



HAMPSHIRE PENSION FUND
ANNUAL REPORT AND ACCOUNTS

2017/2018



Hampshire
County Council

www.hants.gov.uk

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We hope you find this annual report informative and useful.
There is a glossary of terms at page 73.

If you have any comments on the annual report, please call
01962 847054, email budget@hants.gov.uk or write to:

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

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



Foreword

Welcome to the Hampshire Pension Fund annual report for 2017/18.

2017/18 saw challenging market conditions, particularly towards the end of the financial year, but the Hampshire Pension Fund has continued to build on the strong investment performance of 2016/17, and the Fund's assets delivered investment returns of 4.1% for the year, taking the total value of the Fund to £6.6 billion.

Last year I reported that we were beginning work on the review of the Fund's strategic asset allocation, an important exercise which sets out our long term strategy for the asset classes in which the Fund will invest in order to be best positioned to deliver the returns needed to meet the Fund's liabilities in the future. We have partnered with Hymans Robertson in order to deliver this fundamental piece of work and I am delighted to announce that the new strategic asset allocation was agreed by the members of the Panel and Board in November 2017. We now begin the work of implementing the required changes, and I look forward to updating you on our progress in a year's time.

Investment pooling continues to be a significant piece of ongoing work for the Pension Fund, and as I reported last year, Hampshire has joined ACCESS (A Collaboration of Central, Eastern and Southern Shires), along with 10 other LGPS funds. In September 2017 a tender was published inviting bids for a supplier for ACCESS' third party Operator, and following a competitive process, Link Fund Solutions have been appointed as the Operator. Efforts are now underway to set up the first sub-fund for ACCESS funds to invest in and to begin pooling investments, which will replace individual funds separate mandates with investment managers. Once this is in place our hard work will begin to pay off and the Pension Fund will start to realise the fee savings that are intended from pooling whilst still retaining ownership and responsibility for Hampshire's own investments.

With regard to investment management, Hampshire officers have been working with their ACCESS counterparts to set up a national framework contract, let via ACCESS, to appoint a preferred supplier for passive investment management. Hampshire's passive portfolios have now been fully transitioned over to UBS Asset Management, with the commendable outcome that this project has delivered significant fee savings for the Pension Fund.

The Panel and Board continues to demonstrate a strong commitment to training, and this year we have again hosted several excellent bespoke in-house training sessions, covering a wide range of relevant topics. Panel and Board members have also been venturing out of Winchester to a number of externally provided training seminars and conferences, and reporting back their findings to the rest of the Panel and Board at each meeting. Training will continue to be given high priority, and plans are in place for our internal training sessions for the year ahead. Further information can be found in the training report on page 8.

During 2017/18 Pension Services carried out preparatory work for a Customer Service Excellence review, which took place in April 2018. Pension Services once again retained their accreditation and picked up two further compliance plus marks, for empowering staff to actively promote and participate in the organisation's customer focused culture, and commitment to customer focused services through recruitment, training and development. These sit alongside the three compliance plus marks already awarded for telling customers about performance, incorporating customer feedback into processes, and the corporate commitment to putting the customer at the heart of service delivery. Pension Services staff have been striving to ensure that we continue to deliver a high level of service, and I am very happy to say that for the second year in a row almost 100% of targets were met in every quarter. These excellent results would not be possible without the commitment and hard work of the Pension Services team, and I would like to take this opportunity to thank them, and their colleagues in the Investments and Borrowing team, for their efforts over the course of the year.

I would also like to thank the members of the Pension Fund Panel and Board for their valuable input and dedication during 2017/18, and I am looking forward to working with all the members over the coming year. Full details of the membership of the Panel and Board can be found on page 5.

I hope you find the following report helpful.

Councillor Mark Kemp-Gee

Chairman, Pension Fund Panel, July 2018

Who's Who

Administering authority and Scheme Manager

Hampshire County Council

Treasurer

Carolyn Williamson, Director of Corporate Resources

Independent adviser

Carolan Dobson

Investment managers



Morgan Stanley



Custodian

JP Morgan

Actuary

Aon

Bankers

The National Westminster Bank plc

External auditor

Ernst & Young

AVC providers

Zurich

Prudential

Equitable Life

County Council contacts

Head of Pensions,
Investments & Borrowing

Andy Lowe
01962 876370

Legal adviser

Paul Hodgson

Pension Fund Panel and Board

as at 31 March 2018

County Council members



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



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



Cllr Christopher Carter
9 years' membership



Cllr Alan Dowden
1 year's membership



Cllr Jonathan Glen
1 year's membership



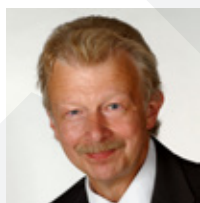
Cllr Andrew Gibson
6 years' membership



Cllr Andrew Joy
5 years' membership



Cllr Peter Latham
4 years' membership



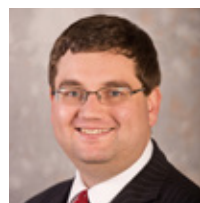
Cllr Bruce Tennent
9 years' membership

County Council deputies

Cllr Derek Mellor (1 year's membership)

Cllr Keith House (2 years' membership)

Employer representatives



Cllr Mark Chaloner
Unitary Council representative
3 years' membership



Cllr Peter Giddings
District Council representative
10 years' membership



David Robbins
Other employer representative
2 years' membership



Cllr Hugh Mason
Substitute employer representative
4 years' membership

Member representatives



Neil Wood
Employee representative
2 years' membership



Valerie Arrowsmith
Deferred member representative
2 years' membership



Cliff Allen
Pensioner representative
5 years' membership

Pension Fund Panel and Board continued

Since December 2016 the post of employee substitute representative has been vacant, and a recruitment process to fill this position is currently underway.

All full members of the Panel and Board have voting rights. Substitute members may attend all meetings, and will have voting rights when other members for whom they are substitutes are not present. Attendance of the members at Panel and Board meetings, internally organised training events, and other external training opportunities is shown in the table below. It should be noted that internal training sessions have greater weight as they cover topics on which the most Panel and Board members have identified a training need. For Pension Fund Panel and Board meetings, the number of meetings attended is shown against the number of possible meetings for that member.

Panel and Board member	Pension Fund Panel and Board meetings attended	Internal training sessions attended	External training sessions attended
Cllr Kemp-Gee	5/6	5	4
Cllr Thacker	6/6	3	0
Cllr Carter	5/6	4	0
Cllr Dowden	6/6	3	0
Cllr Gibson	5/6	2	4
Cllr Glen	4/6	4	7
Cllr Joy	6/6	4	0
Cllr Latham	3/6	2	0
Cllr Tennent	5/6	5	0
Cllr Chaloner	4/6	0	0
Cllr Giddings	0/6	0	0
David Robbins	3/6	1	0
Cllr Mason	3/6	1	0
Valerie Arrowsmith	4/6	2	5
Cliff Allen	6/6	5	3
Neil Wood	4/6	4	0

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

Board report

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

This efficient governance model was developed to ensure effective oversight whilst avoiding unnecessary duplication across two committees. Board issues are dealt with under separate governance agenda items. Items that have been considered in 2017/18 are as follows:

- Pension administration updates
- Risk management
- Investment pooling updates
- Internal audit report & opinion
- The 2016/17 annual report
- Panel and Board training
- Pension Fund costs
- Provision of advice to the Panel and Board
- Pension Administration Strategy
- Funding Strategy and Employer Policy
- Review of the Pension Fund's statutory statements

All Panel and Board members take part in a full training programme covering the range of knowledge and skills required for their membership of the Panel and Board, as summarised on page 8. In 2017/18 Board specific issues were covered as part of the LGPS Fundamentals training session provided by Tim Hazlewood.

Training and Development Report

Knowledge and Skills Framework Policy

As an administering authority of the Local Government Pension Scheme, Hampshire County Council recognises the importance of ensuring that all staff and members charged with 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 of the Panel and Board as a whole and of individual members. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

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

Training received in 2017/18

Three internal training half-days were arranged for Panel and Board members in Winchester during June, October and November 2017, as well as an additional short session in December. The topics covered by these sessions were as follows:

Date	Topic	Provider
June 2017	The Fund's strategic asset allocation	Hymans Robertson
June 2017	Asset allocation	LGIM
October 2017	Private debt	Aberdeen Standard
October 2017	Multi-asset credit	Western Asset
November 2017	LGPS fundamentals	Tim Hazlewood
December 2017	Currency and hedging	Hymans Robertson

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

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

At the beginning of 2018, individual members of the Panel and Board reviewed their knowledge and skills against a Training Needs Analysis. The purpose of this exercise was to allow Panel and Board members to consider their current level of knowledge and where they need to have additional training. The Training Needs Analysis was designed around the CIPFA Pensions Finance Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector, and the CIPFA Technical Knowledge and Skills Framework for Local Pension Boards, in order to ensure the Panel and Board meet the requirements set out in the guidance referenced in the regulations. As a result of the Training Needs Analysis, relevant internal training sessions will be arranged for 2018/19 and 2019/20. The Training Needs Analysis is also provided to all new Panel and Board members to enable them to identify any training requirements.

Individual Panel and Board members also attended a range of training events in 2017/18 provided by the Pension Fund's investment managers and other external organisations, as follows:

SPS Fiduciary Management & Fund Governance Issues for Pension Funds

Biotech Growth Trust AGM

SPS Investment Strategies for Maturing Pension Funds

SPS Alternative Credit and Private Debt Investing for Pension Funds

LGC Investment Summit

Schroders Autumn Conference

SPS Property, Real Assets and Infrastructure Investment Strategies for Pension Funds

UBS Steps Trustee Training

Aberdeen Standard Investments conference

SPS Annual Northern Investment Conference for Pension Funds

SPS LGPS in flux

Newton investment conference

LGA Fundamentals Day 3

SPS Investment Strategies for Pension Funds

Schroders Trustee Training – Part 1

SPS Local Authority Pension Fund Investment Issues

Evaluation of training

Training logs are completed on an on-going basis for each member of the Panel and Board 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 2018/19

The training plan for 2018/19 was approved by the Pension Fund Panel and Board in March 2018. Proposed training includes further in-house training sessions in July and November 2018 and additional sessions as required, external training events, use of online learning tools, briefing information in reports to the Panel and Board from officers, and background reading as appropriate.

Progress on investment pooling



The Government is encouraging LGPS Funds to work together to put forward plans to “pool investments to significantly reduce costs, while maintaining investment performance.” In response eleven like-minded LGPS Funds (including the Hampshire Pension Fund) are working together under the name of ACCESS (A Collaboration of Central, Eastern and Southern Shires). Individually the participating funds have a strong performance history and potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise. Collectively the ACCESS Pool has significant scale with assets of £43bn, managed on behalf of c3,000 employers and c900,000 members. It is the Government’s expectation that the asset pools are formed in order for assets to begin being transferred from individual LGPS Funds from 1 April 2018.

