HAMPSHIRE PENSION FUND
ANNUAL REPORT AND ACCOUNTS

2012/13

Hampshire County Council

www.hants.gov.uk

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please call 01962 847054, email budget@hants.gov.uk or write to:
Pension Fund Annual Report, Corporate Finance Section, Corporate Services
Hampshire County Council, The Castle, Winchester SO23 8UB

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

The Fund's statutory statements

We hope you find this annual report informative and useful. There is a glossary of terms at page 79.

Foreword

Welcome to this Hampshire Pension Fund annual report for 2012/13.

The past year has continued to be a challenging time for the Pension Fund, as difficult market conditions persist on a global scale. Despite this, 2012/13 has seen strong performance for the Pension Fund's investments, as stock markets delivered impressive returns over the year to 31 March 2013. This is set against a backdrop of uncertainty, as since 31 March 2013 markets have been volatile, and there is continued doubt about what the future will hold, particularly with regard to the Eurozone. Nevertheless, the value of the Pension Fund at 31 March 2013 had reached a record high of £4,341 million, and the Pension Fund has achieved a total investment return of 15.0% during 2012/13.

The Pension Fund Panel have continued to monitor closely the Pension Fund's investments, and some changes have been made during 2012/13. The Pension Fund has successfully introduced a tactical asset allocation portfolio. The aim is for the Pension Fund to be able to respond more quickly to major events in investment markets, or to act in advance of them in order to better protect the value of the Fund's investments. We will be watching this portfolio with interest to see how it develops over time.

During 2012/13, there have continued to be important developments in the Government's reform of public service pensions, and I look forward to the introduction of the Government's Local Government Pension Scheme 2014 (LGPS 2014) next year. Work is continuing on the implementation of the scheme, and regulations have now been published by the Government. A key feature of LGPS 2014 is that it will be a Career Average Revalued Earnings (CARE) scheme, replacing the current final salary scheme. The Government has said that all past service benefits will be protected.

I look forward to the results of the actuarial valuation of the Pension Fund at 31 March 2013, which should be available this autumn. This will set the employers' contribution rates for the years from 2014/15.

In these changing times, it is important that members of the Pension Fund Panel maintain their level of knowledge about pensions matters. I am pleased to report that during 2012/13 Panel members have shown their continued commitment to training by attending several internal and external seminars covering a wide range of topics. Further information on the training received and plans for training over next year can be found in the training report on page 19.

Following the recent County Council elections I am delighted to welcome the newly appointed members of the Pension Fund Panel, along with our new pensioners' representative, Dr Clifford Allen, who was recently selected following a rigorous recruitment process. I would like to thank the previous pensioners' representative, Mr E. W. Hughes, for his many years of excellent service. I look forward to working with the new Panel members over the coming year.

I would like to thank all Panel members for their sterling efforts for the Pension Fund during the year.

I hope you find the following report helpful. We will keep everyone informed of any developments.

Mark N. Kemp-Gee

Councillor **Mark Kemp-Gee**
Chairman, Pension Fund Panel
September 2013

Pension Fund Panel

County Council members

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

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

Cllr Christopher Carter
4 years' membership

Cllr Criss Connor
New member

Cllr Peter Latham
New member

Cllr Andrew Gibson
1 years' membership

Cllr Andrew Joy
New member

Cllr Tim Rolt
New member

Cllr Bruce Tennent
4 years' membership

All Panel members take part in a full training programme covering the range of knowledge and skills required for their membership of the Panel, as summarised on page 19.

Unitary authorities' and Hampshire district councils' representatives

Cllr Donna Jones
Portsmouth City Council
4 years' membership

Cllr Stephen Barnes-Andrews
Southampton City Council
New member

Cllr Peter Giddings
Test Valley Borough Council
6 years' membership

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

Employee representative

Phillip Reynolds
6 years' membership

Pensioner representative

Cliff Allen
New appointment in 2013

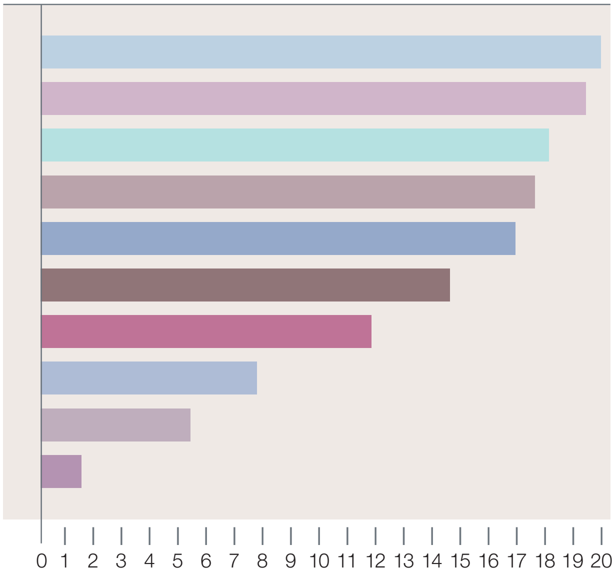
Investment report

Following a turbulent year in 2011/12, stock markets delivered strong positive returns for the year in 2012/13. The UK stock market grew by 16.8% during 2012/13, and world stock markets returned 17.5% overall.

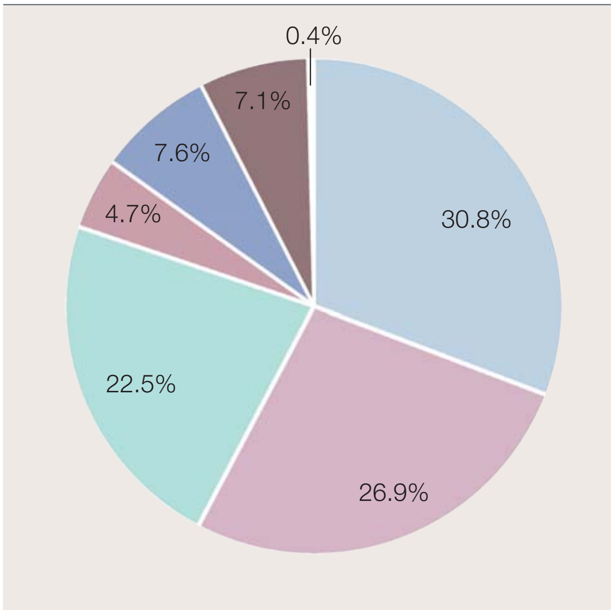
Bond markets have also generated gains in 2012/13, with UK Index Linked bonds returning 11.7% during 2012/13, and global bonds returning 5.3%.

The return for commercial property in the UK was 1.4% during 2012/13.

Market returns in 2012/13	%
Pacific Basin equities	20.0
North American equities	19.3
European equities	18.0
Global equities	17.5
UK equities	16.8
Japanese equities	14.4
UK index-linked bonds	11.7
Emerging Markets equities	7.6
Global bonds	5.3
UK property	1.4



Breakdown of the Hampshire Pension Fund's investments on 31 March 2013	%
UK equities	30.8
Overseas equities	26.9
UK bonds	22.5
Overseas bonds	4.7
UK and European property	7.6
Alternative investments	7.1
Cash held pending investment	0.4



The Fund has appointed investment managers responsible for several specialist portfolios. During 2012/13 the Pension Fund Panel reviewed the investment management structure and introduced some changes. Funds temporarily held in UK equities portfolios were used in September 2012 to create a new tactical asset allocation portfolio. Aon Hewitt were appointed as advisers for this portfolio. The investment management structure in place is shown in the table opposite.

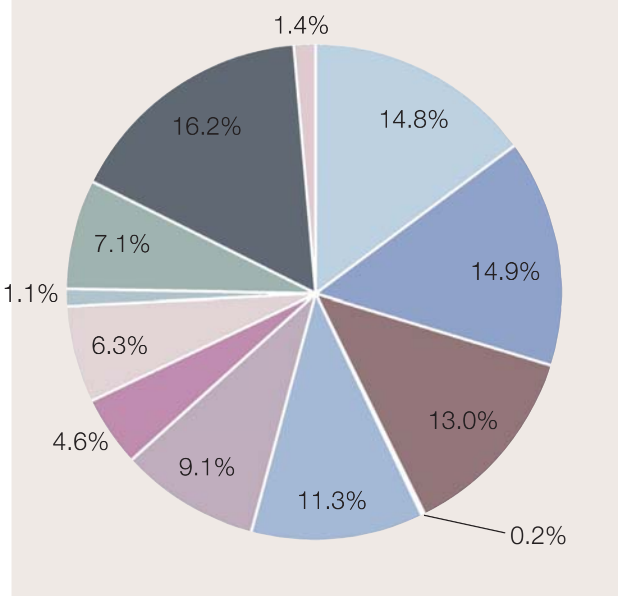
Pension Fund investment management structure

	Portfolio size as proportion of total Fund value %	Benchmark	Annual target performance gross/net of fees
Low-risk active UK equities			
Schroders Investment Management	14.0	FTSE All Share	+1.25% gross
High-performance global equities			
Aberdeen Asset Management	14.0	MSCI World	+3% gross
Newton Investment Management	12.0	MSCI World	+3% gross
Active global bonds			
Western Asset Management	5.0	Barclays Capital Global Aggregate Bonds Index	+1.5% gross
Passive index-linked bonds			
Legal & General	10.5	FT British Government Over Five Years Index-Linked Gilts Index	
State Street Global Advisors	10.5	As above	
UK property			
CBRE Global Investors	8.0	Retail Prices Index (RPI)	+4.5% net
European property			
Aberdeen Property Investors	0.0*	Eurozone Harmonised Index of Consumer Prices (HICP)	+5% net
Alternative investments			
Aberdeen Asset Management	10.0	-	+8% to 11% gross
Tactical asset allocation			
Aon Hewitt	16.0	-	-
Total	**100**		

* 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 2013 is shown in the following table.

Manager	Value of investments on 31 March 2013 £ million	%
Schroders (UK equity portfolio)	642	14.8
Aberdeen (global equity portfolio)	646	14.9
Newton (global equity portfolio)	564	13.0
Aberdeen (frontier markets fund)	8	0.2
Legal & General (index-linked bond portfolio)	491	11.3
State Street (index-linked bond portfolio)	395	9.1
Western (global bond portfolio)	200	4.6
CBRE (UK property)	271	6.3
Aberdeen (European property)	49	1.1
Alternative investments	310	7.1
Tactical asset allocation	702	16.2
Held centrally (for pension payments, investment, etc)	63	1.4
Total	**4,341**	**100.0**



Performance of the managers

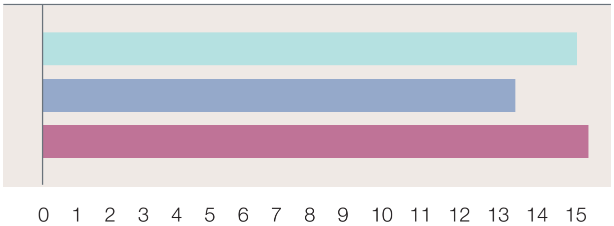
All the managers have been set targets to achieve over three to five-year periods.

Both global and UK markets have delivered positive returns for the year. Property aside, the managers have shown strong positive performance returns during 2012/13. 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 2012/13 was 15.0%. 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 targets for 2012/13 was 15.1%. The continued growth in markets has meant that the Fund's investment return was 9.4% a year over the three years to March 2013.

