,521	45
Southampton City Council	2,709	5
Portsmouth City Council	5,061	9
District and Borough councils	5,253	10
Office of Police and Crime		
Commissioner and Chief Consta	able2,210	4
Other organisations	14,925	27
Totals	54,679	100



The following table shows a summary of employers in the fund analysed by type. All employers are active (with active members), and none are ceased (no active members but with some outstanding liabilities):

Employer Type	Employers	Active members
Scheduled	164	53,097
Resolution	58	265
Admitted	37	694
Community admitted	34	207
Transferee admitted	30	416

323

54.679

### **Pension Fund Administration**

Total

Responsibility for the administration of the Hampshire Pension Fund is delegated to Pensions Services, part of the Corporate Resources department of the County Council. Pensions Services migrated to a new system during 2014/15, and now use UPM, a Civica system, to provide all aspects of pensions administration including pensioner payroll and employer web access.

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

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

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

In addition, Pensions Services comply with the requirements for the national standard for excellence in customer service (CSE). The CSE assessment considers how Pensions Services deliver against over 50 criteria in five key areas:

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

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

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 2015 are set out in the following table:

Full-time equivalent salary	Contribution rate per year
Up to £13,600	5.5%
£13,601 – £21,200	5.8%
£21,201 – £34,400	6.5%
£34,401 – £43,500	6.8%
£43,501 – £60,700	8.5%
£60,701 – £86,000	9.9%
£86,001 – £101,200	10.5%
£101,201 – £151,800	11.4%
More than £151,801	12.5%

# Scheme Administration Report continued

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 page 26.

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  $\mathfrak{L}20$  for each  $\mathfrak{L}1$  of pension, whatever the person's age. For all pensions already in payment, the value will be  $\mathfrak{L}25$  for each  $\mathfrak{L}1$  of pension.

The average annual pension paid in 2014/15 was \$5,057 (\$4,994 in 2013/14).

# 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 2,000 Scheme members retired during 2014/15, with an average retirement age of 61 years. Of this number, 276 (or 13.8%) took some form of early retirement, mainly due to redundancy or ill-health.

# Administration performance

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

There has been a dip in performance as a consequence of the migration to a new administration system during the year, and this is reflected in the table below. In order to manage the work loads through the migration, Pensions Services switched focus to ensuring that work was completed in priority order (to get people paid on time) rather than in the order that the work is received (to make sure that all work is completed within eight weeks).

Now that the new system is fully operational, workloads are reducing and some of the efficiencies of the new system are being felt. As the system is fully embedded, it is anticipated that significant improvements, in timeliness and cost of processing casework, will be seen.

# Working days to complete

Areas of work	0-5 days	6-10 days	11-15 days	16-20 days	4-8 weeks	8+ weeks	Total	On time
People who retire	1,489	638	990	143	79	10	3,349	97%
Estimate of pension benefit	s 654	391	755	185	22	3	2,010	99%
Leavers not yet able to take pension	440	215	192	716	2,260	121	3,944	97%
Joining up of multiple pension benefits	187	81	93	107	52	1	521	100%
Transfers between LGPS schemes	221	49	89	52	4	1	416	100%
Transfers from / to private pension schemes	528	204	128	36	48	0	944	100%
Divorce	192	102	35	20	14	4	367	99%
Other leavers	370	91	57	49	176	57	800	93%
New Pensioners	1,897	25	8	6	3	1	1,940	100%
Total	5,978	1,796	2,347	1,314	2,658	198	14,291	

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

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

The assessment considers evidence from Pensions Services against each of the criteria as well as independent feedback from employers and members. The assessor commented that "the feedback is excellent and confirms that Pensions Services fulfil promises, resolve problems quickly and make services easily accessible." He also stated that "there are many examples of you using staff customer insight to bring about service improvements".

Pensions Services received three partial compliances against the criteria, because of the dip in performance against service standards. Two of these were because not all targets were met and the third was because the dip in performance was not publicised. These partial compliances will be addressed for the next 'light touch' assessment in April 2016, by ensuring that all service standards are met.

# Scheme Administration Report continued

# Benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Office of National Statistics. The most recent data is that for the financial year 2013/2014 and is summarised in the following table:

2013/14 2012/13

			Excluding			Excluding
		V	Vales, Unitaries		V	Vales, Unitaries
На	mpshire	All Funds	and London	Hampshire	All Funds	and London
Admin cost per member	£16.41	£34.23	£25.36	£16.23	£35.00	£26.56
Investment cost per membe	er £80.98	£125.77	£99.85	£74.36	£109.03	£83.97

# Membership information

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

Year ending 31 March	No. of contributors	No. of deferred per	No. of sioners
2011	48,251	42,335	30,152
2012	45,633	45,616	32,192
2013	46,319	48,970	33,449
2014	50,551	52,417	33,286
2015	54,679	55,787	34,364

The number of contributors is at its peak due to automatic enrolment from 1 April 2014. The number of pensioners has increased in line with the general trend, and deferred members in the Fund have continued to increase.

# **Complaints**

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

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

There were six formal complaints made in 2014/15, four from pensioners and two from people about to retire.

# **Appeals**

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

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

The Fund considered eight Internal Dispute Resolution Procedure (IDRP) appeals during 2014/15. Six of these were stage two appeals following an employer turning down an ill health retirement appeal at stage one. The other two appeals were regarding Pensions Services' handling of their retirements, and went through both IDRP stages in the year. Both of these appeals were turned down at stage two and are now with the Pensions Ombudsman for consideration.

# The Fund's statutory statements

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

**Business Plan** 

**Funding Strategy Statement** 

Statement of Investment Principles

**Governance Policy Statement** 

**Governance Compliance Statement** 

**Communication Policy Statement** 

Hampshire Pension Fund Administration Strategy

These statements were last reviewed and approved by the Pension Fund Panel at the meeting on 19 June 2015.