The ACCESS Pool submitted their Spring Progress report to the Ministry of Housing, Communities and Local Government (MHCLG) on 4 May 2018. A copy of this report will be accessible on the ACCESS website <http://www.accesspool.org/>. It sets out the progress made by the ACCESS authorities to meet the Government’s investment reform agenda.

The current highlights from the ACCESS funds are:

- The July 2016 submission to MHCLG indicated that **ACCESS authorities could benefit from eventual projected savings of £30m annually** (excluding any assumptions on asset growth). These estimates of savings remain consistent with current evidence.
- ACCESS authorities have appointed UBS to manage its passive mandates (approx. £11b). The **indicative saving of £5.2m per annum exceeds the estimated saving projection** of £4m per annum stated in our July 2016 submission.
- The ACCESS authorities have **appointed Link Fund Solutions (Link) as the pool’s Financial Conduct Authority (FCA) authorised Operator**. The appointment means a significant shift in governance arrangements with the Operator responsible for selecting and contracting with managers on behalf of the authorities participating in the pool.

- With the procurement phase completed, the implementation phase of the project is in train and progressing well. **Link is preparing documentation for the FCA authorisation of an umbrella Authorised Contractual Scheme (ACS) and first sub-fund for submission in May 2018.**
- A key element of governance arrangements focuses on the **robust management of the Operator contract and the Operator** to ensure it is held to account by the administering authorities participating in ACCESS via the Joint Committee. ACCESS is also setting up the ACCESS Support Unit (ASU) which will manage the Operator contract against specified key performance indicators and provide technical and secretariat support services to the Joint Committee (JC) and Officer Working Group (OWG). Interim arrangements are already in place.
- The Pooling arrangements have been set up to ensure each administering local authority may **exercise proper democratic accountability and continue to meet fiduciary responsibilities.**
- The potential for greater savings in the longer term remains, as the ACCESS pool applies its **leverage as one of the largest asset pools in the UK** and collaborates with other pools to achieve further benefits of scale in investment management including new ways of investing in illiquid assets, in particular infrastructure.
- In addition to the savings in investment management fees due to the reduction in manager numbers and an increase in mandate size, there are **other tangible benefits from pooling including a governance dividend** (potential for reduced risk due to manager diversification achieved at pool level) and tax savings for funds moving from pooled funds to segregated mandates in the pool’s tax transparent ACS. For some asset classes such as global equities tax savings alone are material relative to additional costs of implementing pooling.

Investment Policy and Performance Report

Custody of assets

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

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

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

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

Social, environmental and ethical considerations

The Pension Fund's policy regarding social, environmental and ethical considerations is set out in the Investment Strategy Statement, available via the following link:

www.hants.gov.uk/pensions-reportsandaccounts

The relevant extract is shown below:

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

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

The Fund has delegated to the external investment managers responsibility for taking social, environmental and corporate governance considerations into account when assessing the financial potential and suitability of investments. All of the investment managers contracted by the Hampshire Pension Fund are signatories to the UN Principles for Responsible Investment.

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

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

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

Matters relating to implementation of the Funding Strategy Statement

All grouped employers' contribution rates stepped up by 1% in 2017/18. No bonds or other secured funding arrangements were entered into during the year.

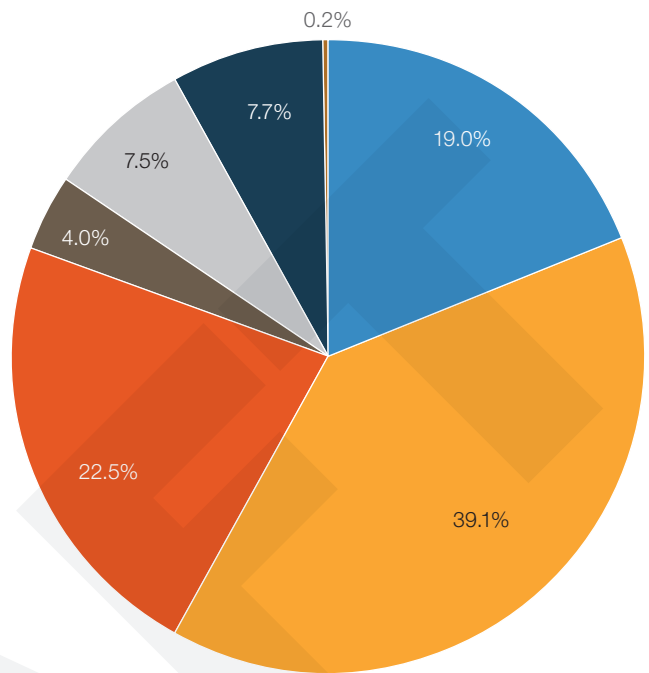
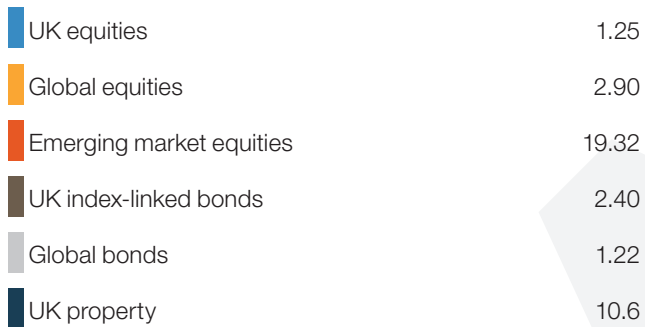
All admission bodies were managed in accordance with the Funding Strategy Statement and Employer Policy.

Investment overview

During 2017/18, stock markets delivered slight positive performance, as the UK stock market returned 1.25% and world stock markets returned 2.9% overall. UK index-linked bonds have delivered returns of 2.4% for the year, and global bonds delivered modest positive returns of 1.22% in 2017/18.

The UK commercial property market has delivered strong positive returns of 10.6% in 2017/18, continuing the trend of recent years.

Market returns in 2017/18



Breakdown of the Hampshire Pension Fund's investments on 31 March 2018

Asset Class	Percentage (%)
UK equities	19.0
Overseas equities	39.1
UK fixed interest bonds	22.5
Overseas fixed interest bonds	4.0
UK and European property	7.5
Alternative investments	7.7
Cash held pending investment	0.2
Total	100.0

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

Pension Fund investment management structure

	Target portfolio size %	Actual allocation at 31 March 2018 %	Benchmark	Annual target performance gross/ net of fees
Low-risk active UK equities				
Schroders Investment Management	14.0	12.3	FTSE All Share	+1.25% gross
High-performance global equities				
Acadian Asset Management	6.0	6.6	MSCI World	+1.5% to 2.5% net
Baillie Gifford & Co	7.9	10.7	MSCI All Countries World	+1.5% to 2.5% net
Newton Investment Management	6.6	6.3	MSCI All Countries World	+1.5% to 2.5% net
Aberdeen Standard Investments	5.5	5.5	MSCI All Countries World	+1.5% to 2.5% net
Passive equities				
UBS (UK equities)	5.0	5.2	FTSE All Share Index	–
UBS (global equities)	9.0	11.0	FTSE All World Equity Index	–
Active global bonds				
Western Asset Management	5.0	4.1	Barclays Capital Global Aggregate Bonds Index	+1.5% gross
Passive index-linked bonds				
UBS	21.0	21.8	FT British Government Over Five Years Index-Linked Gilts Index	–
UK property				
CBRE Global Investors	10.0	7.2	Retail Prices Index (RPI)	+4.5% net
European property				
Aberdeen Standard Investments	0.0 [†]	0.0	Eurozone Harmonised Index of Consumer Prices (HICP)	+5% gross
Private equity and other alternatives				
Aberdeen Standard Investments	5.0	2.8	–	+9% to 11.5% net (local)
Hedge funds				
Morgan Stanley	3.5	3.2	–	+5.5% to 8.0% net (local)
Infrastructure				
GCM Grosvenor	1.5–5.0*	1.6	–	+7.5% to 10.0% net (base)
Cash				
Managed in house	0.0	1.7	–	–
Total	100.0	100.0		

[†] portfolio is being run down as the investments mature

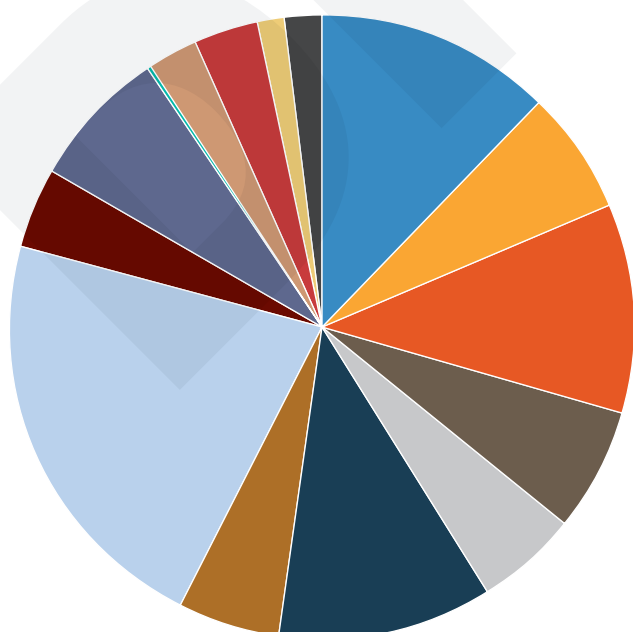
* this is a relatively immature portfolio and will be built up over time with the funds being taken from passive equities as required

Investment Overview continued

The value of the investments held by each of the Fund's managers on 31 March 2018 is shown in the following table.

Value of investments on 31 March 2018

Manager	£million
Schroders (UK equity portfolio)	812
Acadian (global equity portfolio)	434
Baillie Gifford (global equity portfolio)	709
Newton (global equity portfolio)	416
Aberdeen Standard (global equity portfolio)	365
UBS (passive global equities portfolio)	724
UBS (passive UK equities portfolio)	343
UBS (index-linked bond portfolio)	1,439
Western (global bond portfolio)	272
CBRE (UK property)	480
Aberdeen Standard (European property)	3
Aberdeen Standard (private equity and other alternatives)	186
Morgan Stanley (hedge funds)	209
GCM Grosvenor (infrastructure)	105
Held centrally (for pension payments, investment, etc.)	115
Total	6,613



Performance of the managers

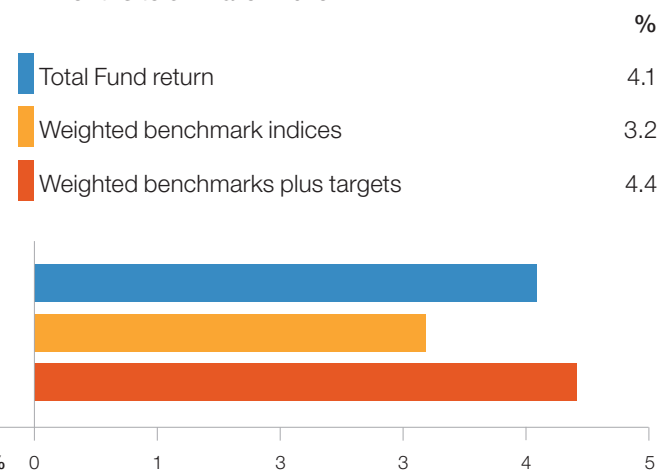
All of the managers have been set targets to achieve over three to five-year periods.