Total investment returns for the Fund 12 months to 31 March 2013	%
Total Fund return	15.0
Weighted benchmark indices	13.5
Weighted benchmarks plus targets	15.1

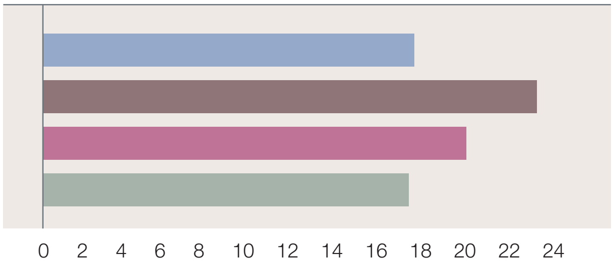


Global equities

The global stock markets returned 17.5% in 2012/13, as measured by the Morgan Stanley Capital International (MSCI) All Country World Index. Both of the Pension Fund's two global equities managers have outperformed their benchmark index in 2012/13, with particularly strong performance from Newton. Over the longer term, Newton have under performed compared to the benchmark index over the five year period to 31 March 2013, while Aberdeen have outperformed over this period.

Global equities
12 months to 31 March 2013

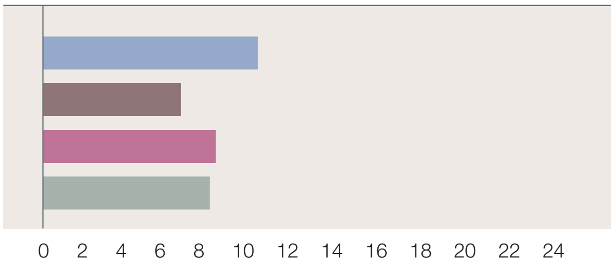
	%
Aberdeen	17.8
Newton	22.5
Two managers combined	20.0
MSCI World Index	17.5



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

Global equities
Five years to 31 March 2013

	% per annum
Aberdeen	10.5
Newton	7.0
Two managers combined	8.8
MSCI World Index	8.4

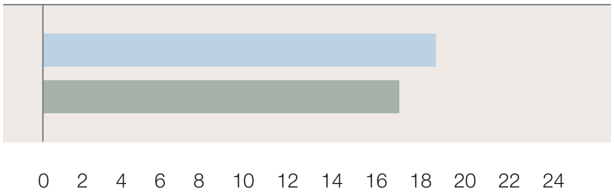


UK equities

The UK stock market returned 16.8% during 2012/13 as measured by the FTSE All Share Index, and the Fund's UK equity manager, Schroders, outperformed the FTSE All Share index over this period, and over the last five years.

UK equities
12 months to 31 March 2013

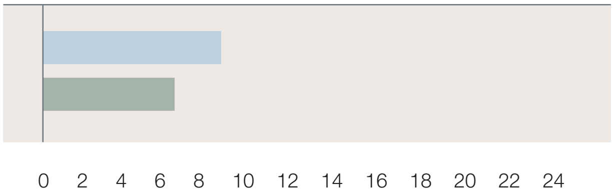
	%
Schroders	18.7
FTSE All Share Index	16.8



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

UK equities
Five years to 31 March 2013

	% per annum
Schroders	9.2
FTSE All Share Index	6.7



Bonds

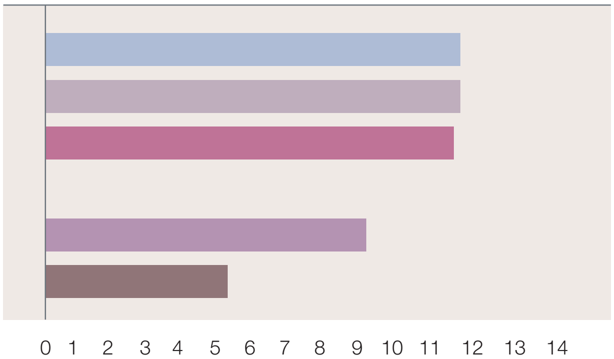
Legal & General and State Street passively manage portfolios of UK index-linked bonds. Both managers delivered returns that matched their target index during 2012/13.

The Barclays Capital Bond index has returned 5.3% during 2012/13, and the Fund's active global bonds manager, Western, has outperformed the benchmark index over this period, and the last five years.

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

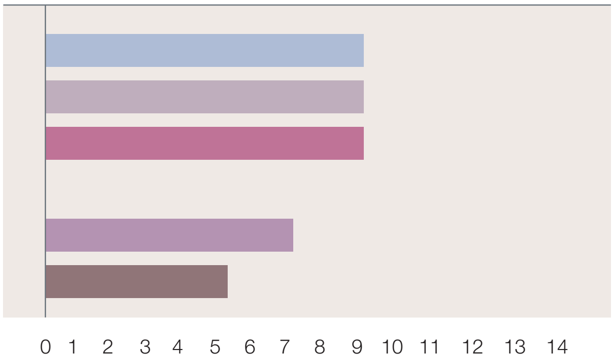
Bonds
12 months to 31 March 2013

	%
Legal & General	11.8
State Street	11.8
FT UK Index-Linked Bonds	11.7
Western	9.2
Barclays Capital Bond Index	5.3



Bonds
5 Years to 31 March 2013

	%
Legal & General	9.2
State Street	9.2
FT UK Index-Linked Bonds	9.2
Western	7.2
Barclays Capital Bond Index	5.3



Property

CBRE Global Investors manage a portfolio of UK properties. CBRE Global Investors' performance was flat in 2012/13, which was a little below the Investment Property Databank (IPD) benchmark, which returned 1.4% during 2012/13. The IPD benchmark reflects the returns achieved by similarly sized property portfolios. CBRE Global Investors' target is the Retail Price Index (RPI) plus 4.5%, over seven to 10 years. This was very difficult to achieve in 2012/13 as the return from UK property was much less than inflation.

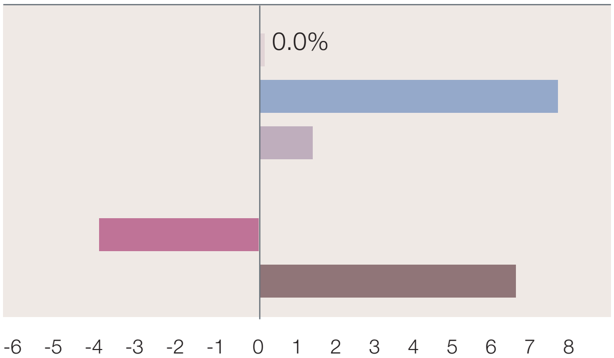
In spite of flat performance in 2012/13, CBRE Global Investors have made significant progress over the last four years towards recovering past losses made during the downturn in property prices in 2007. The downturn has meant that CBRE Global Investors have been unable to outperform their absolute return benchmark over the five year period to 31 March 2013, but have outperformed the IPD benchmark over this period.

Aberdeen Property Investors' target for their portfolio of European property funds is to achieve a return of the Eurozone Harmonised Index of Consumer Prices (HICP) plus 5%. The European property market has in general performed poorly since January 2007, with the recovery lagging behind the UK. In 2012/13 Aberdeen Property Investors suffered further losses, and they have been unable to meet their absolute return target over the five year period to 31 March 2013. As opportunities arise, Aberdeen will reduce the size of the portfolio over the next year or so.

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

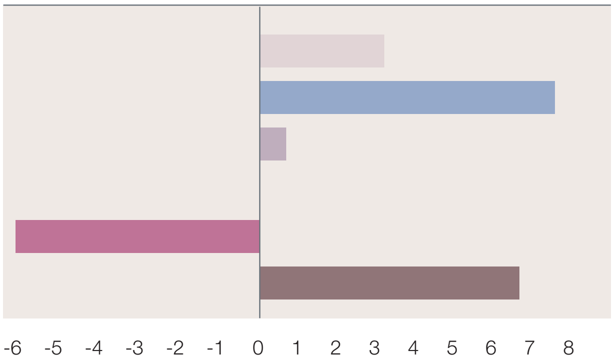
Property
12 months to 31 March 2013

	%
CBRE Global Investors – UK property	0.0
RPI plus 4.5%	7.8
IPD benchmark	1.4
Aberdeen – European property	-4.0
Eurozone HICP plus 5%	6.7



Property
5 Years to 31 March 2013

	%
CBRE Global Investors – UK property	3.2
RPI plus 4.5%	7.7
IPD benchmark	0.8
Aberdeen – European property	-5.9
Eurozone HICP plus 5%	6.8



Business plan

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

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

The Panel last reviewed the plan, a copy of which is at page 53, in December 2012.

The previous business plan approved by the Pension Fund Panel in December 2011 included several actions for completion by March 2013. Progress against these action points are summarised below.

Planned action	Deadline	Progress
Monitor the Fund's investment managers' performance	Ongoing	Up-to-date performance information is reported to each meeting of the Panel and is closely monitored by officers on a monthly basis.
Consider and, if appropriate, agree any alternative investments the Fund's advisers recommend	Ongoing	Now that the Panel has confirmed that £350 million should be allocated to the alternative investments portfolio, with an intention to review the position in September 2013, the advisers Aberdeen are bringing forward investment proposals to build up the portfolio to its target.
Consider and, if appropriate, implement arrangements to introduce tactical asset allocation to the Pension Fund's investment arrangements	Ongoing	Implemented September 2012.
Review the Fund's Statement of Investment Principles	December 2012	Update of the Statement approved by the Pension Fund Panel in December 2012.
Review the Fund's Funding Strategy Statement	December 2012	No changes to the Statement have been made, as reported to the Panel in December 2012.
Review the Governance Policy and Governance Compliance Statements	December 2012	Approved by the Pension Fund Panel in December 2012.
Review this business plan, including progress against the action plan	December 2012	Approved by the Pension Fund Panel in December 2012.
Review the Fund's management fees and transaction costs	December 2012	Reported to the Pension Fund Panel in December 2012.
Keep Panel members' training needs under review and provide any extra training considered necessary	Ongoing	In June 2012, the Panel approved the training plan for 2012/13, a training needs analysis was undertaken in November 2012 and Panel members have attended a number of training events throughout the year.

Actions to March 2014

New actions:

Complete the actuarial valuation of the Pension Fund at 31 March 2013, in conjunction with the Fund Actuary.

Assess the implications of the actuarial review at 31 March 2013 for the Pension Fund's investment strategy.

Retender the contract for the Pension Fund's Global Custodian, which expires on 31 July 2013.

Monitor Government announcements on investments in infrastructure assets.

Implement any changes that are made to the Local Government Pension Scheme, such as the current proposals for LGPS 2014.

Ongoing actions:

Monitor the Fund's investment managers' performance, including the effectiveness of the new Tactical Asset Allocation portfolio.

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

Complete the following annual reviews – deadline December 2013:
· the Fund's Statement of Investment Principles
· the Fund's Funding Strategy Statement
· the Governance Policy and Governance Compliance statements
· this Business Plan, including reviewing progress against the action plan
· the Fund's management fees and transaction costs.

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

Membership report

Who belongs to the Hampshire Pension Fund?