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

www.hants.gov.uk/pensions-reportsandaccounts

# Risk Management Report

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

Risk	Description	Likelihood	Impact	Mitigation
Investment risk	· · · · · · · · · · · · · · · · · · ·	M	H	The Pension Fund has a strategic asset allocation set by the Pension Fund Panel and Board that balances the Fund's requirement to make an investment return to meet its liabilities but that also balances the various investment risks that it faces through investing in a diversified range of investments.  The Pension Fund lets contracts to external Investment Managers to manage the Fund's investments.  These contracts include investment limits that limit the concentration and exposure of the Fund's investments.  The Investment Manager's performance is calculated by the Fund's custodian and is monitored regularly and reported to the Pension Fund Panel and Board.  Investment Managers report quarterly on their portfolios and meet the Fund's officers at least four times a year (including presenting to the Pension Fund Panel and Board at least annually).
Liquidity risk	Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due.	L	M	The Pension Fund monitors its cashflow to ensure that funds are available as they are required.  Should it be necessary regulations allow for the Pension Fund to borrow in the short term to make pension benefit payments or in the event of transitioning investments between Investment Managers.

L = Low likelihood / impact

M = Medium likelihood / impact

H = High likelihood / impact

Risk	Description	Likelihood	Impact	Mitigation
Employer risk	These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.	М	М	The Pension Fund Panel and Board have approved a Funding Strategy Statement that groups similar employers together for funding purposes. The Funding Strategy Statement also outlines how the Administering Authority will deal with any situation resulting from a change in any Fund employers' circumstances. The Administering Authority monitors the status of the employers in the Fund and discusses any changes, including any necessary changes to the Funding Strategy Statement, with the Fund's Actuary.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	Н	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.
Regulatory and Compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance	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.	M	L	The Administering Authority requires the other participating employers to communicate regularly with it on such matters. The Administering Authority will discuss the impact of any changes with its Actuary.

# Financial Performance Report

Shown below is the Pension Fund's budget for 2014/15 compared to actuals, and the budget for 2015/16.

Management Expenses	19,853	20,461	23,239
Oversight & Governance Costs	627	553	628
Other	6	6	52
Supplies & Services	310	237	275
IT	10	10	10
Premises	16	16	16
Staff	285	284	275
Administrative Costs	2,530	2,342	1,791
Other	53	53	7
Supplies & Services	178	186	171
IT	763	763	245
Premises	233	233	58
Staff	1,303	1,107	1,310
Investment management fees	16,696	17,566	20,820
Net additions/(withdrawals) from members	22,820	(57,475)	6,700
Benefits paid	(213,400)	(216,547)	(236,770
Transfer values	0	(78,470)	C
Contributions received – Members	56,600	58,132	58,680
Contributions received – Employers – total	179,620	179,410	184,790
Contributions received – Employers – deficit	56,720	57,568	61,810
Contributions received – Employers – normal	122,900	121,842	122,980
	£000	£000	£000
	Budget	Actual	Budget

# **Dealings with members**

Employers' contributions received were in line with budgeted figures. Scheme member contributions were a little over £1.5m higher than forecast as the number of contributing members was higher than forecast.

Pension benefits paid out were also higher than forecast by over £3m as a higher than forecast amount of lump sum retirement benefits were paid out.

The Pension Fund does not forecast the value of transfers into and out of the Fund, as these are outside the Fund's control and the net impact of each can be either an inflow or outflow of transferees. In 2014/15 there was a net transfer out of the Fund of £78.5m, which was largely the result of a transfer of Probation Service pension scheme members out of the Hampshire Fund and £74.7m being paid to the Greater Manchester Pension Fund, where all Probation Service pensions will now be administered.

# Management expenses

Investment management costs were higher than forecast by nearly £900,000. The Pension Fund pays its investment managers a percentage fee based on the value of investments. Investment values increased by more than the Pension Fund Actuary's annual estimate, which is the basis of the budgeted figure.

Administration costs were just under £200,000 lower than budgeted as a result of reduced staffing costs, due to a number of vacancies being held. The IT budget was higher than normal due to the one-off implementation costs of a new pensions administration system, which will deliver cost savings in future years.

There was a £74,000 budget saving on governance costs as a result of the requirements for actuarial and legal support being less than forecast.

# Statement of the Actuary

for the year ended 31 March 2015

# 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**

- 1. 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 £4,340.6M) covering 80% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
- 2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 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 £60.7M 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.
- 5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

2.4% p.a.

### 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 serv	vice
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	

The assets were valued at market value.

(in excess of Guaranteed Minimum Pension)

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 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

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 Pension Services team at Hampshire County Council, at pensions@hants.gov.uk

# **Aon Hewitt Limited**

9 July 2015

# Pension Fund Accounts

# **Fund Account**

Net increase in the net assets available for benefits during the year		195,099	601,371
Net return on investments		188,349	679,307
changes in the market value of investments	15a	98,399	585,004
Profits and losses on disposal of investments and			
Taxes on income	13	-1,299	-1,454
Investment income*	12	91,249	95,757
Returns on investments			
Management expenses*	11	-13,714	-20,461
Net additions from dealings with members		20,464	-57,475
		-213,304	-301,811
Payments to and on account of leavers	10	-9,836	-85,264
Benefits	9	-203,468	-216,547
		233,768	244,336
Transfers in from other pension funds	8	10,667	6,794
Contributions	7	223,101	237,542
Dealings with members, employers and others directly involved in the	Fund		
	See note	£'000	£'000
Tunu Account		2013/14	2014/15

<sup>\*</sup>Pension Fund management expenses are now disclosed based on the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs* published in June 2014. Based on this guidance the Pension Fund now accounts for the investment costs of pooled and other investments that are netted off against investment income. Therefore an additional £6.946m has been added to management expenses and investment income in the 2014/15 figures above (the equivalent addition for 2013/14 would have been £5.650m). This change also affects Notes 11, 12 and 14.