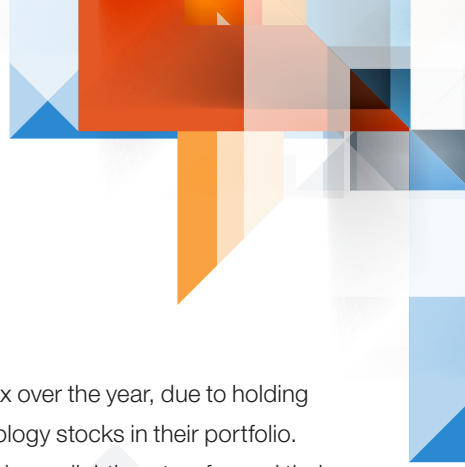
Global and UK equity markets, UK index linked bonds, and global bond markets all delivered modest positive returns for the year, and the Pension Fund's investment managers have all delivered low positive or slightly negative returns for 2017/18, with the exception of Baillie Gifford who have delivered a very strong positive return, as set out in detail below. The Pension Fund Panel and Board will continue to monitor the investment managers' performance against their targets on a rolling three and five-year basis.

The Fund in total

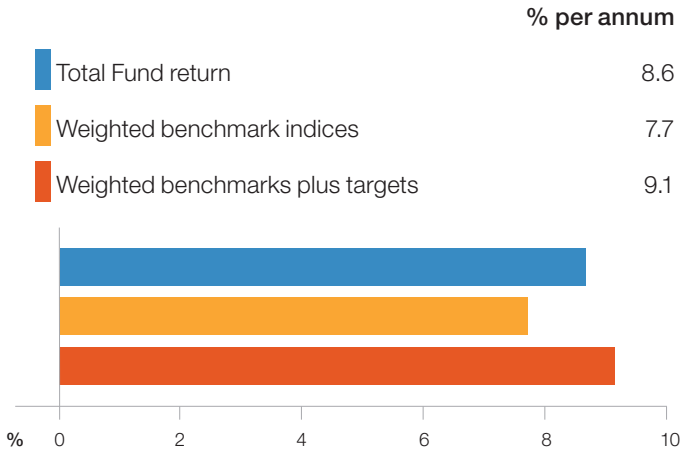
The total investment return for the Hampshire Pension Fund in 2017/18 was 4.1%. This compares with a weighted benchmark return of 3.2%. The investment managers are set targets to outperform their benchmark indices. The weighted return of these benchmark indices plus targets for 2017/18 was 4.4%. The Fund's investment return was 8.6% per annum over the three years to March 2018, and 7.1% per annum over the period since January 2007, which was when original specialist investment management arrangements were put in place.

Total investment returns for the Fund 12 months to 31 March 2018

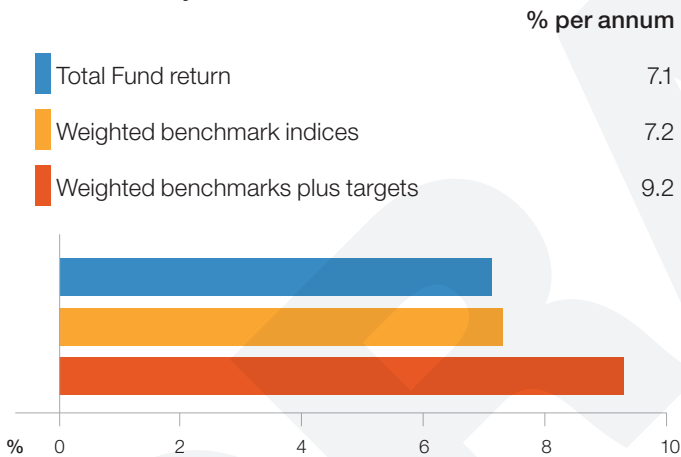




**Total investment returns for the Fund
Three years to 31 March 2018**



**Total investment returns for the Fund
Since January 2007**



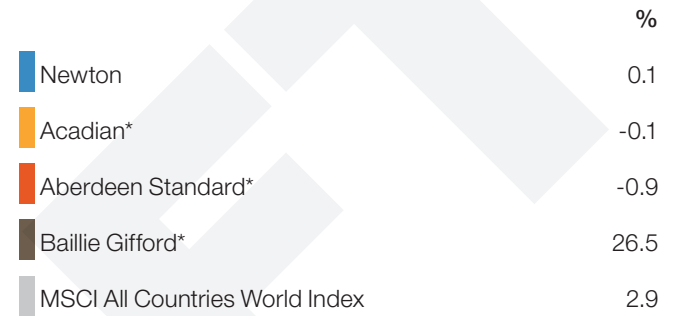
Global equities

During January 2018, the global equities passive mandate was transferred to UBS. Full details of the investment management arrangements are on page 13. Performance is not shown for UBS as no meaningful data is yet available. This year is the first year that full year data is available for Baillie Gifford, Aberdeen Standard, and Acadian.

The global stock markets returned 2.9% in 2017/18, as measured by the MSCI All Countries World Index in sterling. Newton and Aberdeen Standard underperformed the index in 2017/18, mostly due to individual stock selections rather than sector allocations. Acadian also underperformed the index in 2017/18, as their low volatility strategy was not favoured by markets over the period. Baillie Gifford have

greatly outperformed the index over the year, due to holding strongly outperforming technology stocks in their portfolio. Over the longer term, Newton have slightly outperformed their benchmark index over the period since January 2007.

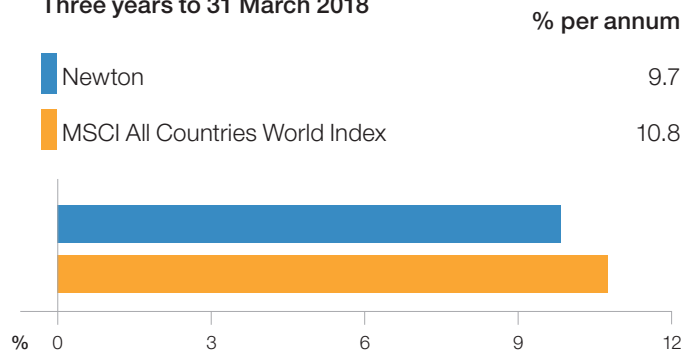
**Global equities
12 months to 31 March 2018**



*performance data is not available for periods over 1 year due to the length of time the portfolio has been held

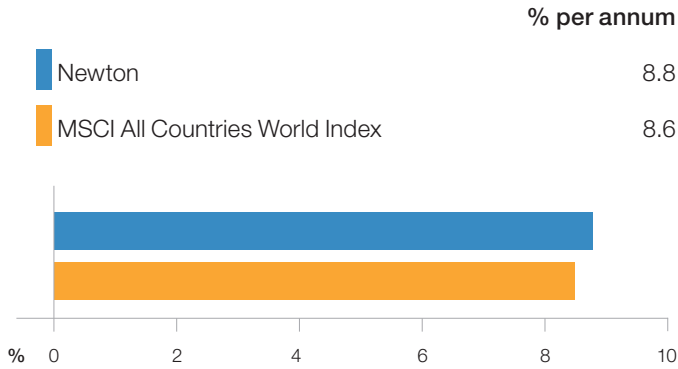
The Fund's active global equity managers' performance results against the MSCI Index benchmark over the last three years and since January 2007 are shown below.

**Global equities
Three years to 31 March 2018**



Investment Overview continued

Global equities Since January 2007

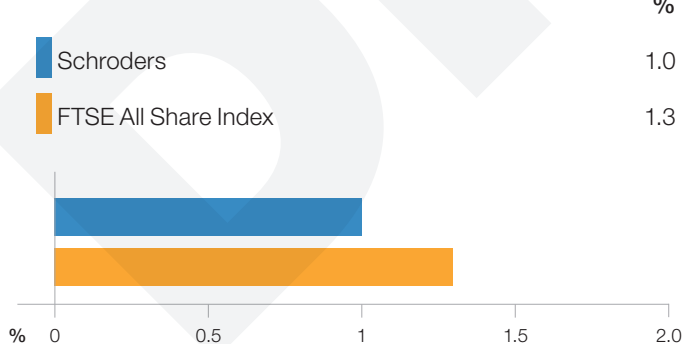


UK equities

During January 2018, the UK equities passive mandate was transferred to UBS. Performance is not shown for UBS as no meaningful data is yet available.

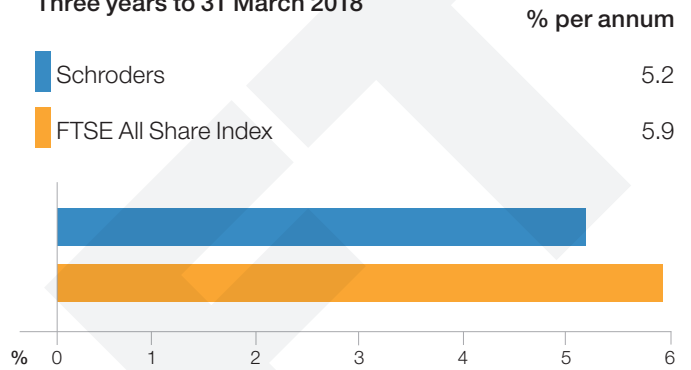
The UK stock market returned 1.3% during 2017/18 as measured by the FTSE All Share Index, and the Fund's active UK equity manager, Schroders, has underperformed the FTSE All Share index over the last one year and three year periods, but has outperformed over the period since January 2007. Underperformance in 2017/18 was partly due to some unsuccessful individual stock picks, but also due to Schroders value strategy not being favoured by the market over this time period.

UK equities 12 months to 31 March 2018

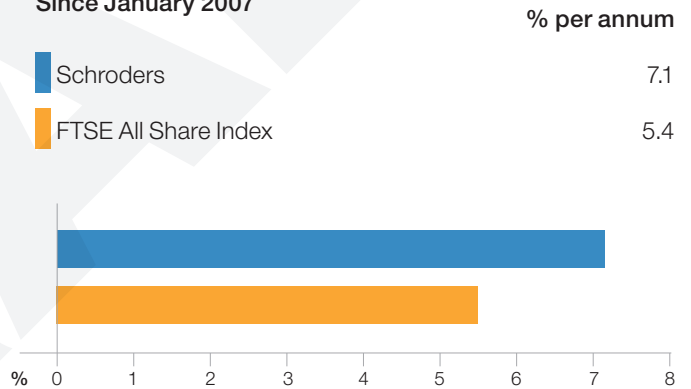


The Fund's active UK equity manager's performance results against the FTSE All Share Index benchmark over the last three years and since January 2007 are shown below.