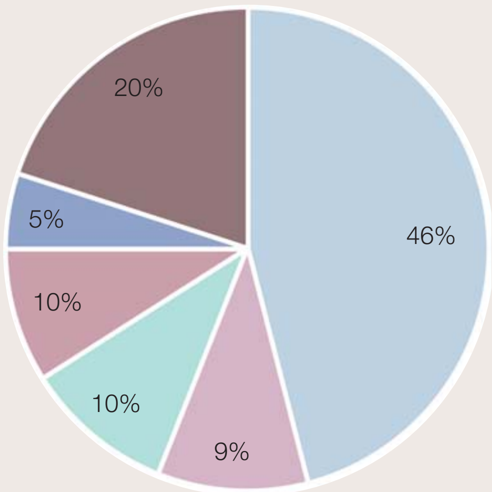
The Hampshire Pension Fund provides pensions for employees of the County Council, the unitary authorities of Southampton and Portsmouth and the 11 district councils in the Hampshire county area. These are 'scheduled bodies', which means their employees have a statutory right to be in the Scheme. Other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

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

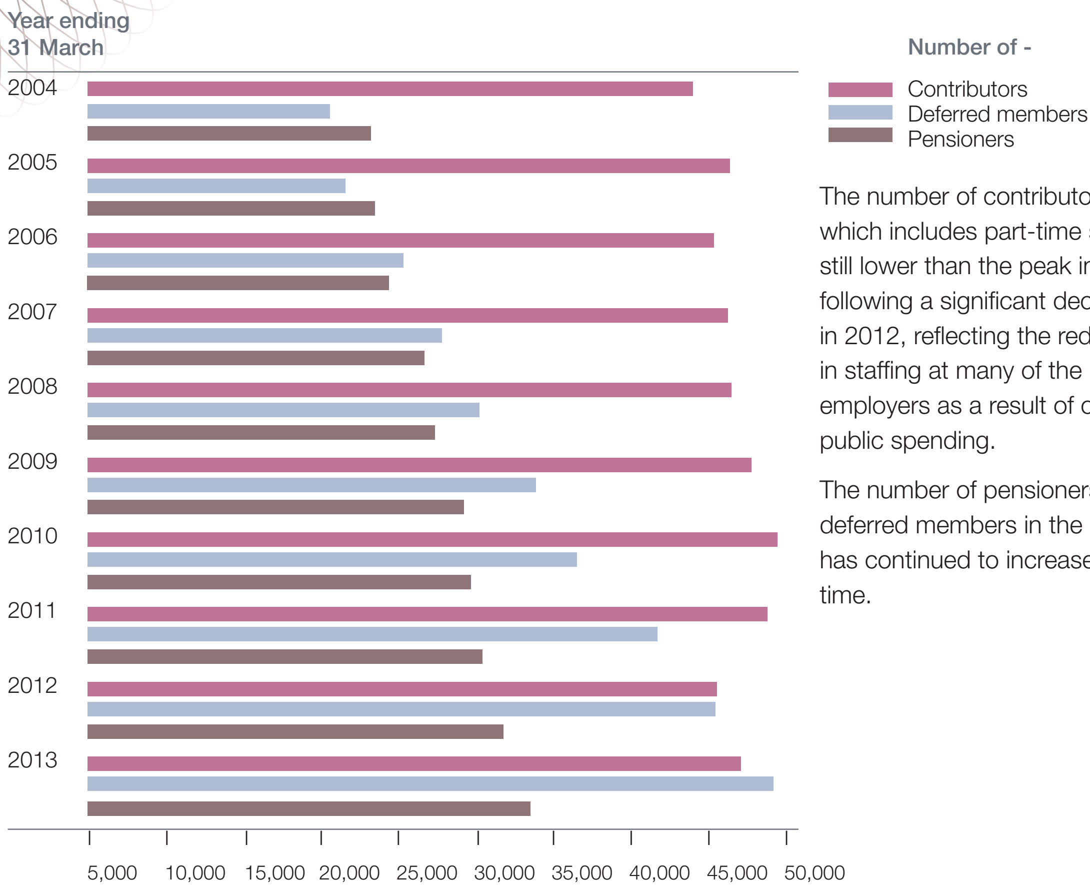
Teachers, police officers and firefighters have separate non-funded pension arrangements. All other employees of the Fund's employers can pay into the Fund. Most new employees join automatically but can choose to opt out and make their own private pension arrangements if they wish. Local authorities can let their councillors opt in, up to age 75, although the Government has consulted on changes to these arrangements for councillors.

On 31 March 2013 there were 33,449 pensioners, 48,970 deferred members, and 46,319 contributors, a total of 128,738 Scheme members.

	Numbers of contributors	%
Hampshire County Council	21,279	46
Southampton City Council	4,151	9
Portsmouth City Council	4,793	10
District councils	4,334	10
Hampshire Police Authority	2,374	5
Other organisations	9,388	20
Total	**46,319**	**100**



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



The number of contributors, which includes part-time staff, is still lower than the peak in 2010, following a significant decrease in 2012, reflecting the reductions in staffing at many of the Fund's employers as a result of cuts in public spending.

The number of pensioners and deferred members in the Fund has continued to increase over time.

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 2013 are set out in the following table:

Full-time equivalent salary	Contribution rate per year %
Up to £13,700	5.5
£13,701 – £16,100	5.8
£16,101 – £20,800	5.9
£20,801 – £34,700	6.5
£34,701 – £46,500	6.8
£46,501 – £87,100	7.2
More than £87,100	7.5

During 2012/13, employer contribution for most employers ranged from 19.1% to 19.6% of pensionable pay. 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 2010. An actuarial valuation as at 31 March 2013 is currently being carried out. The actuarial position of the Fund is explained in more detail on page 20.

Following the 2010 valuation, the employer contribution rate was split into two elements:

- 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 age 65. 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.

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

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

At 31 March 2013, 29 (or 0.02%) of the total 128,738 members in the Scheme had earned pension rights valued in excess of the standard lifetime allowance, which was £1.5 million for 2012/13.

The average annual pension paid in 2012/13 was £4,462.

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 65, but members can choose to retire from age 60 and receive their benefits immediately, although these may be reduced for early payment.

Members can also retire before age 60 but only with their employer's permission, or if they are made redundant or retired in the interests of efficiency.

Since April 2010 the earliest age that any member can retire with their employer's permission and with immediate payment of their pension benefits, is age 55.

A total of 1,794 Scheme members retired during 2012/13, with an average retirement age of 61.7 years. Of this number, 543 (or 30.3%) took some form of early retirement, mainly due to redundancy or ill-health.

Financial performance

The money that contributors paid the Fund in 2012/13 was £10.6 million more than the amount paid out to pensioners. In other words, there was a positive cash flow. This net inflow of cash was less than the 'net additions from dealings with members and employers' budget for 2012/13 of £26.0 million, by 59%. This was due to a fall in contributions to the Fund in combination with higher pensions in payment, as described in more detail on page 22.

New 2014 LGPS scheme

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

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

More details on the new scheme can be found on www.LGPS2014.org

Annual allowance

HM Revenue and Customs (HMRC) introduced a change to the pension tax regime with effect from 6 April 2011, reducing the annual allowance (the amount a pension can increase each year without incurring tax charges) from £255,000 to £50,000.

As more members are affected by this lower limit, HMRC introduced a requirement for annual allowance information to be provided each year to members, which will be achieved by inclusion of the figure in annual benefit statements.

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

The annual allowance will be reduced to £40,000 from 6 April 2014.

From 6 April 2012, the lifetime allowance was reduced from £1.8 million to £1.5 million. Those whose pensions exceeded £1.8 million at 5 April 2012 were entitled to apply for protection against this reduction.

The lifetime allowance will be further reduced to £1.25 million from 6 April 2014. Members will be able to apply for individual protection from this date.
Further information can be found on the HMRC website www.hmrc.gov.uk

Automatic enrolment

Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years. The implementation of this requirement is being rolled out from October 2012 over five years, 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

Administration performance

Pensions Services aim to be top quartile for performance, while remaining bottom quartile for costs. Throughout the year, Pensions Services have achieved this objective with 100% delivery against published service standards for all key areas of administration.

Pensions Services have held Customer Service Excellence, the Government standard for excellence in customer service, since April 2009. In April 2013, Pensions Services underwent an annual review in which the Assessor considered progress against 57 criteria. Pensions Services now achieve full compliance in all areas, and have been awarded a compliance plus for the commitment to customer excellence.

In the review report, Pensions Services were praised for front line service delivery, which continues to improve and enjoy high levels of customer satisfaction. Amongst many other achievements, the Assessor reported:

- ongoing process improvements
- an embedded customer focussed ethos
- setting and meeting a challenging set of targets and standards.

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

Member and employer support

During the year, Pensions Services continued to provide presentations for members of the Fund, and training for employers. Thirty pre-retirement or roadshow presentations were held in various locations across the county, and were attended by over 800 people.

Pensions Services also hosted eight induction days for employers, attended by 86 people working in employer payroll and HR functions. The aim of these training days is to help employers understand their statutory responsibilities and provide timely, accurate data for pension scheme members. An additional seven training sessions were run in March 2013 to help employers complete their annual returns.

Pensions Services regularly provide pensions updates to other groups and forums such as the Hampshire Pay Officers Group, Society of Local Council Clerks and further education colleges forums.

A full communication plan for the 2014 scheme changes is being developed in line with plans from the national working group and in consultation with fund employers.

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

In 2012/13, Pensions Services received six complaints, which were investigated and responded to by a senior manager in accordance with the published complaints process.

Four of these complaints related to the application of scheme regulations by Pensions Services. These complaints were not upheld as the regulations were found to have been correctly applied.

The other two complaints were about the service provided by Pensions Services to the member. In these, as in all complaint cases, we reviewed the relevant processes, procedures and communications, to enable us to provide a better customer service in the future.

Appeals

The LGPS regulations provide a two stage formal appeal process for members. Applications for an appeal to be heard are made either to the employing authority if it is about a decision they have taken or to the Director of Corporate Resources at Hampshire County Council if it concerns a decision taken by Pensions Services. Second stage appeals are heard by Hampshire County Council as the administering authority.

Appeals which have proceeded through both stages of the formal process can be heard by the Pensions Ombudsman.

In 2012/13 three appeals were heard at both stages of the formal process. All three appeals were dismissed, and the original decisions upheld as correct under LGPS regulations.

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.

Carolyn Williamson, the Director of Corporate Resources at Hampshire County Council, is responsible for ensuring that policies and strategies are implemented.

Training received in 2012/13

In November 2012 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 would like 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. The outcome of the Training Needs Analysis was discussed by the Panel, and suggestions were provided by Panel members to inform the direction of future training. The Training Needs Analysis is also provided to all new Panel Members to enable them to identify any training requirements.

A half-day training session was arranged for Panel members in Winchester during November 2012. This included a session on the economic and market outlook and its implications for the investment of pension funds, and a session on global absolute return strategies, provided by Standard Life.

This training session in 2012 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.

Individual Panel members also attended a range of training events in 2012/13 provided by the Pension Fund's investment managers and other external organisations, as follows:

- Schroders Trustee Training
- Local Government Pension Investment Forum
- Balfour Beattie Infrastructure Training
- Schroders Autumn Conference
- L&G Investment Management Trustee - Education Spring Programme
- Newton Annual Investment Conference
- Pensions: Infrastructure Investment training day
- F&C seminar – Alternative Investment Strategies
- LGC Investment Summit
- SPS Conferences – Risk & Diversification Strategies

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 2013/14

The training plan for 2013/14 was approved by the Pension Fund Panel in June 2013. Proposed training will include further in-house training sessions in September 2013, November 2013 and spring 2014, external training events, use of online learning tools, briefing information in reports to the Panel from officers, and background reading as appropriate.

Hampshire County Council Pension Fund

Statement of the Actuary

for the year ended 31 March 2013

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 2010 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 2010 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets at that date (of £3,237.5 million) covering 72% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

2 The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2011 is:

- 13.2% of pensionable pay p.a. 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 25 years from 1 April 2011, amounting to £63.3 million in 2011/12, and increasing by 5.3% p.a. thereafter.

This would imply an average employer contribution rate of about 19.7% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.

3 In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 30 March 2011 (the "actuarial valuation report"). In addition to the contribution rate shown, 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 (FSS). 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.