# **Net Assets Statement**

Net assets of the Fund available to fund benefits at the period end		4,535,717	5,137,088
Current liabilities	21	-12,814	-14,300
Current assets	20	168,878	146,873
Investment liabilities	15	-1,162	-5,706
Long term debtors	22	10,649	9,128
	15	4,370,166	5,001,093
Cash deposits		52,345	49,765
Investment assets		4,317,821	4,951,328
	See note	£'000	£'000
		2014	2015
		31 March	31 March

# 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 2014/15 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

# a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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

The Fund is overseen by the 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 323 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2014	31 March 2015
Number of employers with		
active members	303	323
Number of employees in Sc	heme	
County Council	22,395	24,521
Other employers	28,156	30,158
Total	50,551	54,679
Number of pensioners		
County Council	14,363	15,085
Other employers	18,923	19,279
Total	33,286	34,364
Deferred pensioners		
County Council	26,126	28,193
Other employers	26,291	27,594
Total	52,417	55,787

The increase in employer organisations is partially a result of additional state schools converting to academy status during 2014/15, 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 Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2013. Currently, employer contribution rates for most employers range from 13.1% to 15.6% of pensionable pay plus a past service deficit contribution.

# d) Benefits

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

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th.

Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Hampshire Pension Fund's website:

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

# 2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year-end at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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.

# Notes to the Pension Fund Accounts continued

# 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.

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

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

# b) Transfers to and from other schemes

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

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

# **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. Associated management accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

# Oversight and governance costs

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

# Investment management expenses

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2014/15, £0.50m of fees is based on such estimates (2013/14 £0.03m).

### **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.

# Notes to the Pension Fund Accounts continued

# 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.

# 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 2015 by an external valuer, Paul Willis, BSc MRICS of Colliers International in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (January 2014 Edition). The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's-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 and includes amounts held by the Fund's external managers.

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

### 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 the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 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 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

# 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. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equity investments at 31 March 2015 was £182 million (£175 million at 31 March 2014).

# Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with updates in the intervening years. 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 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

# Notes to the Pension Fund Accounts continued

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

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

The items in the Net Assets Statement at 31 March 2015 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ
		from assumptions
Actuarial present	Estimation of the net liability to pay pensions	The effects on the net pension liability of
value of promised	depends on a number of complex judgements	changes in individual assumptions can be
retirement benefits	relating to the discount rate used, the rate	measured. For instance, a 0.5% increase in
	at which salaries are projected to increase,	the discount rate assumption would result in a
	changes in retirement ages, mortality rates and	decrease in the pension liability of approximately
	expected returns on pension fund assets. A firm	£580 million. A 0.25% increase in assumed
	of consulting actuaries is engaged to provide the	earnings inflation would increase the value of
	Fund with expert advice about the assumptions	liabilities by approximately £70 million, and a one-
	to be applied.	year increase in assumed life expectancy would
		increase the liability by approximately
		£120 million.
Debtors	At 31 March 2015, the Fund had a balance of	If collection rates were to deteriorate, a doubling
	debtors and prepayments of £54 million. A review	of the amount of the impairment of doubtful
	of debtor balances suggested that an impairment	debts would require an additional £0.015 million
	of £0.015 million was appropriate. However, in	to be set aside as an allowance.
	the current economic climate, it is not certain that	
	such an allowance would be sufficient.	
Private equity	Private equity investments are valued at fair value	The total private equity investments in the
	in accordance with the British Venture Capital	financial statements are £182 million. There
	Association guidelines. These investments are	is a risk that this investment may be under- or
	not publicly listed and as such there is a degree	overstated in the accounts.
	of estimation involved in the valuation.	
Hedge funds	Hedge funds are valued at the sum of the fair	The total hedge fund value in the financial
	values provided by the administrators of the	statements is £180 million. There is a risk that
	funds plus adjustments that the funds' directors	this investment may be under or overstated in the
	or independent administrators judge necessary.	accounts. The custodian reports a tolerance of
	These investments are not publicly listed and as	+/- 5% around the net asset values on which the
	such there is a degree of estimation involved in	hedge fund valuation is based. This equates to a
	the valuation.	tolerance of +/- £9.02 million.

## Events after the reporting date

There have been no events since 31 March 2015, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

#### 7. Contributions receivable

### By category

By category		
	2013/14	2014/15
	£'000	£'000
Employers	168,102	179,410
Members	54,999	58,132
Total	223,101	237,542
Determined annulation		
By type of employer		
	2013/14 £'000	2014/15 £'000
Scheduled bodies		
	212,861	226,527
Admitted bodies	4,189	6,305
Community admission bodies	1,046	843
Transferee admission bodies	3,914	2,709
Resolution bodies	1,091	1,158
Total	223,101	237,542
By type of contribution		
	2013/14	2014/15
	£'000	£'000
Employees' normal contributions	54,999	58,132
Employers' normal contributions	116,920	121,619
Employers' deficit recovery		
contributions	51,095	57,568
Employers' augmentation	-	
contributions	87	223
Total	223,101	237,542

8. Transfers in from other	pension fund	ds
	2013/14	2014/15
	£'000	£'000
Group transfers	106	304
Individual transfers	10,561	6,490
Total	10,667	6,794
9. Benefits payable		
By category		
	2013/14	2014/15
	£'000	£'000
Pensions	166,231	173,670
Commutation and lump sum		
retirement benefits	32,526	38,783
Lump sum death benefits	4,711	4,094
Total	203,468	216,547
By type of employer		
	2013/14	2014/15
	£'000	£'000
Scheduled bodies	194,815	207,439
Admitted bodies	5,045	5,310
Community admission bodies	1,322	1,311
Transferee admission bodies	1,613	1,601
Resolution bodies	673	886
Total	203,468	216,547

#### 10. Payments to and on account of leavers

Total	9,836	85,264
Individual transfers	9,413	7,473
Group transfers	412	77,488
Payments for members joining State scheme	-7	43
Refunds to members leaving service	18	260
	£'000	£'000
20	013/14	2014/15

The 2014/15 figure for Group Transfers includes £74.652m paid on account of a bulk transfer to the Great Manchester Pension Fund for the transfer of pension scheme members from the Probation Service following the centralisation of the Probation Service pensions to the Greater Manchester Fund.