UK equities Three years to 31 March 2018



UK equities Since January 2007



Bonds

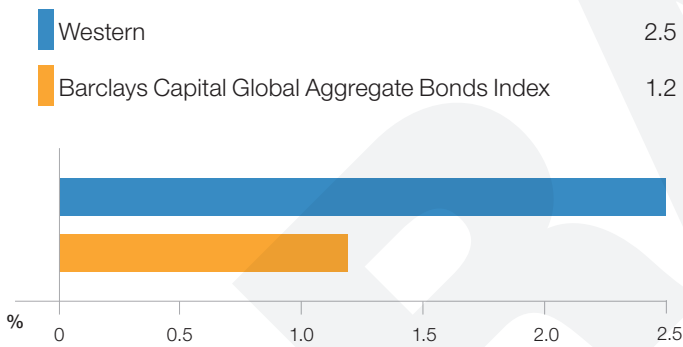
During January 2018, the UK index-linked bonds mandate was transferred to UBS. Performance is not shown for UBS as no meaningful data is yet available.

The Barclays Capital Global Aggregate Bonds Index has returned 1.2% during 2017/18, and the Fund's active global bonds manager, Western, has outperformed the benchmark index over the last year, the last three years, and the period since January 2007, due to positive performance against the benchmark in all investment strategies.

Shown below are the performance results of the active global bond manager against the Barclays Capital Bond Index benchmark.

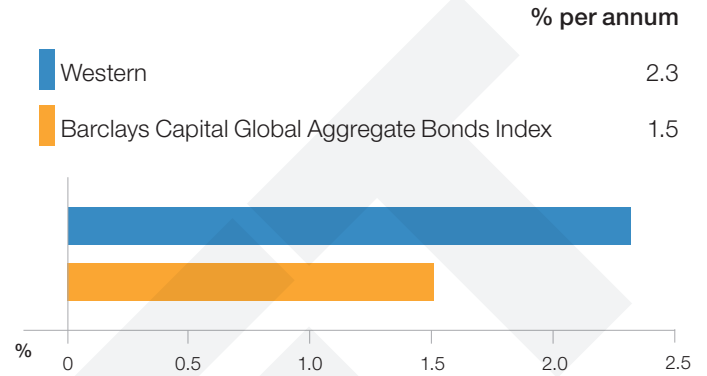
Bonds

12 months to 31 March 2018



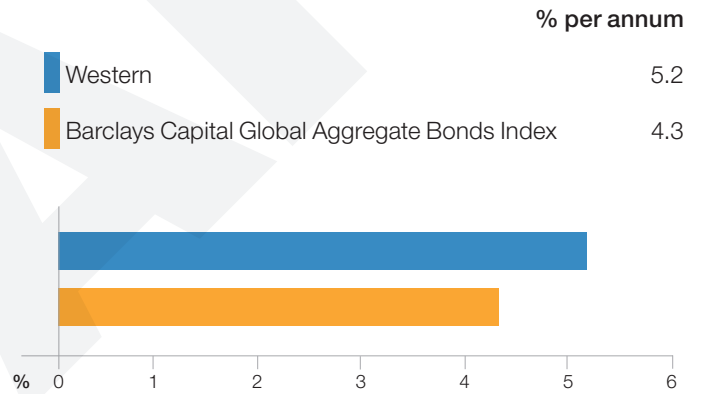
Bonds

Three years to 31 March 2018



Bonds

Since January 2007



Investment Overview continued

Property

CBRE Global Investors manage a portfolio of UK properties, with a performance target of the Retail Price Index (RPI) plus 4.5%, over seven to 10 years. CBRE Global Investors' performance return of 9.0% in 2017/18 was in excess of their target. Over the longer term CBRE Global Investors have exceeded their RPI plus 4.5% target over the last three year period, although they have underperformed over the period since January 2007, due to very challenging market conditions for property in 2008 and 2009.

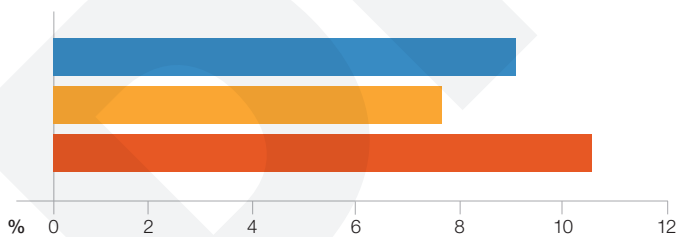
CBRE Global Investors underperformed the Investment Property Databank (IPD) benchmark return of 10.6% during 2017/18, but the portfolio has outperformed the IPD benchmark over the longer term. The IPD benchmark reflects the returns achieved by similarly sized property portfolios, but is not the performance target for this portfolio.

Shown below are the performance results of the Fund's UK property manager against the IPD benchmark and their benchmark of RPI plus 4.5%.

Property

12 months to 31 March 2018

- CBRE Global Investors – UK property
- RPI plus 4.5%
- IPD benchmark

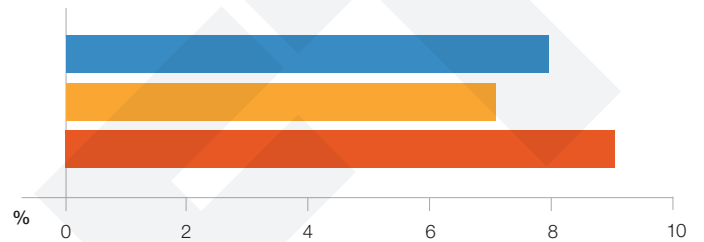


Property

Three years to 31 March 2018

% per annum

- CBRE Global Investors – UK property 8.0
- RPI plus 4.5% 7.2
- IPD benchmark 9.1

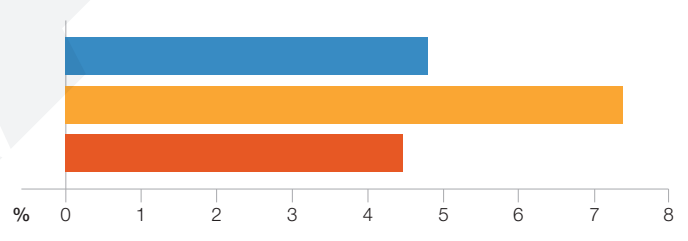


Property

Since January 2007

% per annum

- CBRE Global Investors – UK property 4.8
- RPI plus 4.5% 7.4
- IPD benchmark 4.5



Analysis of Fund Assets and Investment Income

The following tables show an analysis of the fund assets and investment income as at 31 March 2018, split between UK, non-UK and global portfolios.

Fund Assets at 31 March 2018

	UK £m	Non-UK £m	Global £m	Total £m
Equities	1,946.1	–	1,795.5	3,741.6
Bonds	1,450.1	–	258.7	1,708.8
Property	433.1	49.2	–	482.3
Alternatives	–	–	497.5	497.5
Cash and cash equivalents	12.6	–	–	12.6
Total	3,841.9	49.2	2,551.7	6,442.8

Investment income received in 2017/18

	UK £m	Non-UK £m	Global £m	Total £m
Equities	31.1	–	28.4	59.5
Bonds	–	–	7.1	7.1
Property	27.6	0.2	–	27.8
Alternatives	–	–	16.3	16.3
Cash and cash equivalents	–	–	0.2	0.2
Other (including stock lending)	–	–	1.4	1.4
Total	58.7	0.2	53.4	112.3

Scheme Administration Report

Who belongs to the Hampshire Pension Fund?

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

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

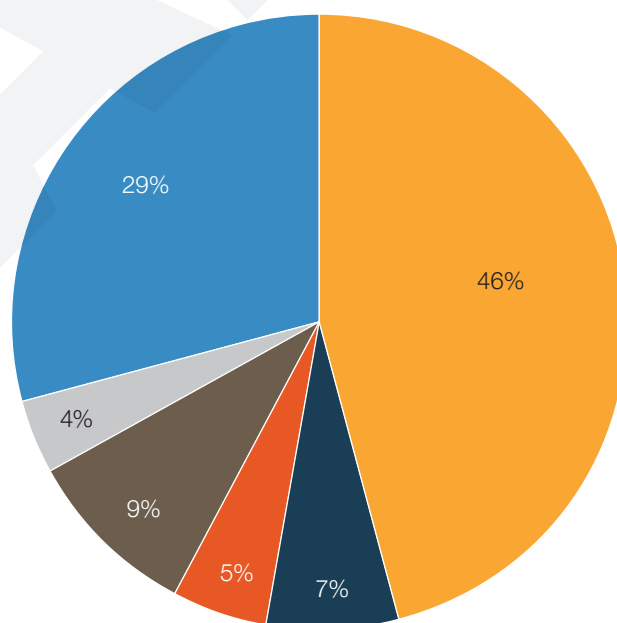
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years.

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

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

On 31 March 2018 there were 39,796 pensioners, 69,503 deferred members, and 57,877 contributors, a total of 167,176 Scheme members.

	Number of contributors	%
Hampshire County Council	26,719	46
Portsmouth City Council	4,271	7
Southampton City Council	2,644	5
District and Borough Councils	4,986	9
Office of Police and Crime Commissioner and Chief Constable	2,543	4
Other organisations	16,714	29
Totals	57,877	100



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

Employer Type	Employers	Active members
Scheduled	179	56,160
Resolution	59	300
Admitted	58	1,218
Community admitted	17	88
Transferee admitted	20	111
Total	333	57,877

Pension Fund Administration

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

There are 46 full time equivalent members of staff involved in the administration of the scheme, split into two main teams, supported by finance, projects and systems staff:

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

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

In addition, Pension Services comply with the requirements for the national standard for excellence in customer service (CSE).

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

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

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

Pension Services have held the Customer Service Excellence (CSE) standard since 2009, with compliance plus in three criteria, and retained the award following a three year full assessment in April 2018, increasing the compliance plus passes to five.

The Compliance plus awards were for the following areas:

- There is corporate commitment to putting the customer at the heart of service delivery and leaders in our organisation actively support this and advocate for customers.
- We empower and encourage all employees to actively promote and participate in the customer focused culture of our organisation.
- We can demonstrate our commitment to developing and delivering customer focused services through our recruitment, training and development policies for staff.
- We can demonstrate how customer-facing staffs' insight and experience is incorporated into internal processes, policy development and service planning.
- We monitor and meet our standards, key departmental and performance targets, and we tell our customers about our performance.

Scheme Administration Report continued

Pension Services ran ten training events in the year which were attended by 144 people representing 71 employers and one Employer Focus Group meeting. In addition Pension Services staff attended various employer liaison meetings throughout the year.

Scheme information for members is provided on the Pension Services website. Members can view their own record including their annual benefit statement via member self-service. Approximately 26,650 members have registered so far.

Administration performance

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

The service standard for 7 of the key processes shown below was reduced from 20 days to 15 days from October 2017, in recognition that performance had been at or below 15 days for a significant and sustained period of time. Casework for deferred members has been maintained at 40 days, and processing of refunds at 20 days.