Discount rate for periods in service

Scheduled Bodies	6.80% p.a.
Admission Bodies	6.25% p.a.

Discount rate for periods after leaving service

Scheduled Bodies	6.80% p.a.
Admission Bodies	4.75% p.a.

Rate of pay increases	5.3% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.3% p.a.

The assets were valued at market value.

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

6 The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2010. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7 Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013, preparation for which is already under way. The Regulations require the formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 to be signed off by 31 March 2014.

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 2010. 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.

9 The report on the actuarial valuation as at 31 March 2010 is available from the Pension Services team at Hampshire County Council, at pensions@hants.gov.uk.

Aon Hewitt Limited
21 May 2013

What the accounts show

The accounts show that the Fund was worth £4,341 million at 31 March 2013. This was an increase in value of 14.9% compared with the previous year.

Employees' contributions in 2012/13 were £52.8 million. After adjusting for added years contributions, this total was 2.7% lower than in 2011/12. Although the total number of contributors increased in 2012/13 by 1.5%, many were part-time staff and, in total, the number of contributors expressed as full time equivalents fell by 2.4%. The average full time equivalent salary of contributors decreased by 1.2% in 2012/13. No pay award was paid to local authority employees in 2012/13.

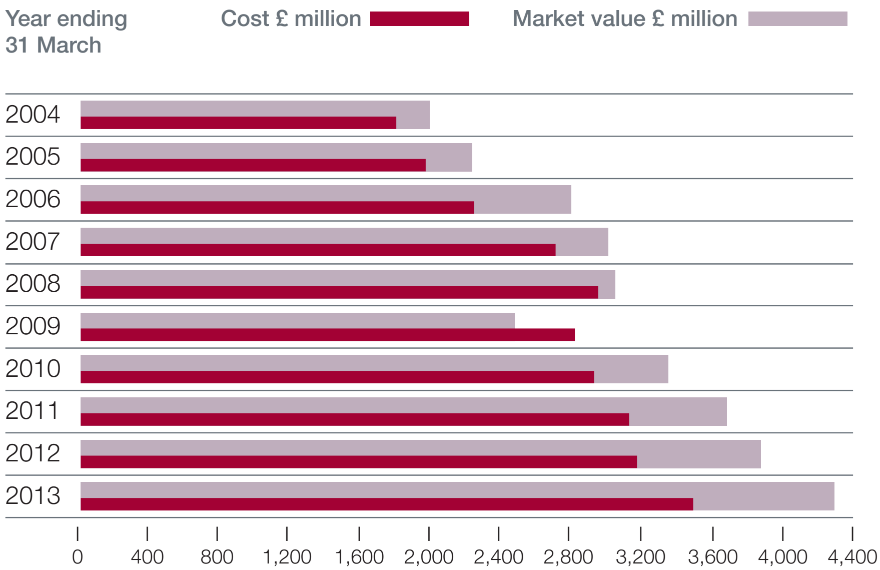
Employers' contributions in 2012/13 of £164.0 million were 1.8% lower than in 2011/12, after adjusting for non-recurring contributions. This reflects the reduction in employees' contributions.

Pensions paid totalled £159.2 million, a rise of 9.8% compared with the previous year. The number of pensions in payment rose by 3.4% and these new pensions were of a higher value. As required by the Scheme regulations, pensions were increased in April 2012 by 5.2% reflecting the increase in the Consumer Price Index (CPI) in September 2011.

Lump sums paid fell by 32.2% in 2012/13 to £38.2 million. Fewer people retired in 2012/13. The proportion of retirees who decided to commute part of their annual pension to a lump sum increased again in 2012/13. This will lead to lower annual pensions to be paid by the Pension Fund in future years. The total amount of annual pensions given up for additional lump sum was £1.0 million in 2012/13.

How the Fund has grown

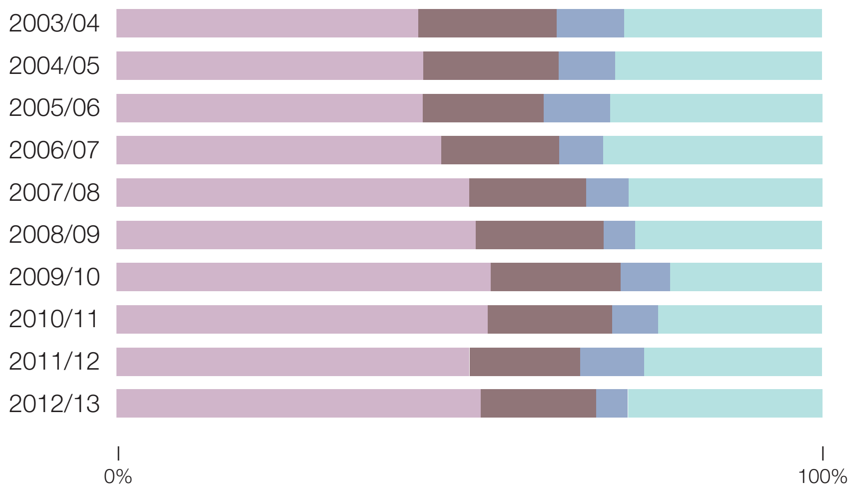
The value of the Fund increased during 2012/13, as the diagram below shows. This was due to strong investment performance throughout the year. The value of the Pension Fund's investments had risen to an all-time high of £4,341 million at 31 March 2013.



Annual income

The Fund's income has fallen slightly compared with last year's figure, due to the decrease in contributions, as the diagrams below show.

Years	Annual income £ million	Employers' contributions %	Employees' contributions %	Transfer values received %	Investment income %
2003/04	189.5	42.9	19.7	9.6	27.8
2004/05	208.5	43.6	19.2	8.1	29.1
2005/06	247.3	43.4	17.2	9.4	30.0
2006/07	271.8	46.3	16.7	6.2	30.8
2007/08	287.3	49.7	16.6	5.9	27.8
2008/09	300.3	50.7	18.2	4.4	26.7
2009/10	313.9	52.9	18.4	6.9	21.8
2010/11	331.8	52.6	17.6	6.5	23.3
2011/12	347.4	50.1	15.7	9.0	25.2
2012/13	318.7	51.5	16.6	4.4	27.5



Pension Fund Accounts

Fund Account	See note	2011/12 £'000	2012/13 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	228,540	216,739
Transfers in from other pension funds	8	31,388	14,138
		259,928	**230,877**
Benefits	9	-201,410	-197,429
Payments to and on account of leavers	10	-9,963	-20,037
Administration expenses	11	-2,632	-2,782
		-214,005	**-220,248**
Net additions from dealings with members		**45,923**	**10,629**
Returns on investments			
Investment income	12	88,332	88,742
Taxes on income	13	-855	-954
Profits and losses on disposal of investments and changes in the market value of investments	15a	94,407	474,193
Investment management expenses	14	-8,986	-9,233
Net return on investments		**172,898**	**552,748**
Net increase in the net assets available for benefits during the year		**218,821**	**563,377**

Net Assets Statement	See note	31 March 2012 £'000	31 March 2013 £'000
Investment assets	15	3,582,683	4,180,476
Cash deposits	15	60,421	17,090
		3,643,104	**4,197,566**
Long term debtors	22	13,692	10,649
Investment liabilities	15	-2,228	-5,660
Current assets	20	130,521	151,474
Current liabilities	21	-7,848	-13,411
Net assets of the Scheme available to fund benefits at the period end		**3,777,241**	**4,340,618**

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 2012/13 and the underlying statutory powers underpinning the Scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Hampshire County Council, Portsmouth and Southampton City Councils, the 11 district councils in Hampshire County, 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 273 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2012	31 March 2013
Number of employers with active members	248	273
Number of employees in Scheme		
County Council	20,911	21,279
Other employers	24,722	25,040
Total	**45,633**	**46,319**
Number of pensioners		
County Council	14,163	14,668
Other employers	18,029	18,781
Total	**32,192**	**33,449**
Deferred pensioners		
County Council	22,587	24,398
Other employers	23,029	24,572
Total	**45,616**	**48,970**

The increase in employer organisations is partially a result of additional state schools converting to academy status during 2012/13, which are subsequently treated as separate employers to the County Council.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. During 2012/13, employer contribution rates for most employers ranged from 19.1% to 20.1% of pensionable pay.

d) Benefits

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

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

	Service pre 1 April 2008	Service post 31 March 2008	Service post 31 March 2014
Basis	Final salary	Final salary	Career average revalued earnings (CARE)
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 x CARE
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	

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 2012/13 financial year and its position at year-end at 31 March 2013. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* 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 at Note 19 of these accounts.

3 Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

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

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

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase Scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Property-related income

Property-related income consists primarily of rental income.

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

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

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

v) Movement in the net market value of investments

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

Fund Account – expense items

d) Benefits payable

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

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises. Income and expenditure excludes VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

f) Administration expenses

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

g) Investment management expenses

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

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

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

Net Assets Statement

h) Financial assets

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

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

i) Market-quoted investments

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

ii) Fixed interest securities

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

iii) Unquoted investments

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

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

iv) Limited partnerships

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

v) Pooled investment vehicles

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

vi) Freehold and leasehold properties

The properties were valued on 31 March 2013 by an external valuer, Paul Willis, BSc MRICS of Colliers International. The valuations were in accordance with the requirements of the Royal Institute of Chartered Surveyors' Valuation – Professional Standards and the

International Valuation Standards. The valuation of each property was on the basis of fair value, as defined by the International Accounting Standards Board. All the properties are held for investment purposes and were valued on the assumption that the properties would be sold subject to any existing leases. The valuer's opinion of fair value was primarily derived using comparable recent market transactions on 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.

j) Derivatives

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

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

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

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

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

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

n) Additional voluntary contributions

Hampshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Equitable Life, but only if they are invested in its building society fund or for an additional death-in-service grant.

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

4 Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. The convention for valuing unquoted private equities uses standardised methods developed by the British Venture Capital Association and European Venture Capital Association (who have subsequently harmonised their valuation guidelines into the International Private Equity and Venture Capital Valuation (IPEV) guidelines). The value of unquoted private equity investments at 31 March 2013 was £152 million (£164 million at 31 March 2012).

Pension fund liability

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with complete certainty, actual results could be different from the assumptions and estimates.

The items in the Financial Statement at 31 March 2013 for which there is a risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £460 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £50 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £120 million.
Debtors	At 31 March 2013, the Fund had a balance of sundry debtors of £65.621 million. A review of debtor balances suggested that an impairment of £0.005 million was appropriate. However, in the current economic climate, it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.005 million to be set aside as an allowance.
Private equity	Private equity investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation (IPEV) guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £152 million. There is a risk that this investment may be under- or overstated in the accounts.
Hedge funds	Hedge funds are valued at the sum of the fair values provided by the administrators of the funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £103 million. There is a risk that this investment may be under- or overstated in the accounts. The custodian reports a tolerance of +/- 5% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £5.2 million.