### 11. Management expenses

	2013/14	2014/15
	£'000	£'000
Administrative costs	2,398	2,342
Investment management expenses	10,625	17,566
Oversight and governance costs	691	553
Total	13,714	20,461

In additional to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15a).

#### 12. Investment income

Total	91,249	95,757
Other	29	47
Stock lending	204	298
Alternative investment income	7,409	10,384
Interest on cash deposits	608	639
Property (see note 12a)	17,622	18,547
Pooled investments – unit trusts and other managed funds	452	1,051
Pooled property investments	2,132	1,992
Equity dividends	55,973	56,077
Fixed interest securities	6,820	6,722
	£'000	£'000
12. Investment income	2013/14	2014/15

## 12a) Property income

Net income	15,200	16,591
Direct operating expenses	-2,422	-1,956
Rental income	17,622	18,547
	£'000	£'000
	2013/14	2014/15

The direct operating expenses are included in the Fund's investment management expenses shown in Note 11.

### 13. Taxes on income

Total	1,299	1,454
Withholding tax – equities	1,299	1,454
	2013/14 £'000	2014/15 £'000
	2013/14	2014/15

### 14. Investment management expenses

Total	10,625	17,566
Custodian fees	85	90
Management fees	10,540	17,476
	£'000	£'000
	2013/14	2014/15

15. Investments		
M	arket value	Market value
31 N	March 2014	
	£'000	£'000
Investment assets		
Fixed interest securities	212,592	237,162
Equities	1,853,541	1,922,482
Pooled investments	1,617,743	2,030,638
Pooled property investments	46,860	53,568
Alternative investments	281,507	350,519
Property (see note 15(d))	302,845	354,075
Derivative contracts:		
- Futures	90	293
<ul> <li>Forward currency contract</li> </ul>	s 2,567	2,585
<ul> <li>Purchased/written options</li> </ul>	74	5
<ul> <li>Spot foreign exchange con</li> </ul>	itracts 2	1
Cash deposits	52,345	49,765
Cash deposits  Total investment assets	52,345 <b>4,370,166</b>	49,765 <b>5,001,093</b>
·		
·		
Total investment assets		
Total investment assets  Investment liabilities		
Total investment assets  Investment liabilities  Derivative contracts:	<b>4,370,166</b> -435	5,001,093
Investment liabilities  Derivative contracts:  - Futures	-435 s -367	<b>5,001,093</b> -563
Investment liabilities  Derivative contracts:  - Futures  - Forward currency contract	-435 s -367 -351	5,001,093 -563 -4,616
Investment liabilities  Derivative contracts:  - Futures  - Forward currency contract  - Purchased/written options	-435 s -367 -351	-563 -4,616 -520
Investment liabilities  Derivative contracts:  - Futures  - Forward currency contract  - Purchased/written options  - Spot foreign exchange con	-435 s -367 -351 atracts -9	-563 -4,616 -520 -7

### 15a) Reconciliation of movements in investments and derivatives

Net investment assets	4,369,004			585,004	4,995,387
<ul> <li>Spot foreign exchange contracts</li> </ul>	-7			0	-6
<ul> <li>Cash deposits</li> </ul>	52,345			1,174	49,765
Other investment balances:					
	1,578	41,042	-34,695	-10,741	-2,816
- Purchased/written options	-277	-2,004	-218	1,984	-515
<ul> <li>Forward currency contracts</li> </ul>	2,200	27,929	-27,793	-4,367	-2,031
- Futures	-345	15,117	-6,684	-8,358	-270
Derivative contracts:					
	4,315,088	1,969,389	-1,930,604	594,571	4,948,444
Property	302,845	30,905	-1,849	22,174	354,075
Alternative investments	281,507	58,950	-44,793	54,855	350,519
Pooled property investments	46,860	7,679	-3,488	2,517	53,568
Pooled investments	1,617,743	671,670	-552,576	293,801	2,030,638
Equities	1,853,541	484,760	-605,240	189,421	1,922,482
Fixed interest securities	212,592	715,425	-722,658	31,803	237,162
	£'000	£'000	£'000	£'000	£'000
	1 April 2014	payments	receipts	the year	31 March 2015
	Market value	the year and derivative	the year and derivative	market value during	Market value
	Р	urchases during	Sales during	Change in	

Net investment assets	4,191,906			98,399	4,369,004
<ul> <li>Adjustment to variation margin</li> </ul>	1,207				0
- Spot foreign exchange contracts	1				-7
<ul> <li>Cash deposits</li> </ul>	17,090				52,345
Other investment balances:					
	-1,901	37,897	-50,535	16,117	1,578
<ul> <li>Purchased/written options</li> </ul>	226	-673	-1,819	1,989	-277
<ul> <li>Forward currency contracts</li> </ul>	-920	34,400	-44,908	13,628	2,200
- Futures	-1,207	4,170	-3,808	500	-345
Derivative contracts:					
	4,175,509	1,324,393	-1,267,096	82,282	4,315,088
Property	259,160	20,351	-5,340	28,674	302,845
Alternative investments	297,819	62,079	-73,221	-5,170	281,507
Pooled property investments	61,504	3,558	-17,081	-1,121	46,860
Pooled investments	1,597,401	77,311	-73,928	16,959	1,617,743
Equities	1,747,732	516,204	-472,134	61,739	1,853,541
Fixed interest securities	211,893	644,890	-625,392	-18,799	212,592
	£'000	£'000	£'000	£'000	£'000
	1 April 2013	payments	receipts	the year	31 March 2014
	Market value	the year and derivative	the year and derivative	market value during	Market value
	F	urchases during	Sales during	Change in	

Transaction costs, such as commission, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £1.837m (2013/14 £2.092m).