100% of targets were met during 2017/18 for all key processes other than the payment of death benefits (99.76% for 2017/18, which rounds to 100% in the table below). Two cases missed the target deadline, due to an internal error, and controls have been put in place to prevent this happening in the future.

% of targets met

Area of work	Q1 %	Q2 %	Q3 %	Q4 %
Retirement	100	100	100	100
Deferred Retirement	100	100	100	100
Estimate	100	100	100	100
Deferred	100	100	100	100
Transfer Out	100	100	100	100
Transfer In	100	100	100	100
Divorce	100	100	100	100
Refund	100	100	100	100
Death	100	100	100	100

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

What does membership cost and what are the benefits?

The Scheme operates tiered employee contribution rates set by Government. Employees pay a rising percentage depending on their pay band. The rates that apply from 1 April 2018 are set out in the following table:

Band	Actual salary	Contribution rate per year	
		Main Section	50:50 Section
1	Up to £14,100	5.50%	2.75%
2	£14,101 to £22,000	5.80%	2.9%
3	£22,001 to £35,700	6.50%	3.25%
4	£35,701 to £45,200	6.80%	3.4%
5	£45,201 to £63,100	8.50%	4.25%
6	£63,101 to £89,400	9.90%	4.95%
7	£89,401 to £105,200	10.50%	5.25%
8	£105,201 to £157,800	11.40%	5.7%
9	£157,801 and more	12.50%	6.25%

Every three years the Fund's actuary, Aon, completes an actuarial valuation. This involves looking at the Fund's investments, future contributions from employees and commitments to decide the future level of employers' contributions. The most recent actuarial valuation of the Fund was undertaken at 31 March 2016. The actuarial position of the Fund is explained in more detail on page 34.

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

- a fixed cash amount based on a percentage of employer payroll for past service
- a percentage of contributor's pay for future service.

The percentage of contributor's pay for 2017/18 is 15.1% for employers in the Scheduled Body group and 17.6% for employers in the Admission Body group.

Benefits

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

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

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

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

The average annual pension paid in 2017/18 was £4,987 (£4,984 in 2016/17).

Retirement age

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

A total of 2,264 Scheme members retired during 2017/18, with an average retirement age of 62 years. Of this number, 991 (or 43.8%) took some form of early retirement, of which about two thirds were individuals choosing to take a reduced pension.

Timeliness of contributions

All employer contributions due for 2017/18 have been received. The latest were credited on 2 May 2018, which was 10 days after the deadline.

A total of £1.298m was paid late (£2.636m in 2016/17) which was 0.47% of the total contributions received. The average delay on all late payments received during 2017/18 was 25 days (8 days in 2016/17). Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2017/18.

Additional voluntary contributions

Scheme members can pay additional voluntary contributions (AVCs) if they wish to supplement their pension or get an extra tax-free retirement lump sum. The Fund has two AVC providers, Prudential and Zurich. Members with existing AVCs with Equitable Life can continue to make payments to these contracts, but only if they are invested in its building society fund or for an additional death-in-service grant. The AVCs are invested separately from the Fund's main assets and are used to buy extra pension benefits on retirement.

Cost benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Department for Communities and Local Government. The most recent data is that for the financial year 2016/17 and is summarised in the following table:

	2016/17		2015/16	
	Hampshire	All Funds	Hampshire	All Funds
Administration cost per member	£12.00	£20.73	£11.62	£25.67
Governance cost per member	£3.92	£9.50	£5.01	£9.51
Investment cost per member	£178.04	£155.06	£115.31	£143.12

Scheme Administration Report continued

Membership information

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

<http://www.hants.gov.uk/pensions-reportsandaccounts>

Year ending	No. of contributors	No. of deferreds	No. of pensioners
31 March			
2013	46,319	48,970	33,449
2014	50,551	52,417	33,286
2015	54,679	55,787	34,364
2016	57,815	59,857	36,519
2017	57,781	64,060	38,216
2018	57,877	69,503	39,796

The number of contributors has remained stable in the year.

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

Complaints

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

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

There were eight formal complaints made in 2017/18. These were all investigated and changes were made to processes where appropriate.

Appeals

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

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

The Fund considered four stage one Internal Dispute Resolution Procedure (IDRP) appeals against the Pension Fund during 2017/18. This was partially upheld to allow a transfer outside of 12 months.

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

The Fund's statutory statements

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

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

These statements were last reviewed and approved by the Pension Fund Panel and Board at the meetings on 15 December 2017.

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

www.hants.gov.uk/pensions-reportsandaccounts

Risk Management Report

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

Risk	Description	Likelihood	Impact	Mitigation
Employer risk	<p>These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.</p> <p>These events could cause the risk of unexpected structural changes in the Fund's membership and the related risk of an employer failing to notify the administering authority promptly.</p>	M	H	<p>The Administering Authority requires the other participating employers to communicate regularly with it on such matters.</p> <p>The Pension Fund Panel and Board have approved a Funding Strategy Statement that groups similar employers together for funding purposes. The Fund's Employer Policy outlines how the Administering Authority will deal with any situation resulting from a change in any Fund employers' circumstances or new employers entering the Fund. The Administering Authority monitors the status of the employers in the Fund and discusses any changes, including any necessary changes to the Funding Strategy Statement, with the Fund's Actuary.</p>
	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.			The Pension Fund's Funding Strategy Statement groups similar employers together and reflects that most of the employers in the Fund have a degree of Central Government support. Where this is not the case the Funding Strategy Statement sets out how this will be taken into account to manage the risk.
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyber attack), either effecting the Pension Fund directly or one of its key suppliers.	L	M	Pension Services follow the Administering Authority's Disaster Recovery policy that ensures that processes are in place to manage in the event of the loss of key resources.

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

Risk	Description	Likelihood	Impact	Mitigation
Administration risk	The Pensions Regulator identifies the risks being around:	M	M	
	<ul style="list-style-type: none"> Employer contribution monitoring: are employers paying the right amount of contributions on time? 			<p>Employer contributions are set out in the triennial valuation and the deadline for payment is set by Regulation as 22nd of the month.</p> <p>Contributions are monitored and any late payments are reported to the Pension Fund Panel and Board. Any issues of 'material significance' will be reported to the Regulator</p>
	<ul style="list-style-type: none"> Record-keeping: how comfortable are you that your records are complete and accurate? 			<p>The Administration Strategy is the agreement between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to the certain principles, including:</p> <ul style="list-style-type: none"> provide a high quality pension service to members take responsibility to provide accurate and timely information the results are reported to the Panel & Board twice a year.
	<ul style="list-style-type: none"> Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated? 			<p>Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.</p>
	<ul style="list-style-type: none"> Member communication: are these always accurate, timely and clear? 			<p>There is a Communications Policy and Customer Charter on Pension Services' website, which details the service our scheme members can expect.</p>
	<ul style="list-style-type: none"> Internal disputes: do these indicate wider problems in the Fund? 			<p>The full complaint process, going all the way through to the Pensions Ombudsman, is detailed on Pension Services' website.</p> <p>All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.</p>
	<ul style="list-style-type: none"> Resourcing: conflicting priorities with servicing other partners. 			<p>Resourcing plans are in place to ensure services can be delivered to each partner. Project plans are in place that identify the requirements of each partner, including the on-boarding of new partners.</p>

Risk Management Report continued

Risk	Description	Likelihood	Impact	Mitigation
Investment risk	Investment management underperformance – from the Fund’s investment managers failing to outperform their benchmark returns for prolonged periods of time	M	H	<p>The Fund’s investment managers’ performance is reviewed regularly by the Fund’s officers and reported regularly to the Panel and Board.</p> <p>All of the Fund’s contracts for investment management contain the provision that the Fund can cancel the contract with 1 month’s notice in the event of poor investment performance.</p>
	Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities			<p>The Panel and Board have set a diversified asset allocation which limits exposure to one particular market.</p> <p>The Fund contracts with specialist external investment managers and as a general principle aims to invest globally and set mandates for investment managers that give them as much freedom as possible, in order to manage market conditions as they see fit.</p>
	Interest rate risk – which can affect the prices of investments that pay a fixed interest rate			<p>The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for investment managers that give them as much freedom as possible, in order to manage risks such as changes in interest rates.</p>
	Currency risk – the risk of fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			<p>As a UK Pension Fund the Panel and Board consider that the Pension Fund should have a significant proportion of its assets denominated in Sterling, thereby removing the currency risk.</p> <p>The Panel and Board keep their view of the long term nature of currency movements under review and will seek specialist advice if they believe that this might change or there is likely to be an event that might crystallise the effect of particular currency movements.</p>

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

Risk	Description	Likelihood	Impact	Mitigation
	Credit risk – the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.			The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment, with further limits set in the Investment Strategy Statement to limit the Fund's exposure to particular vehicles or assets.
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates.			The Fund contracts with specialist external investment managers and as a general principle aims to make their portfolios 'ever-green' so that income and maturing investments can be reinvested, allowing investment managers to build portfolios that do not have a concentration of investments with a particular maturity date.
	Custody risk – losing economic rights to Fund assets, when held in custody or being traded.			The Panel and Board and the Fund's officers regularly monitor the performance of the Fund's custodian and have the power to replace the provider should serious concerns exist.
	Liability risk – that the Fund's liabilities are not accurately calculated resulting in the return target being too low and employers' contributions having to rise.			The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions.
	Environmental, social and governance (ESG) factors – that these factors reduce long-term returns.			The Fund's external investment 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, thus jeopardising the Fund's interests, by voting or by contacting company management directly.

Risk Management Report continued

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	Regulatory risk – that inhibits the Pension Fund Panel and Board’s fiduciary duty.			The Fund will be proactive in engaging with the Government, including responding to consultation, on any issues affecting the management and investment of Pension Fund monies.
	Illiquidity – that the Fund is unable to meet its immediate liabilities			The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available. The Fund’s asset allocation is set to achieve a balance between liquid and illiquid investments.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary’s calculation of the Fund’s liabilities and reduce the Fund’s funding ratio.	H	M	The County Council as the Fund’s Administering Authority will ensure that the Fund’s Actuary investigates the main factors that determine the Fund’s liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund’s Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund’s employers’ contributions.
Funding risk	The Government Actuary’s Department (GAD) has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of the LGPS has been carried out. Their report must cover: <ul style="list-style-type: none"> • whether the fund’s valuation is in accordance with the scheme regulations • whether the fund’s valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS 	M	H	Any relevant measures and scores will be regularly reported to The Pension Fund Panel and Board. Appropriate financial assumptions will be agreed with the Fund Actuary for the 2016 valuation.