6 Events after the Balance Sheet date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7 Contributions receivable

By category	2011/12 £'000	2012/13 £'000
Employers	173,994	163,962
Members	54,546	52,777
Total	**228,540**	**216,739**

By authority	2011/12 £'000	2012/13 £'000
Scheduled bodies	218,734	207,826
Admission bodies	4,236	4,126
Community admission bodies	950	1,248
Transferee admission bodies	3,920	2,568
Resolution bodies	947	971
Total	**228,540**	**216,739**

8 Transfers in from other pension funds

	2011/12 £'000	2012/13 £'000
Group transfers	15,213	2,181
Individual transfers	16,175	11,957
Total	**31,388**	**14,138**

9 Benefits payable

By category	2011/12 £'000	2012/13 £'000
Pensions	145,021	159,213
Commutation and lump sum retirement benefits	52,640	34,530
Lump sum death benefits	3,749	3,686
Total	**201,410**	**197,429**

By authority	2011/12 £'000	2012/13 £'000
Scheduled bodies	193,606	188,418
Admission bodies	4,710	5,196
Community admission bodies	1,372	1,584
Transferee admission bodies	1,037	1,577
Resolution bodies	685	654
Total	**201,410**	**197,429**

10 Payments to and on account of leavers

	2011/12 £'000	2012/13 £'000
Refunds to members leaving service	22	16
Payments for members joining state scheme	-17	-5
Group transfers	-	8,475
Individual transfers	9,958	11,551
Total	**9,963**	**20,037**

11 Administration expenses

	2011/12 £'000	2012/13 £'000
Pension administration costs	2,472	2,640
External audit fees	43	29
Internal audit fees	33	25
Actuarial fees	56	45
Other	28	43
Total	**2,632**	**2,782**

12 Investment income

	2011/12 £'000	2012/13 £'000
Fixed interest securities	5,849	6,079
Equity dividends	58,949	52,893
Pooled property investments	3,537	3,278
Pooled investments – unit trusts and other managed funds	1,016	904
Property (see note 12a)	14,205	15,439
Interest on cash deposits	1,479	952
Alternative investment income	2,671	8,268
Stock lending	449	281
Other	177	648
Total	**88,332**	**88,742**

a) Property income	2011/12 £'000	2012/13 £'000
Rental income	14,205	15,439
Direct operating expenses	-922	-1,562
Net income	**13,283**	**13,877**

13 Taxes on income

	2011/12 £'000	2012/13 £'000
Withholding tax – fixed interest securities	13	-
Withholding tax – equities	842	954
Total	**855**	**954**

14 Investment management expenses

	2011/12 £'000	2012/13 £'000
Management fees	7,085	6,811
Property managers' expenses	1,140	1,762
Custodian fees	311	310
Actuary fees – investment consultancy	4	-
Other	446	350
Total	**8,986**	**9,233**

15 Investments

	Market value 31 March 2012 £'000	Market value 31 March 2013 £'000
Investment assets		
Fixed interest securities	175,963	211,893
Equities	1,736,856	1,747,732
Pooled investments	1,180,216	1,597,401
Pooled property investments	69,152	61,504
Alternative investments	206,874	297,819
Property	208,790	259,160
Derivative contracts:		
- Futures	425	322
- Forward currency contracts	4,258	2,978
- Purchased/written options	149	459
- Spot foreign exchange contracts	-	1
- Adjustment to variation margins	-	1,207
Cash deposits	60,421	17,090
Total investment assets	**3,643,104**	**4,197,566**
Investment liabilities		
Derivative contracts:		
- Futures	-399	-1,529
- Forward currency contracts	-1,394	-3,898
- Purchased/written options	-390	-233
- Spot foreign exchange contracts	-19	-
- Adjustment to variation margins	-26	-
Total investment liabilities	**-2,228**	**-5,660**
Net investment assets	**3,640,876**	**4,191,906**

a) Reconciliation of movements in investments and derivatives

	Market value 1 April 2012 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2013 £'000
Fixed interest securities	175,963	489,474	-466,718	13,174	211,893
Equities	1,736,856	316,461	-565,371	259,786	1,747,732
Pooled investments	1,180,216	435,259	-205,692	187,618	1,597,401
Pooled property investments	69,152	1,779	-3,956	-5,471	61,504
Alternative investments	206,874	96,306	-46,553	41,192	297,819
Property	208,790	71,091	-5,424	-15,297	259,160
	3,577,851	**1,410,370**	**-1,293,714**	**481,002**	**4,175,509**
Derivative contracts:					
- Futures	26	61	-1,459	165	-1,207
- Forward currency contracts	2,864	34,167	-30,588	-7,363	-920
- Purchased/written options	-241	5,904	-5,826	389	226
	2,649	**40,132**	**-37,873**	**-6,809**	**-1,901**
Other investment balances:					
- Cash deposits	60,421				17,090
- Spot foreign exchange contracts	-19				1
- Adjustment to variation margin	-26				1,207
Net investment assets	**3,640,876**			**474,193**	**4,191,906**

	Market value 1 April 2011 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2012 £'000
Fixed interest securities	170,157	357,227	-357,838	6,417	175,963
Equities	2,011,143	618,065	-803,295	-89,057	1,736,856
Pooled investments	764,452	240,549	-6,201	181,416	1,180,216
Pooled property investments	74,228	5,482	-4,948	-5,610	69,152
Alternative investments	185,603	38,839	-25,330	7,762	206,874
Property	189,090	25,885	-	-6,185	208,790
	3,394,673	**1,286,047**	**-1,197,612**	**94,743**	**3,577,851**
Derivative contracts:					
- Futures	-30	12,867	-363	-12,448	26
- Forward currency contracts	-3,427	23,321	-26,851	9,821	2,864
- Purchased/written options	-328	3,649	-5,853	2,291	-241
	-3,785	**39,837**	**-33,067**	**-336**	**2,649**
Other investment balances:					
- Cash deposits	50,465				60,421
- Spot foreign exchange contracts	-				-19
- Adjustment to variation margin	-				-26
Net investment assets	**3,441,353**			**94,407**	**3,640,876**

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

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

b) Analysis of investments (excluding derivative contracts)

	31 March 2012 £'000	31 March 2013 £'000
Fixed interest securities		
UK		
Public sector quoted	5,637	5,777
Corporate quoted	8,491	8,964
Overseas		
Public sector quoted	115,050	152,309
Corporate quoted	46,785	44,843
	175,963	**211,893**
Equities		
UK		
Quoted	876,124	744,859
Overseas		
Quoted	860,732	1,002,873
	1,736,856	**1,747,732**
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	880,867	928,598
Unit trusts	293,397	545,613
Overseas		
Unit trusts	5,952	123,190
	1,180,216	**1,597,401**
Pooled property investments	69,152	61,504
Alternative investments	206,874	297,819
Property	208,790	259,160
	484,816	**618,483**
	3,577,851	**4,175,509**

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge 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 agreement agreed between the Fund and the various investment managers.

All of 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 potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements.

i) Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure £'000	Market value 31 March 2012 £'000	Economic exposure £'000	Market value 31 March 2013 £'000
Assets					
UK Fixed Income Futures	Less than one year	-	-	10,809	104
UK Equity Futures	Less than one year	-	-	-	-
UK Cash Futures	Less than one year	-	-	-	-
UK Cash Margined Options	Less than one year	-	-	-	-
Overseas fixed income futures	Less than one year	35,973	301	27,389	127
Overseas fixed income margined options	Less than one year	-	-	-	-
Overseas equity futures	Less than one year	-	-	-	-
Overseas cash futures	Less than one year	48,852	124	18,051	91
Total assets			**425**		**322**
Liabilities					
UK cash futures	Less than one year	-	-	-	-
UK cash margined options	Less than one year	-	-	-	-
Overseas fixed income futures	Less than one year	-57,030	-399	-117,233	-1,529
Overseas fixed income margined options	Less than one year	-	-	-	-
Total liabilities			**-399**		**-1,529**
Net futures			**26**		**-1,207**

(ii) Open forward currency contracts

At 31 March 2013, the Fund had open forward currency contracts in place with a net unrealised loss of £0.920 million.

Settlements	Currency bought	Local value 000s	Currency sold*	Local value 000s	Asset value £'000	Liability value £'000
Up to one month	USD	9,577	EUR	- 7,379	66	-
One to six months	USD	30,264	GBP	- 19,213	746	- 21
One to six months	GBP	86,234	EUR	- 100,214	1,441	-
One to six months	USD	3,132	SGD	- 3,876	5	-
One to six months	GBP	186,627	USD	- 287,112	225	- 2,745
One to six months	EUR	3,455	GBP	- 3,010	-	- 86
One to six months	EUR	2,312	USD	- 3,017	-	- 31
One to six months	USD	3,016	AUD	- 2,900	2	-
One to six months	USD	3,020	MXN	- 37,480	-	- 3
One to six months	PHP	130,491	USD	- 3,214	-	- 10
One to six months	INR	166,190	USD	- 3,065	-	- 26
One to six months	BRL	10,997	USD	- 5,476	-	- 28
One to six months	GBP	4,137	CZK	- 123,263	88	-
One to six months	SEK	39,243	GBP	- 3,938	34	-
One to six months	GBP	3,773	AUD	- 5,760	-	- 170
One to six months	GBP	26,179	JPY	- 3,837,338	-	- 714
One to six months	CAD	5,118	GBP	- 3,269	46	-
One to six months	AUD	882	GBP	- 578	26	-
One to six months	GBP	2,209	PLN	- 10,739	41	-
One to six months	GBP	3,950	SEK	- 39,240	-	- 22
One to six months	SGD	3,876	GBP	- 2,003	55	-
One to six months	MXN	66,630	GBP	- 3,339	203	-
One to six months	PLN	11,491	GBP	- 2,361	-	- 42
Open forward currency contracts at 31 March 2013					**2,978**	**-3,898**
Net forward currency contracts at 31 March 2013						**-920**

Prior year comparative:

Open forward currency contracts at 31 March 2012	**4,258**	**-1,394**
Net forward currency contracts at 31 March 2012		**2,864**

* List of currencies

AUD	Australian Dollar	BRL	Brazilian Real	CAD	Canadian Dollar	CZK	Czech Koruna
EUR	Euro	GBP	British Pound	INR	Indian Rupee	JPY	Japanese Yen
MXN	Mexican Peso	PHP	Philippine Peso	PLN	Polish Zloty	SEK	Swedish Krona
SGD	Singapore Dollar	USD	United States Dollar				

(iii) Purchased/written options

Investment underlying option contract	Expires	Put/ call	Notional holding £'000	Market value 31 March 2012 £'000	Notional holding £'000	Market value 31 March 2013 £'000
Assets						
Overseas fixed interest purchased	One to three months	Call	1	148	1	159
Overseas cash purchased	One to three months	Put	-	-	11,949	40
Overseas cash purchased	More than three months	Put	-	1	-	-
Overseas cash purchased	One to three months	Call	-	-	15,430	260
Total assets				**149**		**459**
Liabilities						
Overseas fixed interest written	One to three months	Put	-	-	-	-14
Overseas fixed interest written	One to three months	Call	-1	-390	-	-34
Overseas cash written	One to three months	Call	-	-	-14,250	-185
Total liabilities				**-390**		**-233**
Net purchased/written options				**-241**		**226**

Investments analysed by fund manager

	Market value 31 March 2012 £'000	%	Market value 31 March 2013 £'000	%
Aberdeen	873,622	23.1	702,072	16.2
Schroders	546,609	14.5	641,853	14.8
Newton	465,590	12.3	564,354	13.0
Legal & General	566,088	15.0	491,272	11.3
State Street	567,413	15.0	1,096,817	25.3
Western	183,247	4.9	200,199	4.6
CBRE Global Investors	221,020	5.8	271,547	6.2
Other	353,652	9.4	372,504	8.6
Total	**3,777,241**	**100.0**	**4,340,618**	**100.0**

All the above companies 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.

c) Stock lending

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

The Fund lends stock to third parties under a stock-lending agreement with its custodian, Northern Trust. The total amount of stock on loan at the year-end was £132.725 million, and this value is included in the Net Assets Statement to reflect the Fund's continuing economic interest in the stock on loan. The table below summarises the value of stock lent out by the Fund:

	31 March 2012 £'000	31 March 2013 £'000
Equities – UK	52,980	38,413
Equities – overseas	38,718	45,937
Fixed interest – UK	6,485	1,423
Fixed interest – overseas	11,291	46,934
Total	**109,474**	**132,725**

As security for the stock on loan, the Fund received collateral at 31 March 2013 valued at £146.937 million. This represented 110.7% of the value of stock on loan and comprised 44% equities and 56% government fixed-interest bonds.