# 15b) Analysis of investments (excluding derivative contracts)

		31 March 2015
	£'000	£'000
Fixed interest securities		
UK		
Public sector quoted	16,367	4,627
Corporate quoted	6,213	9,820
Corporate unquoted	528	0
Overseas		
Public sector quoted	140,966	163,154
Public sector unquoted	7,422	5,563
Corporate quoted	41,096	53,416
Corporate unquoted	0	582
	212,592	237,162
Equities		
<b>UK</b> – Quoted	795,735	782,746
Overseas - Quoted	1,057,806	1,139,736
	1,853,541	1,922,482
Pooled funds - additional	l analysis	
UK		
Fixed income unit trusts	923,340	1,147,686
Unit trusts	440,050	313,275
Overseas		
Fixed income unit trusts	7,934	10,357
Unit trusts	246,419	559,320
	1,617,743	2,030,638
Pooled property investmen	ts 46,860	53,568
Alternative investments	281,507	350,519
Property	302,845	354,075
	631,212	758,162
	4,315,088	4,948,444

#### 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:

		Economic exposure	Market value 31 March 2014	Economic exposure	Market value 31 March 2015
Туре	Expires	£'000	£'000	£'000	£'000
Assets					
UK Fixed Income Futures	Less than one year	1,200	4	1,552	18
Overseas fixed income futures	Less than one year	33,833	86	59,401	275
Total assets			90		293
Liabilities					
Overseas fixed income futures	Less than one year	-31,544	-435	-53,347	-563
Total liabilities			-435		-563
Net futures			-345		-270

### ii) Open forward currency contracts

At 31 March 2015, the Fund had open forward currency contracts in place with a net unrealised loss of £2.03 million.

	Currency	Local value	Currency	Local value	Asset value	Liability value
Settlement	bought	'000	sold*	'000	£'000	£'000
Up to one month	BRL	18,456	USD	-6,848	0	-374
Up to one month	INR	539,820	USD	-8,629	22	-31
Up to one month	USD	17,834	BRL	-55,815	163	0
Up to one month	USD	167	GBP	-112	0	0
One to six months	AUD	3,797	GBP	-1,939	11	0
One to six months	EUR	1,600	GBP	-1,168	0	-9
One to six months	GBP	7,454	AUD	-14,669	0	-78
One to six months	GBP	3,463	CAD	-6,601	0	-48
One to six months	GBP	61,856	EUR	-82,760	1,990	-60
One to six months	GBP	26,339	JPY	-4,709,599	0	-139
One to six months	GBP	5,979	MXN	-135,794	0	-10
One to six months	GBP	147,847	USD	-225,109	0	-3,837
One to six months	GBP	296	ZAR	-5,209	9	0
One to six months	USD	7,394	EUR	-6,832	18	0
One to six months	USD	34,387	GBP	-22,829	372	-30
Open forward curren	cy contracts at	31 March 2015			2,585	-4,616
Net forward currency	contracts at 31	March 2015				-2,031
Prior year comparativ	/e:					
Open forward currency	contracts at 31	March 2014			2,567	-367
Net forward currency	contracts at 31	March 2014				2,200

### \* List of currencies

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

### iii) Purchased/written options

Net purchased/writt	en options			-277		-515
Total liabilities				-351		-520
Overseas cash written	One to three months	Call	0	0	-102	-399
Overseas cash written	One to three months	Put	-4,133	-29	0	0
Overseas fixed interest written	One to three months	Call	-1	-193	-90	-100
Overseas fixed interest written	One to three months	Put	-0	-129	-36	-21
Total assets Liabilities				74		5
Overseas cash purchased	One to three months	Call	4,079	5	0	0
Overseas cash purchased	One to three months	Put	4,133	7	68	0
Overseas fixed interest purchased	One to three months	Put	0	0	6	5
Overseas fixed interest purchased	One to three months	Call	0	62	0	0
Assets						
Investment underlyir option contract	ng Expires	Put/call	holding £'000	31 March 2014 £'000	holding £'000	31 March 2015 £'000
			Notional	Market value	Notional	Market value

### Investments analysed by fund manager

	Market value		Market value	
	31 March 2014		31 March 2015	
	£'000	%	£'000	%
Aberdeen	695,956	15.3	723,985	14.1
Schroders	715,884	15.8	695,297	13.5
Newton	601,267	13.2	658,837	12.8
Legal & General	469,822	10.3	569,825	11.1
State Street	1,116,362	24.6	1,419,594	27.6
Western	207,208	4.6	253,430	4.9
CBRE Global Investors	315,680	7.0	376,807	7.4
	4,122,179		4,697,775	
Other investments	311,237	6.9	362,077	7.1
Other net assets	102,301	2.3	77,236	1.5
Total	4,535,717	100.0	5,137,088	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 investments were more than 5% of the total of its asset class:

	Ma	rket value		Market value	
	31 M	arch 2014	% of	31 March 2015	% of
Asset class	Security	£'000	asset class	£'000	asset class
Fixed interest securities	Treasury bonds 5%				
	09/07/2014	12,362	5.8	0	0
Fixed interest securities	USA Bill 07/05/2015	0	0	23,577	8.3
Fixed interest securities	USA Bill 30/07/2015	0	0	21,150	7.5
Fixed interest securities	USA notes fixed 0.25%	0	0	18,104	6.4
Property	Property x*	23,850	7.9	24,575	6.0

<sup>\*</sup>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.

At the year-end, the value of quoted stock on loan was £152.2m (£111.3m 2013/14). These stocks continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank, JP Morgan. As at 31 March 2015, the custodian bank held collateral at fair value of £170m (£126m 2013/14). Collateral consists of acceptable securities and government debt.

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

There are no liabilities associated with the loaned assets.

15d) Property holdings

The Fund's investment property portfolio comprises investments in pooled property funds and a number of directly owned properties which are leased commercially to various tenants.

Details of these directly owned properties are as follows.

	Year ending	Year ending
	31 March 2014	31 March 2015
	£'000	£'000
Opening balance	259,160	302,845
Additions	20,351	30,905
Disposals	-5,340	-1,849
Net change in market value	28,674	22,174
Closing balance	302,845	354,075

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.