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

Risk	Description	Likelihood	Impact	Mitigation
	<ul style="list-style-type: none"> whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund. <p>These requirements will have statutory force with effect from the 2016 valuations in England and Wales.</p> <p>Funds will be assessed against a number of measures and scored as:</p> <p>Red – potentially a material issue that might contribute to a recommendation for remedial action to ensure solvency</p> <p>Amber – highlights a possible risk</p> <p>Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency</p> <p>GAD will then engage with Funds with any amber or red flags.</p>			
Regulatory and Compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.	L	M	The Pension Fund Panel and Board has documented Terms of Reference and Operating Procedures. The Panel and Board will consider all items that are material to the management of Hampshire Pension Fund and are supported by suitably qualified officers. Members of the Pension Fund Panel and Board complete a Training Needs Analysis based on CIPFA's Knowledge and Skills Framework and undertake identified training activities as necessary.

Financial Performance Report

Shown below is the Pension Fund's budget for 2017/18 compared to actual expenditure, and the budget for 2018/19 and 2019/20.

	Budget 2017/18 £'000	Actual 2017/18 £'000	Budget 2018/19 £'000	Budget 2019/20 £'000
Contributions received – Employers – normal	135,700	141,749	146,700	151,800
Contributions received – Employers – deficit	71,820	76,141	80,600	86,900
Contributions received – Employers – total	207,520	217,890	227,300	238,700
Contributions received – Members	62,570	63,029	64,800	65,200
Transfer values	0	-1,707	0	0
Benefits paid	-247,300	-239,202	-247,200	-254,200
Net additions/withdrawals from dealings with members	22,790	40,010	44,900	49,700
Investment management fees	27,170	38,186	40,900	45,600
Staff	1,485	1,457	1,510	1,560
Premises	60	60	60	60
IT	260	263	260	280
Supplies & Services	220	220	220	230
Other	0	0	0	0
Administrative Costs	2,025	2,000	2,050	2,130
Staff	220	285	305	310
Premises	10	5	5	5
IT	10	5	5	5
Supplies & Services	446	248	265	275
Other	5	4	5	5
Oversight & Governance Costs	691	546	585	600
Management Expenses	29,688	40,732	43,535	48,330



Dealings with members

Employer contributions received were greater than the budgeted figure due to a combination of higher than forecast normal and deficit recovery payments being received. More deficit recovery payments were received as agreements were made with a number of employers to shorten their recovery periods and increase their payments. The increase in pensionable pay that determines normal contributions was higher than forecast.

Pension benefits paid out were lower than forecast principally due to a reduction in lump-sums paid out.

Management expenses

The Pension Fund pays its investment managers a percentage fee based on the value of investments. Investment management fees were higher than forecast as the value of the Fund's investments grew by more than was forecast in calculating the expected management fees. In addition more money was committed to alternative investments where higher fees are payable as part of the Fund's diversification of its investments according to its investment strategy.

Administration costs were as forecast and Governance supplies and services costs were less than forecast due to less expenditure than planned on consultant and actuarial costs.

Statement of the Actuary

for the year ended 31 March 2018

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every three years. 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 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The next valuation will be undertaken as at 31 March 2019.

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £5,213.4M) covering 81% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 is:
 - 17.1% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate)

Plus

 - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 19 years from 1 April 2017 (the secondary rate), equivalent to 7.5% of pensionable pay (or £73.6M in 2017/18, and increasing by 3.5% p.a. thereafter).
3. In practice, each individual employer's or Group of Employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer or Group is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods were agreed with the administering authority reflecting the employers' circumstances.
5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service

Scheduled body group employers *	4.5% p.a.
Intermediate employers (low and medium risk)	4.3% p.a.
Intermediate employers (higher risk)	4.1% p.a.
Ongoing Orphan employers	4.1% p.a.

Discount rate for periods after leaving service

Scheduled body group employers *	4.5% p.a.
Intermediate employers (low and medium risk)	4.3% p.a.
Intermediate employers (higher risk)	4.1% p.a.
Ongoing Orphan employers	2.5% p.a.
Rate of pay increases	3.5% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

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

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

The assets were valued at market value.

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

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

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

8. Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material. In addition, amendment Regulations have been laid which provide for exit credits to be repaid to employers on exit, effective from 14 May 2018. It is anticipated that the Administering Authority will consider whether its Funding Strategy Statement should be revised on account of these changes.

9. This Statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

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

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

Aon Hewitt Limited

April 2018

Pension Fund Accounts

Fund Account

	See note	2016/17 £'000	2017/18 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	257,508	280,919
Transfers in from other pension funds		13,765	12,285
		271,273	293,204
Benefits	8	-235,256	-239,202
Payments to and on account of leavers		-14,713	-13,992
		-249,969	-253,194
Net additions from dealings with members			
		21,304	40,010
Management expenses	9	-31,045	-40,732
Net additions/withdrawals inc. fund management expenses		-9,741	-722
Returns on investments			
Investment income	10	112,567	112,321
Taxes on income		-2,003	-826
Profits and losses on disposal of investments and changes in the market value of investments	11a	1,022,985	165,252
Net return on investments		1,133,549	276,747
Net increase in the net assets available for benefits during the year		1,123,808	276,025
Opening net assets of the scheme		5,213,406	6,337,214
Closing net assets of the scheme		6,337,214	6,613,239

Net Assets Statement for the year ending 31 March 2018

	See note	31 March 2017 £'000	31 March 2018 £'000
Investment assets		6,116,083	6,432,182
Cash deposits		19,806	15,954
Investment liabilities		-2,543	-5,320
Total net investments	11	6,133,346	6,442,816
Long term debtors	20	6,085	4,564
Current assets	18	216,644	172,001
Current liabilities	19	-18,861	-6,142
Net assets of the Fund available to fund benefits at the period end		6,337,214	6,613,239

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

Notes to the Pension Fund Accounts

1. Description of Fund

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

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the Scheme.

a) General

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

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

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

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

b) Membership

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

Organisations participating in the Hampshire Pension Fund include:

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

There are 333 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2017	31 March 2018
Number of employers with active members	317	333
Number of employees in Scheme		
County Council	26,874	26,719
Other employers	30,907	31,158
Total	57,781	57,877
Number of pensioners		
County Council	16,706	17,344
Other employers	21,510	22,452
Total	38,216	39,796
Deferred pensioners		
County Council	31,693	34,334
Other employers	32,367	35,169
Total	64,060	69,503
Total members in the Pension Fund	160,057	167,176

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016. Currently employer contribution rates for most employers range from 14.1% to 16.6% of pensionable pay plus a past service deficit contribution.

d) Benefits

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

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

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

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

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

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. Summary of significant accounting policies Fund Account – revenue recognition

a) Contribution income

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

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

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

Notes to the Pension Fund Accounts continued

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Property-related income

Property-related income consists primarily of rental income.

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

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

v) Movement in the net market value of investments

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

Fund Account – expense items

d) Benefits payable

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

e) Taxation

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

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

f) Management expenses

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

Administration expenses

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

Oversight and governance costs

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

Investment management expenses

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2017/18 £3.5 million of fees is based on such estimates (2016/17 £0.4 million).

Net Assets Statement

g) Financial assets

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

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

h) Freehold and leasehold properties

Properties are valued annually as at the year-end date by an independent external valuer, Paul Willis, BSc MRICS of Colliers International, in accordance with the Royal Institute of Chartered Surveyors' Valuation – Global Standards 2017; see Note 13 for more details.

i) Foreign currency transactions

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

j) Derivatives

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

Notes to the Pension Fund Accounts continued

k) Cash and cash equivalents

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

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

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

n) Additional voluntary contributions

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

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

o) Contingent assets and contingent liabilities

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

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

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

4. Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the *International Private Equity and Venture Capital Valuation Guidelines*. The value of unquoted private equity investments at 31 March 2018 was £291 million (£241 million at 31 March 2017).

Pension fund liability

The pension fund liability is recalculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions, which are agreed with the actuary and are summarised in Note 16.

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

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

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

The items in the Net Assets Statement at 31 March 2018 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 17)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £760 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £60 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £230 million.
Debtors	At 31 March 2018, the Fund had a balance of debtors and prepayments of £58.4 million. A review of debtor balances suggested that an impairment of £0.033 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 £0.033 million to be set aside as an allowance.
Private equity	Private equity investments are valued at fair value in accordance with the International <i>Private Equity Venture Capital Valuation Guidelines</i> . 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 £291 million. The investment manager recommends a tolerance of +/- 10% around the net asset values on which the private equity valuation is based. This equates to a tolerance of +/- £29.1million.
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 £206 million. There is a risk that this investment may be under or overstated in the accounts. The investment manager recommends a tolerance of +/- 5% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £10.3 million.

Notes to the Pension Fund Accounts continued

6. Events after the reporting date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7. Contributions receivable

By category

	2016/17	2017/18
	£'000	£'000
Employees' contributions	60,963	63,029
Employers' contributions		
Normal contributions	131,096	141,749
Deficit recovery contributions	65,449	76,141
Total Employers' contributions	196,545	217,890
Total	257,508	280,919

By authority

	2016/17	2017/18
	£'000	£'000
Administering authority	96,996	104,587
Scheduled bodies	148,482	161,667
Admitted bodies	7,575	10,159
Community admission bodies	707	2,548
Transferee admission bodies	2,462	552
Resolution bodies	1,286	1,406
Total	257,508	280,919

8. Benefits payable

By category

	2016/17	2017/18
	£'000	£'000
Pensions	190,471	198,454
Commutation and lump sum retirement benefits	40,744	36,008
Lump sum death benefits	4,041	4,740
Total	235,256	239,202

By authority

	2016/17	2017/18
	£'000	£'000
Administering authority	87,930	88,476
Scheduled bodies	136,618	138,686
Admitted bodies	5,686	7,054
Community admission bodies	1,891	2,103
Transferee admission bodies	2,249	1,914
Resolution bodies	882	969
Total	235,256	239,202

9. Management expenses

	2016/17	2017/18
	£'000	£'000
Administrative costs	1,920	2,000
Investment management expenses	28,497	38,186
Oversight and governance costs	628	546
Total	31,045	40,732

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

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

9a) Investment Management Expenses

	2016/17	2017/18
	£'000	£'000
Management fees	24,447	28,161
Custody fees	140	238
Transaction costs	3,910	9,787
Total	28,947	38,186

10. Investment income

	2016/17	2017/18
	£'000	£'000
Income from bonds	8,182	7,048
Income from equities	59,991	58,698
Pooled property investments	2,513	1,479
Pooled investments – unit trusts and other managed funds	609	808
Rents from property	21,329	26,351
Interest on cash deposits	616	245
Alternative investment income	18,536	16,305
Stock lending	595	939
Other	196	448
Total	112,567	112,321