The income received from stock-lending activities was £0.281 million net of administrative fees for the year ending 31 March 2013 and is included in the 'Investment income' figure in the Pension Fund Account. This represents a lower income figure than the £0.449 million net of administrative fees generated in 2011/12. Stock lending income from American, French and German equities has fallen particularly significantly, as a result of a combination of weaker borrower demand and the Pension Fund holding fewer dividend paying equities.

d) Property holdings

	31 March 2012 £'000	31 March 2013 £'000
Opening balance	189,090	208,790
Additions	25,885	71,091
Disposals	-	-5,424
Net change in market value	-6,185	-15,297
Closing Balance	**208,790**	**259,160**

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase or sell, construct or develop any of these properties. The Pension Fund is required to meet the cost of repairs, maintenance or enhancements necessary to maintain the investment income of its property assets. These costs are shown in Note 12a under direct operating costs.

16 Financial instruments

a) 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 by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

31 March 2012				31 March 2013		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
			Financial assets			
175,963	-	-	Fixed interest securities	211,893	-	-
1,736,856	-	-	Equities	1,747,732	-	-
1,180,216	-	-	Pooled investments	1,597,401	-	-
69,152	-	-	Pooled property investments	61,504	-	-
206,874	-	-	Private equity/infrastructure	297,819	-	-
208,790	-	-	Property	259,160	-	-
4,832	-	-	Derivative contracts	4,967	-	-
-	139,583	-	Cash	-	113,593	-
-	65,051	-	Debtors	-	65,620	-
3,582,683	**204,634**	**-**		**4,180,476**	**179,213**	**-**
			Financial Liabilities			
-2,228	-	-	Derivative contracts	-5,660	-	-
-	-	-7,848	Creditors	-	-	-13,411
-2,228	**-**	**-7,848**		**-5,660**	**-**	**-13,411**
3,580,455	**204,634**	**-7,848**		**4,174,816**	**179,213**	**-13,411**

b) Net gains and losses on financial instruments

31 March 2012		31 March 2013
£000		£000
	Financial assets	
94,743	Fair value through profit and loss	481,002
	Financial Liabilities	
-336	Fair value through profit and loss	-6,809
94,407	**Total**	**474,193**

c) 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 2012			31 March 2013	
Carrying value £000	Fair value £000		Carrying value £000	Fair value £000
		Financial assets		
3,582,683	3,582,683	Fair value through profit and loss	4,180,476	4,180,476
204,634	204,634	Loans and receivables	179,213	179,213
3,787,317	**3,787,317**	**Total financial assets**	**4,359,689**	**4,359,689**
		Financial Liabilities		
-2,228	-2,228	Fair value through profit and loss	-5,660	-5,660
-7,848	-7,848	Financial liabilities at amortised cost	-13,411	-13,411
-10,076	**-10,076**	**Total financial liabilities**	**-19,071**	**-19,071**

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

d) Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data, such as for property investments.

Level 3

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

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

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

Values at 31 March 2013	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	3,557,026	325,631	297,819	4,180,476
Loans and receivables	179,213	-	-	179,213
Total financial assets	**3,736,239**	**325,631**	**297,819**	**4,359,689**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-5,660	-	-5,660
Financial liabilities at amortised cost	-13,411	-	-	-13,411
Total financial liabilities	**-13,411**	**-5,660**	**-**	**-19,071**
Net financial assets	**3,722,828**	**319,971**	**297,819**	**4,340,618**

Values at 31 March 2012	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	3,093,035	282,774	206,874	3,582,683
Loans and receivables	204,634	-	-	204,634
Total financial assets	**3,297,669**	**282,774**	**206,874**	**3,787,317**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-2,228	-	-2,228
Financial liabilities at amortised cost	-7,848	-	-	-7,848
Total financial liabilities	**-7,848**	**-2,228**	**-**	**-10,076**
Net financial assets	**3,289,821**	**280,546**	**206,874**	**3,777,241**

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.

a) 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 2013/14 reporting period:

Asset type	Potential market movements (+/-)
UK equities	13.0%
Overseas equities	11.9%
UK index-linked gilts	8.3%
UK fixed interest bonds	5.5%
Overseas index-linked gilts	3.1%
Overseas fixed interest bonds	2.2%
Property	1.8%
Alternative investments	3.6%
Cash	0.0%

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

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Asset type	Value at 31 March 2013 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	1,290,472	13.0	1,458,362	1,122,582
Global Equities	1,126,063	11.9	1,260,290	991,837
UK index-linked gilts	928,598	8.3	1,006,043	851,153
UK fixed interest bonds	14,741	5.5	15,553	13,929
Overseas index-linked gilts	4,562	3.1	4,703	4,421
Overseas fixed interest bonds	192,590	2.2	196,866	188,314
Property	320,664	1.8	326,436	314,892
Alternatives	297,126	3.6	307,882	286,370
Cash	17,090	0.0	17,092	17,088
Total assets	**4,191,906**		**4,593,227**	**3,790,596**

Asset type	Value at 31 March 2012 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	1,169,521	13.0	1,321,675	1,017,366
Global Equities	860,732	11.9	963,331	758,133
UK index- linked gilts	880,867	8.3	954,332	807,403
UK fixed interest bonds	14,128	5.5	14,906	13,349
Overseas index- linked gilts	4,596	3.1	4,738	4,454
Overseas fixed interest bonds	163,191	2.2	166,814	159,568
Property	277,942	1.8	282,945	272,939
Alternatives	209,478	3.6	217,061	201,895
Cash	60,421	0.0	60,427	60,415
Total assets	**3,640,876**		**3,986,229**	**3,295,522**

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 or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

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

	31 March 2012 £'000	31 March 2013 £'000
Cash and cash equivalents	79,162	96,503
Cash deposits	60,421	17,090
Fixed interest securities	1,062,782	1,140,491
Total	**1,202,365**	**1,254,084**

Interest rate risk sensitivity analysis

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

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates:

Asset type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	96,503	965	-965
Cash deposits	17,090	171	-171
Fixed interest securities	1,140,491	11,405	-11,405
Total change in assets available	**1,254,084**	**12,541**	**-12,541**

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	79,162	792	-792
Cash deposits	60,421	604	-604
Fixed interest securities	1,062,782	10,628	-10,628
Total change in assets available	**1,202,365**	**12,024**	**-12,024**

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 2013 and as at the previous period end:

	Asset value at 31 March 2012 £'000	Asset value at 31 March 2013 £'000
Overseas quoted securities	860,732	1,002,873
Overseas unit trusts	5,952	123,190
Alternative investments	206,874	266,349
Overseas pooled property investments	69,152	46,900
Overseas public sector bonds (quoted)	115,050	152,309
Overseas corporate bonds (quoted)	46,785	44,843
Total overseas assets	**1,304,545**	**1,636,464**

In consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 5.8%.

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

A 5.8% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at 31 March 2013	Change to net assets available to pay benefits	
		+5.8%	-5.8%
	£'000	£'000	£'000
Total change in assets available	**1,636,464**	**94,915**	**-94,915**

	Asset value as at 31 March 2012	Change to net assets available to pay benefits	
		+5.8%	-5.8%
	£'000	£'000	£'000
Total change in assets available	**1,304,545**	**75,664**	**-75,664**

b) Credit risk

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

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

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

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

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

The Pension Fund has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding under its treasury management arrangements at 31 March 2013 was £51.230 million (31 March 2012: £91.980 million). This was held with the following institutions:

	Rating at 31 March 2013	Balances as at 31 March 2012 £'000	Balances as at 31 March 2013 £'000
Money market funds			
Ignis	AAA	6,800	4,800
Prime Rate	AAA	5,000	4,800
Insight	AAA	-	4,800
Deutsche	AAA	-	4,800
RBS Global	AAA	-	3,000
Bank deposit accounts			
NatWest	A-	15,180	7,500
HSBC	AA-	5,000	7,030
Lloyds TSB	A	15,000	7,500
Santander UK	A	15,000	-
Barclays	A	10,000	7,000
Nationwide Building Society	A	10,000	-
Deposits with other local authorities			
Newcastle-upon-Tyne CC	-	10,000	-
Total		**91,980**	**51,230**

c) Liquidity risk

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

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

All financial liabilities at 31 March 2013 are due within one year.

Refinancing risk

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

18 Funding arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2010. The next valuation will take place as at March 2013.

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 25 years from 1 April 2011 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2010 actuarial valuation, the Fund was assessed as 72% funded (77% at the March 2007 valuation). This corresponded to a deficit of £1,256 million (2007 valuation: £891 million) at that time.

The actuarial valuation has determined that the contribution rate for the scheduled bodies group of employers will remain unchanged at 19.1% over the three-year period ending 31 March 2014, and the employer contribution rate for the admission bodies group will increase in steps of 0.5% p.a. to 19.6% in 2011/12, 20.1% in 2012/13 and 20.6% in 2013/14.

The valuation of the Fund has been undertaken using the projected unit method 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 2010 actuarial valuation were as follows:

Discount rate for periods	
In service	
Scheduled bodies	6.80% a year
Admission bodies	6.25% a year
After leaving service	
Scheduled bodies	6.80% a year
Admission bodies	4.75% a year
Long dated fixed interest gilts	4.50% a year
Long dated index linked gilts	0.70% a year
Rate of price inflation (RPI)	3.80% a year
Rate of price inflation (CPI)	3.30% a year
Rate of general pay increases	5.30% a year
Rate of increase to pensions in payment	3.30% a year
Valuation of assets	market value

A 65 year old male pensioner in normal health is now assumed on average to live to 88.7 (rather than 86.2 at the previous valuation). And a 65 year old female pensioner in normal health is assumed on average to live to 89.7 (rather than 88.3).

Commutation assumption:
It is assumed that future retirees will take 25% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

19 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 liabilities, on an IAS 19 basis, using the same base data as the funding valuation.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2010 was £5,827 million (31 March 2007: £4,468 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 2010 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The principal financial assumptions used by the Fund's actuary for the March 2010 IAS 19 calculation were:

Discount rate	5.50%
RPI inflation/pension increase rate assumption	3.65%
CPI inflation	2.75%
Salary increase rate	5.15%

20 Current assets

	31 March 2012 £'000	31 March 2013 £'000
Debtors:		
- Contributions due	18,291	20,969
- Sundry debtors	20,847	21,724
	39,138	**42,693**
Prepayments	12,221	12,278
Cash balances	79,162	96,503
Total	**130,521**	**151,474**

Analysis of debtors

	31 March 2012 £'000	31 March 2013 £'000
Central government bodies	2,276	2,339
Other local authorities	18,453	19,921
NHS bodies	7	1
Public corporations and trading funds	2,611	3,284
Other entities and individuals	15,791	17,148
Total	**39,138**	**42,693**

21 Current liabilities

	31 March 2012 £'000	31 March 2013 £'000
Sundry creditors	7,848	13,411
Total	**7,848**	**13,411**

Analysis of creditors

	31 March 2012 £'000	31 March 2013 £'000
Central government bodies	211	302
Other local authorities	305	8,597
NHS bodies	-	11
Other entities and individuals	7,522	4,501
Total	**9,322**	**13,411**

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 £12.170 million, of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £10.649 million is a long term debtor.