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

	Year ending	Year ending
	31 March 2014	31 March 2015
	£'000	£'000
Within one year	18,378	20,782
Between one and five years	63,156	69,502
Later than five years	70,445	70,473
Total	151,979	160,757

#### 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.

31 March 2014

	31 March 2014				31 March 2015	
Fair value		Financial		Fair value		Financial
through profit	Loans and	liabilities at	thro	ough profit	Loans and	liabilities at
and loss	receivables	amortised cost		and loss	receivables	amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
			Fixed interest			
212,592	_	_	securities	237,162	_	_
1,853,541	-	-	Equities	1,922,482	-	_
1,617,743	_	_	Pooled investments	2,030,638	_	_
			Pooled property			
46,860	_	-	investments	53,568	-	_
			Private equity/			
281,507	-	-	infrastructure	350,519	_	_
302,845	_	_	Property	354,075	_	-
2,733	_	_	Derivative contracts	2,884	_	-
-	180,442	_	Cash	_	151,635	-
_	51,430	-	Debtors	-	11,981	-
4,317,821	231,872	0		4,951,328	163,616	0
			Financial Liabilities			
-1,162	_	_	Derivative contracts	-5,706	_	_
-	_	-12,814	Creditors*	_	_	-3,616
-1,162	0	-12,814		-5,706	0	-3,616
4,316,659	231,872	-12,814		4,945,622	163,616	-3,616

<sup>\*</sup>The disclosure of financial instruments above has changed for 2014/15, the figures above for Debtors and Creditors are only contractual debtor and creditor balances (as shown in Notes 20 and 21 as sundry debtors and sundry creditors). The comparable figures for 2013/14 on this basis are £9.841m Debtors and £3.692m Creditors. The figures for Loans and Receivables and Financial liabilities at amortised costs in Notes 16c) and 16d) below have also been changed accordingly.

### 16b) Net gains and losses on financial instruments

Total	98,399	585,004
Fair value through profit and loss	16,117	-10,741
Financial liabilities		
Fair value through profit and loss	82,282	595,745
Financial assets		
	£'000	£'000
	31 March 2014	31 March 2015
rob, rrot game and rootes on man		

### 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 March 2014		31 March 2015
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Fair value through profit and loss	4,317,821	4,317,821	4,951,328	4,951,328
Loans and receivables	231,872	231,872	163,616	163,616
Total financial assets	4,549,693	4,549,693	5,114,944	5,114,944
Total financial assets Financial liabilities	4,549,693	4,549,693	5,114,944	5,114,944
	<b>4,549,693</b> -1,162	<b>4,549,693</b> -1,162	<b>5,114,944</b> -5,706	<b>5,114,944</b> -5,706
Financial liabilities			· ·	<u> </u>
Financial liabilities  Fair value through profit and loss	-1,162	-1,162	-5,706	-5,706

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 values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Hampshire Pension Fund has invested.

These valuations are prepared in accordance with the Internal Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of investments in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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.

				•
Total financial liabilities	-12,814	-1,162	0	-13,976
Financial liabilities at amortised cost	-12,814	_	_	-12,814
Financial liabilities at fair value through profit and loss	_	-1,162	_	-1,162
Financial liabilities				
Total financial assets	3,907,797	360,389	281,507	4,549,693
Loans and receivables	231,872	_	_	231,872
Financial assets at fair value through profit and loss	3,675,925	360,389	281,507	4,317,821
Financial assets				
Values at 31 March 2014	£'000	£'000	£'000	£'000
	Level 1	Level 2	Level 3	Total
	price	inputs	inputs	
	Quoted market	observable	unobservable	
		Using	With significant	
Net financial assets	4,344,137	410,966	350,519	5,105,622
Total financial liabilities	-3,616	-5,706	-	-9,322
Financial liabilities at amortised cost	-3,616	_	_	-3,616
Financial liabilities at fair value through profit and loss	-	-5,706	_	-5,706
Financial liabilities  Financial liabilities at fair value through profit and loss.		F 706		F 706
Financial liabilities				
Total financial assets	4,347,753	416,672	350,519	5,114,944
Loans and receivables	163,616	_	_	163,616
Financial assets at fair value through profit and loss	4,184,137	416,672	350,519	4,951,328
Financial assets				
Values at 31 March 2015	£'000	£'000	£'000	£'000
	Level 1	Level 2	Level 3	Total
	price	inputs	inputs	
	Quoted market	Using	With significant unobservable	

## 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 2015/16 reporting period:

Asset type	Potential market
	movements (+/-)
UK equities	10.3%
Overseas equities	9.0%
UK index-linked gilts	8.6%
UK fixed interest bonds	6.4%
Overseas index-linked gilts	5.1%
Overseas fixed interest bonds	2.5%
Property	3.6%
Alternative investments	4.1%
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 (the prior year comparator is shown below):

Value at	Percentage	Value	Value
31 March 2015	change	on increase	on decrease
£'000	%	£'000	£'000
1,096,021	10.3%	1,208,911	983,131
1,699,056	9.0%	1,851,292	1,546,821
1,147,686	8.6%	1,246,272	1,049,100
14,447	6.4%	15,367	13,527
7,516	5.1%	7,898	7,134
222,734	2.5%	228,347	217,121
407,643	3.6%	422,441	392,846
350,519	4.1%	364,890	336,148
49,765	0.0%	49,770	49,760
4,995,387		5,395,188	4,595,587
Value at	Percentage	Value	Value
31 March 2014	change	on increase	on decrease
£'000	%	01000	
	70	£'000	£'000
1,235,784	10.3%	1,363,071	£'000 1,108,500
1,235,784 1,304,226			
	10.3%	1,363,071	1,108,500
1,304,226	10.3% 9.0%	1,363,071 1,421,084	1,108,500 1,187,367
1,304,226 887,941	10.3% 9.0% 8.6%	1,363,071 1,421,084 964,215	1,108,500 1,187,367 811,667
1,304,226 887,941 58,508	10.3% 9.0% 8.6% 6.4%	1,363,071 1,421,084 964,215 62,234	1,108,500 1,187,367 811,667 54,781
1,304,226 887,941 58,508 5,055	10.3% 9.0% 8.6% 6.4% 5.1%	1,363,071 1,421,084 964,215 62,234 5,312	1,108,500 1,187,367 811,667 54,781 4,798
1,304,226 887,941 58,508 5,055 193,933	10.3% 9.0% 8.6% 6.4% 5.1% 2.5%	1,363,071 1,421,084 964,215 62,234 5,312 198,820	1,108,500 1,187,367 811,667 54,781 4,798 189,046
1,304,226 887,941 58,508 5,055 193,933 349,705	10.3% 9.0% 8.6% 6.4% 5.1% 2.5% 3.6%	1,363,071 1,421,084 964,215 62,234 5,312 198,820 362,400	1,108,500 1,187,367 811,667 54,781 4,798 189,046 337,011
	31 March 2015 £'000 1,096,021 1,699,056 1,147,686 14,447 7,516 222,734 407,643 350,519 49,765 4,995,387 Value at 31 March 2014	31 March 2015         change           £'000         %           1,096,021         10.3%           1,699,056         9.0%           1,147,686         8.6%           14,447         6.4%           7,516         5.1%           222,734         2.5%           407,643         3.6%           350,519         4.1%           49,765         0.0%           Value at 31 March 2014         Percentage change	31 March 2015         change         on increase           £'000         %         £'000           1,096,021         10.3%         1,208,911           1,699,056         9.0%         1,851,292           1,147,686         8.6%         1,246,272           14,447         6.4%         15,367           7,516         5.1%         7,898           222,734         2.5%         228,347           407,643         3.6%         422,441           350,519         4.1%         364,890           49,765         0.0%         49,770           4,995,387         5,395,188           Value at         Percentage         Value

#### Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Total	393,033	388,797
Fixed interest securities	212,592	237,162
Cash deposits	52,345	49,765
Cash and cash equivalents	128,097	101,870
	31 March 2014 £'000	31 March 2015 £'000

#### 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. The Pension Fund's fixed interest investment manager has applied their market experience to the Fund's portfolio of investments to calculate the effect of a change in interest rates. The figures below for Fixed Interest Securities does not include the Fund's pooled investment in Index Linked Gilts, which were included in this analysis in the 2013/14 accounts. This better reflects the Fund's approach to the management of investment risk and how this analysis is applied to the Fund's different investments.

	Carrying amount as at	Effect on a	asset values
	31 March 2015	+1%	-1%
Asset type	£'000	£'000	£'000
Cash & cash equivalents	101,870	_	_
Cash deposits	49,765	_	_
Fixed interest securities	237,162	-17,700	17,700
Total change in assets available	388,797	-17,700	17,700
	Carrying amount as at		asset values
Asset type	31 March 2014 £'000	+1% £'000	-1% £'000
		2 000	2 000
Cash & cash equivalents	128,097	_	_
Cash deposits	52,345	_	_
Fixed interest securities	212,592	-13,159	13,159
Total change in assets available	393,033	-13,159	13,159
	Carrying amount as at		asset values
lanama anima	31 March 2015	+1%	-1%
Income source	£'000	£'000	£'000
Cash deposits / cash & cash equivalents	639	1,664	-1,664
Fixed interest securities	6,722	-	_
Total change in income receivable	7,361	1,664	-1,664
	Carrying amount as at		asset values
Income source	31 March 2014 £'000	+1% £'000	-1% £'000
	608	1,470	
Cash deposits / cash & cash equivalents		1,470	-1,470
Fixed interest securities	6,820	-	_
Total change in income receivable	7,428	1,470	-1,470

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

#### Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous period end:

	Asset	Asset
	value at	value at
Currency exposure – 31 I	March 2014	31 March 2015
asset type	£'000	£'000
Overseas quoted securities	1,057,806	1,139,736
Overseas unit trusts	175,215	569,677
Alternative investments	281,507	350,519
Overseas pooled property		
investments	34,025	27,765
Overseas public sector bonds	149,959	165,896
Overseas corporate bonds	41,096	53,998
Total overseas assets	1,739,608	2,307,591

#### Currency risk - sensitivity analysis

In consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 6.09%.

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

A 6.09% 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:

			Change	to net assets
Currency	Asse	et value as at	available to	pay benefits
exposure -	31	March 2015	+6.09%	-6.09%
asset type		£'000	£'000	£'000
Total change	e in			
assets availa	able	2,307,591	140,532	140,532
			Change	to net assets
Currency	Asse	et value as at	available to	pay benefits
exposure -	31	March 2014	+6.09%	-6.09%
asset type		£'000	£'000	£'000
Total change	e in			
assets availa	able	1,739,608	105,942	105,942

#### 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 ratings agency.

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

The Pension Fund has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits.

The Fund's cash holding under its treasury management arrangements at

31 March 2015 was £50.570 million (31 March 2014: £89.230 million). This was held with the following institutions:

	Rating	Balances	Balances		
	as at	as at	as at		
31 Marc	h 2015	31 March 2014	31 March 2015		
		£'000	£'000		
Money market fu	nds				
Aberdeen	AAA	0	4,000		
Ignis	AAA	9,000	4,390		
Federated					
Investors UK	AAA	8,740	3,870		
Insight	AAA	9,000	4,000		
Deutsche	AAA	9,000	4,000		
Goldman Sachs	AAA	3,080	4,000		
Bank deposit accounts					
HSBC	AA-	5,000	3,810		
Lloyds	А	7,000	3,810		
Santander UK	А	7,000	3,810		
Barclays	А	9,000	4,880		
Nationwide Building					
Society	Α	8,500	0		
Svenska					
Handelsbanken	AA-	9,000	5,000		
Close Brothers	A-	5,000	5,000		
Total		89,320	50,570		

### 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.

The Pension Fund has immediate access to its cash holdings, with the exception of Close Brothers, where notice needs to be given to withdraw funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2015 the values of illiquid assets was £735m, which represented 14.3% of the total fund assets (2013/14  $\pm$ 618m) which represented 13.6% of the total fund assets.

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

All financial liabilities at 31 March 2015 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 Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 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:

#### Financial assumptions - 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)  Rate of price inflation (CPI)	3.30% a year 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

#### Mortality assumptions:

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. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 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.