Notes to the Pension Fund Accounts continued

11. Investments

	31 March 2017	31 March 2018
	£'000	£'000
Bonds		
UK		
Public sector quoted	1,548	1,530
Corporate quoted	11,781	9,949
Overseas		
Public sector quoted	160,998	184,525
Public sector unquoted	12,878	12,167
Corporate quoted	57,197	48,525
	244,402	256,696
Equities		
UK – Quoted	822,111	860,112
Overseas – Quoted	1,646,005	1,792,145
	2,468,116	2,652,257
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	1,427,909	1,438,587
Unit trusts	366,217	365,028
Overseas		
Fixed income unit trusts	15,252	13,517
Unit trusts	737,484	724,328
	2,546,862	2,541,460
Pooled property investments	30,726	49,270
Alternative investments	445,974	497,470
Property	377,915	433,070
Derivative contracts:		
– Futures	430	950
– Forward currency contracts	1,548	945
– Purchased/written options	108	0
– Spot foreign exchange contracts	2	64
	856,703	981,769
Cash deposits	19,806	15,954
Total investment assets	6,135,889	6,448,136
Investment liabilities		
– Futures	–555	–1,187
– Forward currency contracts	–1,874	–4,045
– Purchased/written options	–112	0
– Spot foreign exchange contracts	–2	–88
Derivatives	–2,543	–5,320
Total investment liabilities	–2,543	–5,320
Net investment assets	6,133,346	6,442,816

11a) Reconciliation of movements in investments and derivatives

Period 2017/18

	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Bonds	244,402	395,308	-366,883	-16,131	256,696
Equities	2,468,116	1,104,887	-1,023,775	103,029	2,652,257
Pooled investments	2,546,862	2,569,913	-2,614,201	38,886	2,541,460
Pooled property investments	30,726	20,825	-4,777	2,496	49,270
Alternative investments	445,974	291,930	-248,284	7,850	497,470
Property	377,915	43,277	-3,648	15,526	433,070
	6,113,995	4,426,140	-4,261,568	151,656	6,430,223
Derivative contracts:					
- Futures	-125	7,889	-6,391	-1,610	-237
- Forward foreign exchange	-326	20,036	-39,445	16,635	-3,100
- Purchased/written options	-4	58	-40	-14	0
	-455	27,983	-45,876	15,011	-3,337
Other investment balances:					
- Cash deposits	19,806			-1,415	15,954
- Spot foreign exchange contracts	0				-24
Net investment assets	6,133,346			165,252	6,442,816

Notes to the Pension Fund Accounts continued

Period 2016/17

	Market value 1 April 2016 £'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 2017 £'000
Bonds	246,436	320,966	-350,550	27,550	244,402
Equities	1,909,250	1,410,816	-1,288,188	436,238	2,468,116
Pooled investments	2,039,243	0	-2,718	510,337	2,546,862
Pooled property investments	36,480	0	-5,383	-371	30,726
Alternative investments	298,727	246,462	-166,746	67,531	445,974
Property	375,280	4,600	-2,617	652	377,915
	4,905,416	1,982,844	-1,816,202	1,041,937	6,113,995
Derivative contracts:					
– Futures	88	11,518	-12,377	646	-125
– Forward foreign exchange	-5,357	84,415	-51,180	-28,204	-326
– Purchased/written options	3	-1,178	-12	1,183	-4
	-5,266	94,755	-63,569	-26,375	-455
Other investment balances:					
– Cash deposits	36,451			7,423	19,806
– Spot foreign exchange contracts	-9				0
Net investment assets	4,936,592			1,022,985	6,133,346

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

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

11b) Net assets analysed by fund manager

	Market value 31 March 2017		Market value 31 March 2018	
	£'000	%	£'000	%
Aberdeen-Standard	383,546	6.1	367,850	5.6
Acadian	118,986	1.9	433,309	6.5
Baillie Gifford	558,474	8.8	709,181	10.7
CBRE Global Investors	401,724	6.3	479,656	7.3
Legal & General	709,623	11.2	0	0.0
Newton	729,437	11.5	416,024	6.3
Schroders	802,242	12.7	812,062	12.3
State Street	1,789,197	28.2	0	0.0
UBS	0	0.0	2,505,806	37.9
Western	264,967	4.2	272,154	4.1
	5,758,196	90.9	5,996,042	90.7
Other investments	487,687	7.7	503,879	7.6
Other net assets	91,331	1.4	113,318	1.7
Total	6,337,214	100.0	6,613,239	100.0

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

Notes to the Pension Fund Accounts continued

11c) Stock lending

The Fund's Investment Strategy Statement sets the parameters for the Fund's stock lending programme. At the year end, the value of quoted stock on loan was £76.5 million (£237.3 million 2016/17). These stocks continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank, JP Morgan. As at 31 March 2018, the custodian bank held collateral at fair value of £84.6 million (£262.1 million 2016/17). Collateral consists of acceptable securities and government debt.

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

There are no liabilities associated with the loaned assets.

11d) Property holdings

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

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

	Year ending 31 March 2017	Year ending 31 March 2018
	£'000	£'000
Within one year	20,291	23,892
Between one and five years	63,969	71,386
Later than five years	60,204	59,971
Total future lease payments due under existing contracts	144,464	155,249

12) Analysis of derivatives

Objectives and policies for holding derivatives

The Fund's investments in derivatives are to hedge liabilities or to 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 agreements agreed between the Fund and the various investment managers.

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

i) Futures

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

ii) Forward foreign currency

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

iii) Options

The Fund wants to benefit from the returns available from investing in fixed interest securities but wishes to minimise the risk of loss of value through adverse price movements. No options were held at 31 March 2018.

Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure £'000	Market value 31 March 2017 £'000	Economic exposure £'000	Market value 31 March 2018 £'000
Assets					
UK fixed income futures	Less than one year	0	0	1,808	35
Overseas fixed income futures	Less than one year	101,928	430	137,025	915
Total assets			430		950
Liabilities					
UK fixed income futures	Less than one year	-16,311	-147	0	0
Overseas fixed income futures	Less than one year	-127,476	-408	-78,858	-1,187
Total liabilities			-555		-1,187
Net futures			-125		-237

Notes to the Pension Fund Accounts continued

Open forward currency contracts

At 31 March 2018, the Fund had open forward currency contracts in place with a net unrealised loss of £3.100 million.

Settlement	Currency bought	Local value '000	Currency sold*	Local value '000	Asset value £'000	Liability value £'000
Up to 1 month	GBP	133	EUR	-150	2	
1 to 6 months	GBP	3,180	AUD	-5,658	91	
1 to 6 months	GBP	5,444	CAD	-9,557	164	
1 to 6 months	GBP	43,950	EUR	-49,758	285	-4
1 to 6 months	GBP	24,918	JPY	-3,880,900		-1,115
1 to 6 months	GBP	2,306	MXN	-61,584		-82
1 to 6 months	GBP	3,265	PLN	-15,490	44	
1 to 6 months	GBP	169,983	USD	-241,979	30	-2,291
1 to 6 months	GBP	2,695	ZAR	-44,930	9	
1 to 6 months	AUD	3,532	GBP	-1,975		-47
1 to 6 months	COP	10,740,760	USD	-3,664	127	
1 to 6 months	EUR	5,000	GBP	-4,453		-65
1 to 6 months	IDR	51,685,690	USD	-3,748	4	-1
1 to 6 months	JPY	189,834	GBP	-1,217	56	
1 to 6 months	KRW	1,600,000	USD	-1,495	11	-3
1 to 6 months	MXN	3,980	GBP	-149	5	
1 to 6 months	PLN	1,480	GBP	-313		-5
1 to 6 months	RUB	213,000	USD	-3,742		-39
1 to 6 months	USD	1,934	EUR	-1,565	19	-16
1 to 6 months	USD	7,377	GBP	-5,276	12	-37
1 to 6 months	USD	3,588	IDR	-49,273,231	30	-22
1 to 6 months	USD	7,425	INR	-487,160	18	-34
1 to 6 months	USD	16,598	KRW	-17,962,081		-222
1 to 6 months	USD	3,871	MXN	-71,392	23	-37
1 to 6 months	ZAR	44,364	USD	-3,740	15	-25
Open forward currency contracts at 31 March 2018					945	-4,045
Net forward currency contracts at 31 March 2018						-3,100
Prior year comparative:						
Open forward currency contracts at 31 March 2017					1,548	-1,874
Net forward currency contracts at 31 March 2017						-326

* List of currencies

AUD = Australian Dollar

CAD = Canadian Dollar

COP = Columbian Peso

EUR = Euro

GBP = British Pound

IDR = Indonesian Rupiah

INR = Indian Rupee

JPY = Japanese Yen

KRW = South Korean Won

MXN = Mexican Peso

PLN = Polish Zloty

RUB = Russian Ruble

USD = United States Dollar

ZAR = South African Rand

Purchased/written options

Investment underlying option contract	Expires	Put/call	Notional holding 31 March 2017 £'000	Market value 31 March 2017 £'000	Notional holding 31 March 2017 £'000	Market value 31 March 2017 £'000
Assets						
Overseas fixed interest purchased	Less than one month	Call	106	97	0	0
Overseas fixed interest purchased	One to three months	Call	8	4	0	0
Overseas fixed interest purchased	One to three months	Put	14	7	0	0
Total assets				108		0
Liabilities						
Overseas cash purchased	One to three months	Put	-28	-10	0	0
Overseas fixed interest written	One to three months	Call	-189	-97	0	0
Overseas fixed interest written	One to three months	Put	-25	-5	0	0
Total liabilities				-112		0
Net purchased/written options				-4		0

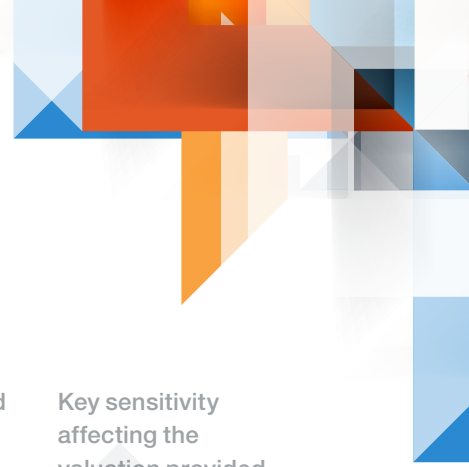
There were no purchased/written options held at 31 March 2018

Notes to the Pension Fund Accounts continued

13. Fair value – basis of valuation

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

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Market quoted investments	1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Spot foreign exchange contracts	1	Market exchange rates at the year end	Not required	Not required
Futures and options in UK bonds	1	Published exchange prices at the year end	Not required	Not required
Exchange traded pooled investments	1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments – property funds	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required



Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Freehold and leasehold properties	2	Valued at fair value at the year end using the investment method of Mark White, BSc MRICS of Colliers International in accordance with the RICS Valuation – Global Standards 2017	Comparable recent market transactions on arm's-length terms	Not required
Alternative Investments – Hedge funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Alternative Investments – Private equity	3	Comparable valuation of similar companies in accordance with <i>International Private Equity Venture Capital Valuation Guidelines</i> .	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Notes to the Pension Fund Accounts continued

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with the Fund's investment managers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018 £'000	Value on increase £'000	Value on decrease £'000
Alternative Investments – Hedge funds	5%	206,457	216,780	196,134
Alternative Investments – Private equity	10%	291,013	320,114	261,912

13a) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	5,439,261	62,381	497,470	5,999,112
Non-financial assets at fair value through profit and loss		433,070		433,070
Financial liabilities at fair value through profit and loss	-1,275	-4,045	0	-5,320
Net investment assets	5,437,986	491,406	497,470	6,426,862

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	5,246,932	45,260	445,974	5,738,166
Non-financial assets at fair value through profit and loss		377,915		377,915
Financial liabilities at fair value through profit and loss	-555	-1,986	0	-2,541
Net investment assets	5,246,377	421,189	445,974	6,113,540

The table now includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included. There were no transfers in classifications in 2017/18.