	31 March 2012 £'000	31 March 2013 £'000
Magistrates Courts - agreed liability settlement due from central government body	13,692	10,649
Total	**13,692**	**10,649**

23 Additional voluntary contributions

	Market value 31 March 2012 £'000	Market value 31 March 2013 £'000
Prudential	299	1,499
Zurich	7,893	7,785
Equitable Life	1,462	1,409
Total	**9,654**	**10,693**

During the year, AVC contributions of £1,366 million were paid directly to Prudential (2011/12: £0.297 million), £0.907 million to Zurich (2011/12: £1.494 million), and £0.014 million to Equitable Life (2011/12: £0.024 million).

24 Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund.

The County Council incurred costs of £2.665 million (2011/12: £2.504 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 £81.420 million to the Fund in 2012/13 (2011/12 £88.539 million).

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

25 Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2013 totalled £66.978 million (31 March 2012: £88.317 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

The Fund had no contingent liabilities on 31 March 2013.

26 Contingent assets

The Fund had no contingent assets on 31 March 2013.

27 Impairment losses

During 2012/13, the Fund has recognised an impairment loss for bad and doubtful debt of £0.005 million (2011/12: £0.008 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 2013.

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 Hampshire 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 2012/13 ('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 24 to 50 presents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Carolyn Williamson CPFA
Director of Corporate Resources

Independent Auditor's Report to the Members of Hampshire County Council

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Director of Corporate Resources and auditor

As explained more fully in the Statement of the Director of Corporate Resources' Responsibilities set out on page 51, the Director of Corporate Resources is responsible for the preparation of the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Peter O'Neill
Partner
for and on behalf of Ernst & Young LLP, Appointed Auditor.

Reading

30 September 2013

The Fund's statutory statements

Business Plan

Mission and objectives

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

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

The Panel's objectives:

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

The funding level and employers' contribution rate

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

- drafting and maintaining a Funding Strategy Statement, in partnership with the Fund's actuary and participating employers. This sets out the background and parameters the actuary must use when carrying out actuarial valuations, and the duties of the County Council as administering authority and the Fund's other employers
- commissioning a full actuarial valuation of the Fund every three years as required by law to determine employers' contribution levels. The actuary completed the last actuarial valuation of the Fund at 31 March 2010 in March 2011
- arranging interim actuarial valuations if developments mean that the funding level can be expected to have changed
- commissioning an asset/liability study following valuations or as necessary to help determine the best asset allocation needed to meet the Fund's liabilities
- where an actuarial valuation reveals a past service deficit, agreeing employers' contributions with the actuary to recover the deficit.

Investment of the Fund

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

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

Arrangements for investing additional voluntary contributions (AVCs)

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

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

Legislative changes

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

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

Consultation papers

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

Best practice

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

Decision-making

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

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

Developments and training plan

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

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

The Panel agreed a bespoke training session for both Panel members and officers in November 2011. This covered liability driven investment and socially responsible investment and was delivered by external speakers.

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

Communications with participating employers and Fund members

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

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

Review and evaluation of business plan

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

The latest action plan for the period to March 2014 is on page 13.

Funding Strategy Statement

The Fund's Pension Fund Panel undertook its latest substantive review of the Funding Strategy Statement (FSS) in February 2011. The Statement was reviewed and updated in December 2011 to reflect emerging policies in relation to grouping of employers for funding purposes. The FSS will next be revised and published while the actuarial valuation as at 31 March 2013 is being prepared, unless circumstances are such that an earlier review becomes necessary.

Introduction

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

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued detailed guidance on the content and format of an FSS. This guidance was followed in preparing this document.

This FSS should be read in the context of the Fund's Statement of Investment Principles (SIP), which sets out in detail the Fund's investment arrangements and strategy.

Purpose of the Funding Strategy Statement

The FSS has two main purposes:

- To set out clearly the Fund's strategy for how it intends to meet its liabilities over the long term.
- To explain how the Fund will try to maintain stable contribution rates from employers.

Aims of the Fund

The Fund has four main aims:

- To make sure the Fund can always meet its liabilities.
- To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers.
- To manage the employers' liabilities effectively.
- To maximise the income from investments within reasonable risk parameters.

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

To make sure the Fund can always meet its liabilities

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

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

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

To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers

Achieving stability in employers' contribution rates requires investment in assets that 'match' the Fund's liabilities. In this context, 'match' means behaving in a similar way to the liabilities as economic conditions alter. Of the main strategic asset classes, index-linked and fixed-interest investments are the best match for the Fund's liabilities.

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

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

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

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

The administering authority recognises that a balance needs to be struck regarding the financial demands made of community admission bodies. On the one hand, the administering authority requires all admission bodies to be fully self funding (either on a grouped or an individual basis), such that other employers in the Fund are not subject to expense as a consequence of the participation of those admission bodies.

On the other hand, requiring contributions to target full funding at all times, without further smoothing, may cause failure of the body in question in periods of extreme economic conditions, leading to significant costs for other participating employers.

Under economic circumstances which the administering authority judges to be extreme, the administering authority may determine that the contribution pattern required to target full funding can be temporarily relaxed for community admission bodies to enable contributions to remain affordable in the short term. Effectively the contribution pattern can be back-end loaded to a greater extent than would otherwise be permitted. Additionally, the administering authority may direct that, should a community admission body leave the Fund during the relaxation period, the Scheduled Bodies funding group would provide future funding for any deficiency developing in respect of former liabilities of the community admission body (this process is called 'subsumption' for the purposes of this document).

Such action has three implications:

- During the period of relaxation, contribution rates for community admission bodies can be set at a lower level in the short term than would otherwise be required.
- Should a community admission body leave the Fund during such a period, the cessation funding requirement can be reduced to reflect the Fund's continuing access to funding, should a deficiency emerge in the future in respect of those liabilities. i.e. the funding requirement is based on the liabilities being subsumed (see 'Cessation of participation - valuations' below), and any future deficit in respect of those liabilities is met by the Scheduled Bodies funding group as a whole.
- Should a community admission body leave the Fund during such a period when short term contribution rate requirements have been relaxed, the funding requirement in any cessation valuation carried out under Regulation 38 of the Local Government Pension Scheme (Administration) Regulations 2008 may be reduced to the extent that contributions, on a cumulative basis, have fallen short of what continued targeting of full funding without any smoothing would require, i.e. this part of the deficit would effectively be paid for by the Scheduled Bodies funding group and the shortfall in contributions has been underwritten.

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

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

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

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

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

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

Cessation of participation – valuations
Where an admission body ceases participation, a cessation valuation will be carried out in accordance with regulation 38 of the Local Government Pension Scheme (Administration) Regulations 2008. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

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

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

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

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

Interim reviews for admission bodies
Regulation 38(4) of the Local Government Pension Scheme (Administration) Regulations 2008 provides the administering authority with the power to carry out valuations in respect of admission bodies, and for the actuary to certify revised contribution rates, between triennial valuation dates.

The administering authority's overriding objective at all times in relation to admission bodies is that, where possible, the funding target for that body is clear, and that contribution rates payable are appropriate for that funding target. However, this is not always possible as any date of cessation may be unknown (for example, participation may be assumed at present to be indefinite), and because market conditions change daily.

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

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

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

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

Guarantors
Some admission bodies participate in the Fund by virtue of the existence of a Guarantor. The administering authority maintains a list of employers and their Guarantors. For any new admission body wishing to join the fund, the administering authority will require a Guarantor. The administering authority, unless notified otherwise, sees the role of a Guarantor to include the following:

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

During the period of participation of the admission body a Guarantor may at any time agree to the future subsumption of any residual liabilities of an admission body. That action would reduce the funding target for the admission body, which would probably lead to reduced contribution requirements.

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

Bonds and other securitization

Regulation 6 of the Local Government Pension Scheme (Administration) Regulations 2008 creates a requirement for risk reviews and bonds to be provided in certain circumstances. The administering authority's approach in this area is as follows:

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

To maximise the income from investments within reasonable risk parameters

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

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

The Fund's funding strategy requires the assets to deliver a long-term return of 2.3% a year above a low-risk portfolio. This is defined as a portfolio invested 85% in index-linked gilts and 15% in fixed-interest gilts. An investment management structure has been developed and managers appointed to deliver this long-term return within an acceptable level of risk. Details of the structure and managers are in the Statement of Investment Principles.

Purposes of the Fund

The purposes of the Fund are:

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

Responsibilities of the key parties

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

The County Council's obligations as administering authority

- To collect employers' and employees' contributions and, as far as possible, make sure they are paid by the due date as specified in the LGPS regulations.
- To invest surplus money in accordance with the LGPS regulations relating to the investment of funds.
- To make sure that cash is always available to meet the Fund's liabilities when they are due.
- To manage the valuation process in consultation with the Fund's actuary, agreeing appropriate timescales and providing accurate data.
- To monitor regularly the Fund's investment performance and funding level.
- To prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement.
- To notify the Fund Actuary of any material events which could affect funding strategy or funding levels.

Individual employers' obligations

- To deduct contributions from employees' pay, and make employers' contributions at the rates specified by the actuary, paying both to the County Council by the due date.
- To exercise discretions allowed to employers within the LGPS regulations.
- To pay for agreed added-years arrangements.
- To keep the County Council fully informed of all changes to membership, or other changes that could affect the solvency position.

The actuary's obligations

- To prepare actuarial valuations every three years, as required by law, or more frequently if required, and set employers' contribution rates having regard to this Funding Strategy Statement. The actuary will prepare the valuation in accordance with the latest guidance issued by the Faculty and Institute of Actuaries and Board for Actuarial Standards, as far as it applies to the LGPS.
- To prepare advice and calculations for cessation valuations, bulk transfers and individual benefit-related matters.

Solvency

The County Council (through the Panel) will seek to ensure the Fund is solvent in the long term. Solvency is defined as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities.

The 'projected unit' method of valuation will be used when assessing solvency.

The financial assumptions used to assess the funding level will take into account the yields available on long-term fixed-interest and index-linked gilt-edged investments.

The County Council has also agreed with the actuary that explicit smoothing adjustments can be used on the asset values when measuring solvency (see also 'Smoothing' on page 65). The Fund is unlikely to extend the use of these adjustments for employers who participate for a fixed period only – for example non local authority employers awarded contracts to provide local authority services.

Funding strategy

The Fund is financed on the principle that it seeks to provide sufficient funds to enable payment of 100% of the benefits promised.

The Funding Target is the amount of assets which the Fund needs to hold at any point in time such that the funds held, plus future anticipated investment returns on those funds, taking into account the anticipated future membership and contributions due from the membership, meet the funding principle.

The administering authority will generally assume indefinite investment in a broad range of assets of higher risk than risk-free assets for scheduled bodies and certain other bodies. For admission bodies the administering authority will take into account the potential for participation to cease, the potential timing of such cessation, and any likely change in investment strategy regarding the assets held in respect of the admission body's liabilities at the date of cessation.

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

The Fund's funding ratio at any particular valuation is the ratio of the value of the assets held to the funding target set using the assumptions used in that valuation of the Fund. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

A further Aspirational Funding Target is set using a similar basis as that used for setting the Funding Target for the 2007 valuation of the Fund, updated for changes in market conditions.

Funding success is defined as achieving the Aspirational Funding Target at the end of the recovery period.

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

When an actuarial valuation shows that the Fund is in deficiency, employers' contribution rates will be adjusted to achieve a 100% funding ratio over a period of years (the recovery period), while ensuring that the probability of achieving solvency over the recovery period remains acceptable. In consultation with the Fund's actuary, the County Council has set a common maximum recovery period of 40 years for all employers in the Fund. The actual recovery period within this maximum of 40 years is determined at each actuarial valuation by balancing the Fund's solvency requirements against the financial strength of the Fund's main scheduled employers. A recovery period of 25 years has been used in the 2007 and 2010 valuations for scheduled employers.