#### Assumptions used:

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 Marc	h 2014	31 March 2015
	£'000	£'000
Debtors:		
- Contributions due	23,196	25,751
- Transfer values receivable (joiners)	3,808	4,113
- Tax	3,936	3,158
- Sundry debtors	9,841	11,981
	40,781	45,003
Cash balances 1	28,097	101,870
Total 1	68,878	146,873

#### Analysis of debtors

Total	40,781	45,003
Other entities and individuals	13,972	12,964
Public corporations and trading funds	3,741	3,912
NHS bodies	8	0
Other local authorities	20,595	26,303
Central government bodies	2,465	1,824
3	1 March 2014 £'000	31 March 2015 £'000

#### 21. Current liabilities

31 Ma	arch 2014	31 March 2015
	£'000	£'000
Sundry creditors	3,692	3,616
Transfer values payable (leavers)	8,887	10,069
Benefits payable	1	300
Tax	234	315
Total	12,814	14,300

#### Analysis of creditors

Total	12,814	14,300
Other entities and individuals	2,788	3,861
NHS bodies	0	1
Other local authorities	9,792	10,122
Central government bodies	234	316
	£'000	£'000
3	1 March 2014	31 March 2015

#### 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 £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 £10.649 million, of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £9.128 million is a long term debtor.

Total	10,649	9,128
central government body	10,649	9,128
liability settlement due from		
Magistrates Courts – agreed		
	£'000	£'000
31	March 2014	31 March 2015

#### 23. Additional voluntary contributions

Total	11,647	14,539
Equitable Life	1,375	1,337
Zurich	7,686	8,575
Prudential	2,586	4,627
	£'000	£'000
	31 March 2014	31 March 2015
	Market value	Market value

During the year, AVC contributions of £2.325 million were paid directly to Prudential (2013/14: £1.550 million), £1.122 million to Zurich (2013/14: £0.844 million), and £0.013 million to Equitable Life (2013/14: £0.015 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.

During the reporting period, the County Council incurred costs of £2.743 million (2013/14: £2.800 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 £90.005 million to the Fund in 2014/15 (2013/14 £82.108 million).

Key management personnel – The role of Treasurer to the Pension Fund is provided by the Director of Corporate Resources of Hampshire County Council. Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulations 7(2)-(4) of The Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Hampshire Pension Fund.

The disclosure required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Hampshire County Council.

## 25. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2015 totalled  $\mathfrak{L}60.177$  million (31 March 2014:  $\mathfrak{L}97.926$  million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds held in the alternative investments part of the Fund.

The amounts 'called' by private equity funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

The Fund had no contingent liabilities on 31 March 2015.

#### 26. Contingent assets

The Fund had no contingent assets on 31 March 2015.

#### 27. Impairment losses

During 2014/15, the Fund has recognised an impairment loss for bad and doubtful debt of £0.015 million (2013/14: £0.004 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 2015.

## 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 2014/15 ('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 28 to 62 presents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2015 and its income and expenditure for the year ended 31 March 2015.

Carolyn Williamson CPFA

Director of Corporate Resources

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## Independent Auditors' Report

to the Members of Hampshire County Council

We have examined the pension fund financial statements for the year ended 31 March 2015, 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 (as transitionally saved) 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 63, 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 2014/15.

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 of the Foreword, Training Report, Investment Policy and Performance Report, Scheme Administration Report, The Fund's Statutory Statements, Risk Management Report, Financial Performance Report, and Statement of the Fund Actuary.

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 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We have not considered the effects of any events between the date we signed our report on the full annual statement of accounts 25 September 2015 and the date of this statement.

Baldeep Singh

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

28 September 2015

## Glossary

#### Actuary

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

#### Added-years

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

#### **Administering Authority**

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

#### Admission bodies

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

#### Alternative investments

Less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

#### **AVCs**

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

#### Benchmark asset allocation

The allocation of the Fund's investments to the different investment sectors; this is expected to enable the Fund to meet its long-term liabilities with the minimum of disruption to employers' contributions.

#### **Bonds**

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

#### **Bulk transfer**

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

#### Cessation valuation

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

#### Community admission bodies

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

#### Commutation

The conversion of an annual pension entitlement into a lump sum on retirement.

#### Contingent liability

A possible loss, subject to confirmation by an event after the balance sheet date, where the outcome is uncertain in terms of cost.

#### **Deferred member**

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

#### **Derivatives**

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

#### Discretionary

Allowable but not compulsory under law.

### Dividends

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

## Glossary continued

#### **Economic exposure**

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

#### **Emerging markets**

The financial markets of developing economies.

#### **Equities**

Shares in UK and overseas companies.

#### **Full Funding**

100% of the Funding Target chosen.

#### **Funding Principle**

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

### **Funding Success**

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

#### **Funding Target**

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

#### FT

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

#### Gilt-edged securities (or Gilts)

Fixed-interest stocks issued by the UK Government.

#### Global custodian

A bank that looks after the Fund's investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

#### Guarantors

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

#### Hedge fund

A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

#### Income yield

Annual income on an investment divided by its price and expressed as a percentage.

#### Index

A measure of the value of a stock market based on a representative sample of stocks.

### Index linked

Investments which generate returns in line with an index.

#### Index return

A measure of the gain or loss achieved in a year based on a representative sample of stocks and expressed as a percentage. It includes both income received and gains and losses in value.

#### Informal valuations

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

#### Interim valuations

Actuarial valuations carried out in between the triennial valuations.

#### **LGPS**

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

#### **MSCI**

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

#### Myners

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

#### Notional sub-funds

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

#### Orphan liabilities

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

#### Pooled investment vehicle

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

#### Private equity

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

### Projected unit actuarial method

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

#### Quartile

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

#### Recovery period

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

#### Relaxation period

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

#### Relevant Scheme Employer

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

#### **Resolution bodies**

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

#### Roll forward

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

### Rolling three-year periods

Successive periods of three years, such as years one to three, followed by years two to four. Performance is often measured over longer periods than a single year to eliminate the short-term effects of volatile changes in stock markets.

#### Scheduled bodies

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

#### 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.