Notes to the Pension Fund Accounts continued

13b) Reconciliations of fair value measurements within level 3

Period 2017/18	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Alternative investments	445,974	291,930	-248,284	7,850	497,470

14. Financial instruments

14a) Classification of financial instruments

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

31 March 2017			31 March 2018		
Fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
Financial assets					
244,402			Fixed interest securities	256,696	
2,468,116			Equities	2,652,257	
2,546,862			Pooled investments	2,541,460	
30,726			Pooled property investments	49,270	
445,974			Private equity/ infrastructure	497,470	
377,915			Property	433,070	
2,088			Derivative contracts	1,959	
	182,932		Cash		134,081
	8,613		Debtors		12,168
6,116,083	191,545	0		6,432,182	146,249
Financial Liabilities					
-2,543			Derivative contracts	-5,320	
		-4,987	Creditors		-5,058
-2,543	0	-4,987		-5,320	0
6,113,540	191,545	-4,987		6,426,862	-5,058

Notes to the Pension Fund Accounts continued

14b) Net gains and losses on financial instruments

31 March 2017 £'000		31 March 2018 £'000
	Financial assets	
1,049,360	Fair value through profit and loss	166,667
	Financial liabilities	
-26,375	Fair value through profit and loss	-1,415
1,022,985	Total	165,252

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

15. Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

15a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2017/18 reporting period based on a one standard deviation movement in the value of the Fund's investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-)
UK equities	9.45%
Overseas equities	10.16%
UK bonds	12.32%
Overseas bonds	6.46%
Property	3.31%
Alternative investments	7.87%
Cash	0.11%

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

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

Notes to the Pension Fund Accounts continued

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2018	6,442,816	621,994	7,064,810	5,820,822
Total assets 2017	6,133,346	598,194	6,731,540	5,535,152

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

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

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



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

Assets exposed to interest rate risk	Value as at 31 March 2017 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	163,126	0	163,126	163,126
Cash deposits	19,806	0	19,806	19,806
Bonds	244,402	17,425	226,977	261,827
Total	427,334	17,425	409,909	444,759

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

Income exposed to interest rate risk	Amount receivable as at 31 March 2017 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits / cash & cash equivalents	616	2,310	2,926	-1,694
Bonds	8,080	0	8,080	8,080
Total	8,696	2,310	11,006	6,386

Notes to the Pension Fund Accounts continued

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

Currency risk

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

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

Currency risk – sensitivity analysis

Following analysis of historical data the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 10.0% (as measured by one standard deviation).

A 10.0% fluctuation in the currency is considered reasonable based on the Pension Fund's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

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

A 10.0% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2018	2,659,756	265,450	2,925,206	2,394,306
Total assets 2017	3,079,956	286,435	3,366,391	2,793,521

15b) Credit risk

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

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

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

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

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

The Pension Fund has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five years. The Fund's cash holding under its treasury management arrangements at 31 March 2018 was £74.591 million (31 March 2017: £63.463 million). This was held with the following institutions:

	Rating as at 31 March 2018	Balances as at 31 March 2017 £'000	Balances as at 31 March 2018 £'000
Money market funds			
Aberdeen	AAAm	6,340	0
Blackrock	AAAm	6,340	0
Deutsche	AAAm	6,340	6,560
Federated Investors UK	AAAm	6,340	7,390
Insight	AAAm	0	7,390
Standard Life	AAAm	6,340	7,390
Bank deposits			
Barclays	A	0	5,580
Lloyds	A	1,000	7,400
Nationwide Building Society	AAA	10,000	5,000
Nordea Bank AB	AA-	10,000	5,000
Rabobank	A+	5,000	5,000
Santander UK	AAA	0	5,000
Svenska Handelsbanken	AA-	4,810	4,060
Toronto-Dominion Bank	AAA	0	5,000
Treasury bills			
UK Government	A	953	3,821
Total		63,463	74,591

Notes to the Pension Fund Accounts continued

15c) Liquidity risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2018 the value of illiquid assets was £955 million, which represented 14.8% of the total fund assets (2016/17 £830 million, which represented 13.6% of the total fund assets).

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

All financial liabilities at 31 March 2018 are due within one year.

Refinancing risk

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

16. Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2016. The next valuation will take place at 31 March 2019.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 19 years from 1 April 2017 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held is equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

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

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

Contribution schedules have also been agreed for the remaining employers who are not grouped. The contributions for those employers reflect the profiles of their membership, the approach taken to value the liabilities on exit, the covenant of

the employer and take into account the recovery of any surplus or deficiency relating to their participation over an appropriate period.

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

Financial assumptions

Full details of the assumptions used by the Fund's actuary are set out in the 2016 actuarial valuation report and summarised in the Statement of the Actuary.

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

The main actuarial assumptions that were used for the secure scheduled bodies in the Scheduled Body Group in the March 2016 actuarial valuation were as follows:

Financial assumptions – discount rate for periods

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

The assets were valued at market value.

Demographic assumptions:

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

Commutation assumption:

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

50:50 option:

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

17. Actuarial present value of promised retirement benefits

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

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

The actuarial present value of promised retirement benefits at 31 March 2016 was £7,595 million (31 March 2013: £6,565 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date.

As noted above the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

The principal financial assumptions used by the Fund's actuary for the March 2016 IAS 19 calculation were:

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

Notes to the Pension Fund Accounts continued

18. Current assets

	31 March 2017	31 March 2018
	£'000	£'000
Debtors:		
– Contributions due - employees	11,304	575
– Contributions due - employers	22,966	34,443
– Transfer values receivable (joiners)	4,720	1,521
– Tax	5,915	5,167
– Sundry debtors	8,613	12,168
Cash balances	163,126	118,127
Total	216,644	172,001

Analysis of debtors

	31 March 2017	31 March 2018
	£'000	£'000
Central government bodies	4,158	6,789
Other local authorities	21,758	17,697
Other entities and individuals	27,602	29,388
Total	53,518	53,874

19. Current liabilities

	31 March 2017	31 March 2018
	£'000	£'000
Sundry creditors	4,987	5,058
Transfer values payable (leavers)	12,426	0
Benefits payable	993	537
Tax	455	547
Total	18,861	6,142

Analysis of creditors

	31 March 2017	31 March 2018
	£'000	£'000
Central government bodies	457	582
Other local authorities	12,966	773
Other entities and individuals	5,436	4,787
Total	18,861	6,142

20. Long term debtors

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

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over 10 instalments commencing April 2012. The total amount of the remaining debt is £6.085 million; of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £4.564 million is a long term debtor.

	31 March 2017	31 March 2018
	£'000	£'000
Magistrates Courts – agreed liability settlement due from central government body	6,085	4,564
Total	6,085	4,564

21. Additional voluntary contributions

	Market value 31 March 2017	Market value 31 March 2018
	£'000	£'000
Prudential	8,274	10,250
Zurich	8,188	7,503
Equitable Life	1,115	1,073
Total	17,577	18,826

During the year, AVCs of £3.051 million were paid directly to Prudential (2016/17: £2.491 million), £0.680 million to Zurich (2016/17: £0.987 million), and £0.006 million to Equitable Life (2016/17: £0.006 million).

22. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £104.587 million to the Fund in 2017/18 (2016/17 £96.996 million).

During the reporting period, the County Council incurred costs of £2.458 million (2016/17: £2.275 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The key management personnel of the Fund are the Director of Corporate Resources of Hampshire County Council, acting as Treasurer to the Fund, and the Head of Pensions, Investments and Borrowing. Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council's recharge. The charge above for the administration of the Fund includes £0.115m for senior management.

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2018, the Fund had an average cash balance of £74.300 million (year to 31 March 2017: £123.100 million), earning interest of £0.241 million (2016/17 £0.490 million) on these funds.



Notes to the Pension Fund Accounts continued

23. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £238.907 million (31 March 2017: £160.642 million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds held in the alternative investments part of the Fund. The amounts 'called' by private equity funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

24. Contingent assets

The Fund had no contingent assets on 31 March 2018.

25. Impairment losses

During 2017/18, the Fund has recognised an impairment loss for bad and doubtful debt of £0.033 million (2016/17: £0.042 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 2018.

Statement of Responsibilities

for the Hampshire Pension Fund Accounts

Fund's responsibilities

The Fund is required to:

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

Director of Corporate Resources' responsibilities

The Director of Corporate Resources is responsible for preparing the Hampshire Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2017/18 ('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 36 to 70 presents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.



Carolyn Williamson FCPFA

Deputy Chief Executive and Director of Corporate Resources



Independent Auditors' Statement

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

To be added later

DRAFT

Glossary

Actuary

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

Added-years

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

Administering Authority

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

Admission bodies

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

Alternative investments

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

AVCs

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

Benchmark asset allocation

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

Bonds

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

Bulk transfer

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

Cessation valuation

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

Community admission bodies

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

Commutation

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

Contingent liability

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

Deferred member

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

Derivatives

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

Discretionary

Allowable but not compulsory under law.

Dividends

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

Glossary continued

Economic exposure

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

Emerging markets

The financial markets of developing economies.

Equities

Shares in UK and overseas companies.

Full Funding

100% of the Funding Target chosen.

Funding Principle

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

Funding Success

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

Funding Target

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

FT

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

Gilt-edged securities (or Gilts)

Fixed-interest stocks issued by the UK Government.

Global custodian

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

GMP

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

Guarantors

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

Hedge fund

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

Income yield

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

Index

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

Index linked

Investments which generate returns in line with an index.

Index return

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

Informal valuations

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

Interim valuations

Actuarial valuations carried out in between the triennial valuations.

LGPS

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

MSCI

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

Myners

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

Notional sub-funds

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

Orphan liabilities

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

Pooled investment vehicle

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

Private equity

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

Projected unit actuarial method

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

Quartile

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

Recovery period

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

Relaxation period

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

Relevant Scheme Employer

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

Resolution bodies

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

Roll forward

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

Rolling three-year periods

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

Scheduled bodies

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



Glossary continued

Smoothing adjustment

An adjustment to the Fund's market value of assets to level out market fluctuations over a certain period of time up to the valuation date.

Soft commission

A soft commission arrangement is when an investment manager agrees to do a minimum amount of business with a broker in exchange for free research and information services. The Fund has no soft commission arrangements with any of its managers.

Solvency

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

Standard lifetime allowance

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

Statutory

Controlled by the law.

Subsumption

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

Transfer value

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

Transferee admission body

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

Triennial valuation

The valuation carried out by the Actuary every three years.

Weighted benchmark

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