The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the County Council has agreed the current recovery period of 25 years. This is consistent with keeping employers' contribution rates as stable as possible. Were any employers to participate in the Fund for a short period only, the County Council and actuary would be unlikely to agree to their having a recovery period longer than their remaining term of participation.

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

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

Where employers are grouped together for funding purposes, this will only occur with the consent of the employers involved.

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

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

One of the two large groups primarily includes scheduled bodies and the other primarily includes community admission bodies. Common employers' contribution rates are set for each of these groups, instead of individual contribution rates for each employer. The County Council accepts that this can give rise to crosssubsidies between employers. However, employers in the Fund are required to make upfront contributions determined by the actuary to cover the costs of early retirements, which is a major distinction between employers over time. The County Council and actuary periodically review whether separate rates for individual employers or groups of employers are required.

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

- The group exists to produce a common contribution rate for employers in the group
- Only the group funding target is relevant when producing a common contribution rate, and
  - An employer's cash contribution depends on its level of payroll
  - While an employer has contributing members in the Fund, the employer still has a liability to clear any deficiency (where the group is in deficit)
- The employer is assumed to belong to the group indefinitely
  - As an employer can always be called upon to pay its share of any group deficiency, a flow of new entrants to the employer is required to finance this
  - Funding targets are set using an ongoing actuarial basis that assumes participation is indefinite
- Employers are liable to fund deficits emerging at each valuation in proportion to their own payroll at the time of the valuation
- Streams of deficit contributions, once certified at a valuation remain in place for the duration of the relevant recovery period. New streams of such contributions will be certified at subsequent valuations in respect of new surplus or deficiency emerging at the relevant valuation.

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

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

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

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

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

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

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

- Where, in the opinion of the actuary, the unavailable cashflow data is of low materiality, estimated cashflows will be used.
- Where, in the opinion of the actuary, the unavailable cashflow data is material, the actuary will use an analysis of gains and losses to update the notional sub-fund. This method is less precise than using cashflows, and involves calculating gains and losses to the

surplus or deficiency shown at the previous valuation to determine an expected surplus or deficiency at this valuation. This is compared with the liabilities evaluated at this valuation to calculate an implied notional asset holding.

Attribution of investment income

Where the administering authority has agreed with a scheme employer that the scheme employer will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed allocation.

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

Phasing in of new contribution rates

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

Identification of risks and counter measures

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

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

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

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

Demographic

Demographic risks include changing retirement patterns and increasing life expectancy. The County Council will make sure the Fund's actuary investigates these matters at each valuation, or more often if necessary. The actuary will report to the County Council as appropriate. The County Council will then agree with the actuary any necessary changes to the assumptions used in assessing solvency.

If significant demographic changes become apparent between valuations, the County Council will notify all participating employers of the likely effect on their contributions after the next full valuation, and will review the bonds that are in place for transferee admission bodies.

Regulatory

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

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

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 County Council promptly.

To limit this risk, the County Council requires the other participating employers to communicate regularly with it on such matters. The County Council also undertakes to inform the Actuary promptly of any such matters.

Statistical/financial
Risks to the Fund are posed by the performance of the various investment markets, the quality of the Fund's managers, variations in pay and price inflation, and the budget constraints faced by the Fund's employers.

The County Council regularly reviews these factors with the actuary to decide whether the assumptions for assessing solvency are still appropriate.

Investment returns
The assumption that investment returns will exceed those accruing on Government bonds introduces an element of risk, in that those returns may not materialise. To make sure the funding strategy remains realistic, the County Council will monitor the underlying solvency position on the assumption that there are no such excess returns.

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

Recovery period
Allowing surpluses or deficiencies to be eliminated over a recovery period of up to 40 years means there is a risk that too little will be done to restore solvency between successive actuarial valuations. The associated risk is reviewed with the actuary as part of the three-yearly valuation process, to ensure as far as possible that enough is done to restore solvency. In practice, the smoothing arrangements described above deal with this.

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

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

Links to investment policy set out in the Fund's Statement of Investment Principles
The County Council has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy set out in the Statement of Investment Principles (available from the Corporate Finance Section, Corporate Services, Hampshire County Council) and is included in this publication on pages 66 to 69.

Both documents are subject to regular review.

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

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

Statement of Investment Principles

Introduction

Hampshire County Council is the administering authority for the Hampshire Pension Fund, which covers employees of the County Council, two city (unitary) councils, 11 district councils, and 259 other scheduled and admission bodies. The total number of contributors is 46,319 and there are 33,449 pensioners.

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

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

Types of investments to be held

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

The main limits are:

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

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

The Pension Fund Panel has agreed to increase the limit on contributions to private equity and indirect property partnerships from 5% to 10% of the total Fund with effect from 1 March 2008. This was to ensure that investment in the alternative investments of up to 10%, agreed as part of the new investment management structure, went ahead. The decision to increase the limit to 10% complies with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The 10% limit on contributions to partnerships will apply until the Fund's overall asset allocation is reviewed following the next full actuarial valuation.

The expected return on investments

The overall objectives when investing the Fund are:

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

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

Spread of investments

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

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

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

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

Realisation of investments

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

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

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

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

Social, environmental and ethical considerations

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

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

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

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

Exercise of rights attaching to investments

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

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

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

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

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

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

Custody

Northern Trust has been appointed as the Fund's independent global custodian with effect from 1 August 2006 for a seven-year period ending on 31 July 2013, subject to satisfactory performance. JP Morgan have now been appointed as custodian with effect from 1 August 2013.

Stock lending

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

In accordance with Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, lending restrictions have been placed on Northern Trust to ensure that the proportion of Fund assets that are available to be lent at any time will not exceed 25% of the total market value of Fund assets.

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

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

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

Review of the Statement of Investment Principles

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

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

Effective decision-making

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

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

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

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

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

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

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

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

Clear objectives

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

All mandates have clear objectives and timescales for performance assessment.

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

There are no soft commission arrangements.

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

Risk and liabilities

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

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

Performance assessment

Formal reviews of the managers' performance take place twice a year. Additional meetings take place between the managers and the Director of Corporate Resources each year as required.

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

Responsible ownership

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

Transparency and reporting

This Statement of Investment Principles covers all areas as proposed by the Myners Committee and subsequently confirmed by the Government.

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

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

Annex Investment management arrangements

	Benchmark	Annual target performance gross/net of fees
Low-risk active UK equities		
Schroder Investment Management	FTSE All Share	+1.25% gross
High-performance global equities		
Aberdeen Asset Management	MSCI World	+3% gross
Newton Investment Management	MSCI World	+3% gross
Active global bonds		
Western Asset Management	Barclays Capital Global Aggregate Bonds Index	+1.5% gross
Passive index-linked bonds		
Legal & General	FT British Government Over Five Years Index-Linked Gilts Index	
State Street Global Advisors	As above	
Tactical Asset Allocation		
State Street Global Advisors Aon Hewitt (advisers)	-	
UK property		
CBRE Global Investors	Retail Price Index (RPI)	+4.5% net
European property		
Aberdeen Property Investors	Eurozone Harmonised Index of Consumer Prices (HICP)	+5% net
Alternative Investments advisers		
Aberdeen Asset Management	-	+8% to +11% gross

Governance Policy Statement

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

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

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

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

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

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

- the County Council as administering authority and the largest employer with 46% of the contributing membership
- the two city unitary authorities with 20% of the contributing membership
- the district councils and other employers with 34% of the membership, and
- the Fund's pensioners and contributors.

The Pension Fund Panel consists of:

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

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

Training

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

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

Use of advisers

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

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

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

Communications with Fund employers and members

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

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

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

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

Service standards

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

Governance Compliance Statement

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

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

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

Communication Policy Statement 2013

Introduction

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

We have five key stakeholder groups:

- Scheme members
- Prospective scheme members
- Employing authorities
- Pensions Services' staff
- Other bodies, for example prospective employing authorities.

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

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

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

http://www3.hants.gov.uk/pensions/pensionscustomerservice.htm#section409024-3

Methods of communication

Our communication with scheme members

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

Website
Our website offers extensive information for scheme members. It contains links to other relevant organisations and is updated with all new legislation and relevant information. We intend to develop the website as the prime source of information on the pension scheme. This should ensure timely, up-to-date and easy-to-access information for all our stakeholders.

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

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

Correspondence
We use post and email for correspondence with scheme members.

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

Benefit statements
Each year, we send all current and deferred members an annual benefit statement showing their benefits as at 31 March. We usually issue these between September and December each year.

Pay advice slips and P60s
We send pay advice slips to pensioners each April and send a P60 in May if the pensioner has had income tax deducted during the year. We also send a payslip to pensioners if there has been a change of more than £1 in their monthly payment.

Newsletters
An annual newsletter is sent to pensioners each March.

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

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

Our communication with prospective scheme members

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

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

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

Our communication with employing authorities

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

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

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

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

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

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

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

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

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

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

Our communication with Pensions Services staff

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

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

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

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

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

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

Our communication with other bodies

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

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

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

Complaints and appeals

We have a comprehensive process for dealing with complaints and appeals. A full copy of the internal disputes resolution procedure is available on our website:
www3.hants.gov.uk/pensions/pensionscomplaintsandappeals.htm

Publications matrix

	Format		Available to						
Document	Paper	Website	Prospective members	Current members	Deferred members	Pensioners	Employers	Published	Reviewed
Employee's Guide	✓	✓	✓	✓	✓	✗	✓	◆	◆
Employer Manual	✓	✓	✗	✗	✗	✗	✓	◆	◆
Reports and accounts	✓	✓	✓	✓	✓	✓	✓	◆	◆
Benefit statements	✓	✗	✗	✓	✓	✗	✗	◆	◆
Pensioners' newsletter	✓	✓	✗	✗	✗	✓	✗	◆	◆
Service standards	✓	✓	✓	✓	✓	✓	✓	◆	◆
Complaints and appeals process	✓	✓	✓	✓	✓	✓	✓	◆	◆

Availability
✓ Available
✗ Unavailable

Published
◆ Always available
◆ Annually

Reviewed
◆ As regulations change
◆ Annually

Who's who

Administering authority	Hampshire County Council
Pension Fund Panel	Details of the Pension Fund Panel are on page 5 of this annual report.
Administrator	Carolyn Williamson, Director of Corporate Resources
Independent adviser	Carolan Dobson
Investment managers	Aberdeen Newton – The Power of Ideas Legal & General Investment Management CBRE Global Investors State Street Global Advisors Western Asset Schroders
Custodian	JP Morgan (replacing Northern Trust from 1 August 2013)
Actuary	Aon Hewitt Limited
Bankers	The National Westminster Bank plc
External auditor	Ernst & Young
AVC providers	Zurich Prudential Equitable Life
County Council contacts	
Fund investments	Ian Howell 01962 847540
Pensions services	Nick Weaver 01962 845588
Legal adviser	Kevin Gardner

HAMPSHIRE PENSION FUND
ANNUAL REPORT AND ACCOUNTS

2012/13

GLOSSARY

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.

Aspirational Funding Target
A Funding Target which is set using a similar basis as that used for setting the Funding Target for the 2007 valuation of the Fund, updated for changes in market conditions.

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

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

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

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

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

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

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

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

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

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

Discretionary
Allowable but not compulsory under law.

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

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

Emerging markets
The financial markets of developing economies.

Equities
Shares in UK and overseas companies.

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.

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.

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.