



HAMPSHIRE
PENSION FUND
ANNUAL REPORT
AND ACCOUNTS

2016/2017



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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 2016/17.

I am writing to you at the end of quite an eventful year for markets. Global equity markets grew significantly over the year to 31 March 2017, in particular over the second half of the year, which saw a strong market rally in the wake of the election of President Trump. The weakening of Sterling following the results of the Brexit referendum also increased returns for the Pension Fund, as many of the Pension Fund's investments are global portfolios held in currencies other than Sterling. The Pension Fund has also benefitted from its allocation to UK index-linked gilts, which have delivered remarkable returns of 21.6% over the year, due to strong inflows from investors. The results of all this have been investment returns of 21.4% for the year to 31 March 2017, taking the value of the Fund to over £6 billion.

Whilst this has been an impressive year for the Fund's investments, we are in no way complacent, and continue to work hard to ensure that the Fund is best positioned to deliver the returns needed into the future. The results of the 2016 actuarial valuation have now been finalised, showing a gradual improvement in the funding level from the previous position, with the Fund's assets as at 31 March 2016 covering 81% of the liabilities. Following on from the actuarial valuation, we are now in the process of reviewing the Fund's strategic asset allocation, and I look forward to reporting back on how we have implemented any changes to our arrangements next year.

With regard to investment management, we have completed the competitive tender exercise for our global equities allocation, and have reappointed one manager – Newton, and also appointed three new managers – Acadian Asset Management, Baillie Gifford, and Standard Life. It is early days yet, but I am enthusiastic about working with these managers and seeing how they perform over time.

Investment pooling continues to be a significant piece of ongoing work for the Pension Fund, and I am pleased with the strong engagement which has been shown by all Chairmen and officers from the funds within our pool, ACCESS (A Collaboration of Central, Eastern and Southern Shires). I am therefore encouraged that the ACCESS funds will be able to successfully work together to achieve the best outcome for all of the 11 funds in the pool, given the requirements for pooling that have been set by Central Government.

Training continues to be taken very seriously by the Panel and Board members, and we have again hosted two excellent bespoke in-house training half-days. Training will continue to be given high priority, particularly as we welcome new members onto the Panel and Board, and as we continue to seek to keep pace with changes within the LGPS and wider investment markets. Further information on the training received and plans for training over the next year can be found in the training report on page 7.



In April 2017, Pensions Services had a review for Customer Service Excellence. This was conducted as a day's site visit by the assessor who also contacted employers for feedback on the service. Pensions Services retained their accreditation and picked up two further compliance plus marks for telling customers about performance, and incorporating customer feedback into processes, along with the existing one for the corporate commitment to putting the customer at the heart of service delivery. Pensions Services staff have been working hard to ensure that we continue to deliver a high level of service, and I am very happy to say that 100% of targets were met in every quarter for 2016/17. This is exemplary work and I would like to extend my thanks to the Pensions Services team.

I would also like to thank the members of the Pension Fund Panel and Board for their hard work and commitment during 2016/17, and I am looking forward to working with the new 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.

A handwritten signature in dark ink that reads "Mark W. Kemp-Gee". The signature is written in a cursive style and is underlined.

Councillor Mark Kemp-Gee

Chairman, Pension Fund Panel, July 2017

Who's Who

Administering authority and Scheme Manager

Hampshire County Council

Treasurer

Carolyn Williamson, Director of Corporate Resources

Independent adviser

Carolan Dobson

Aberdeen



Morgan Stanley

NEWTON
The Power of Ideas



Standard Life
Investments

STATE STREET
GLOBAL ADVISORS.



Investment managers

Custodian

JP Morgan

Actuary

Aon Hewitt Limited

Bankers

The National Westminster Bank plc

External auditor

Ernst & Young

AVC providers

Zurich

Prudential

Equitable Life

County Council contacts

Head of Pensions,
Investments & Borrowing

Andy Lowe
01962 876370

Legal adviser

Paul Hodgson

Pension Fund Panel and Board

as at 31 March 2017

County Council members



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



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



Cllr Christopher Carter
8 years' membership



Cllr Criss Connor
4 years' membership



Cllr Peter Latham
3 years' membership



Cllr Andrew Gibson
5 years' membership



Cllr Andrew Joy
4 years' membership



Cllr Tim Rolt
4 years' membership



Cllr Bruce Tennent
8 years' membership

County Council deputies

- Cllr Frank Rust** (1 years' membership)
- Cllr Chris Greenwood** (2 years' membership)
- Cllr Keith House** (2 years' membership)
- Cllr Frank Pearce** (2 years' membership)

Employer representatives



Cllr Hugh Mason
Unitary Council representative
3 years' membership



Cllr Peter Giddings
District Council representative
9 years' membership



David Robbins
Other employer representative
1 years' membership



Cllr Mark Chaloner
Substitute employer representative
2 year's membership

Member representatives



Phillip Reynolds*
Employee representative
10 years membership



Valerie Arrowsmith
Deferred member representative
1 years' membership



Cliff Allen
Pensioner representative
4 years' membership



Neil Wood
Substitute member representative
1 years' membership

*In December 2016 Phillip Reynolds stepped down as employee representative, and was replaced by Neil Wood.

Pension Fund Panel continued

Following the Hampshire County Council elections in May 2017, Cllr Criss Connor and Cllr Tim Rolt are no longer members of the Panel and Board, and new members are Cllr Alan Dowden and Cllr Jonathan Glen. The County Council deputies are now Cllr Derek Mellor and Cllr Keith House. In addition, Southampton City Council have yet to appoint a member to the post of Unitary Council representative, and Cllr Hugh Mason will now be the substitute employer representative.

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

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

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

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 7.

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 for individual members. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

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

Training received in 2016/17

Two internal training half-days were arranged for Panel and Board members in Winchester during July and November 2016. The topics covered by these sessions were as follows:

| Date | Topic | Provider |
|---------------|---|---|
| July 2016 | Investment pooling | Andrew Boutflower, Deputy Investments and Borrowing Manager |
| July 2016 | Ethical investing | Newton |
| November 2016 | How we aim to deliver the right, reliable, cost-effective service | Nick Weaver, Pensions, Investments and Borrowing manager |
| November 2016 | Infrastructure investing | GCM Grosvenor |

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.

Training and Development Report continued

Following establishment of the new Panel and Board in May 2017, individual members of the Panel Fund 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 2017/18 and 2018/19. 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 2016/17 provided by the Pension Fund's investment managers and other external organisations, as follows:

Schroders Trustee Training – managing scheme strategy, including LDI

River and Mercantile Asset Management – Protecting Pension Funds

LGC Investment Summit

Schroders Autumn Conference

SPS Optimising Value from Bond Investments for Pension Funds

JP Morgan 21st Century Trusteeship and Governance

Baillie Gifford training and investment seminar

Local Government Pension Investment Forum

LGC Investment Seminar

LGA Fundamentals training days 1, 2 & 3

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 2017/18

The training plan for 2017/18 will be approved by the Pension Fund Panel and Board in July 2017. Proposed training includes further in-house training sessions in July 2017 and November 2017, external training events, use of online learning tools, briefing information in reports to the Panel and Board from officers, and background reading as appropriate.

Investment Policy and Performance Report

Custody of assets

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

There were no employer contribution increases during 2016/17. 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.

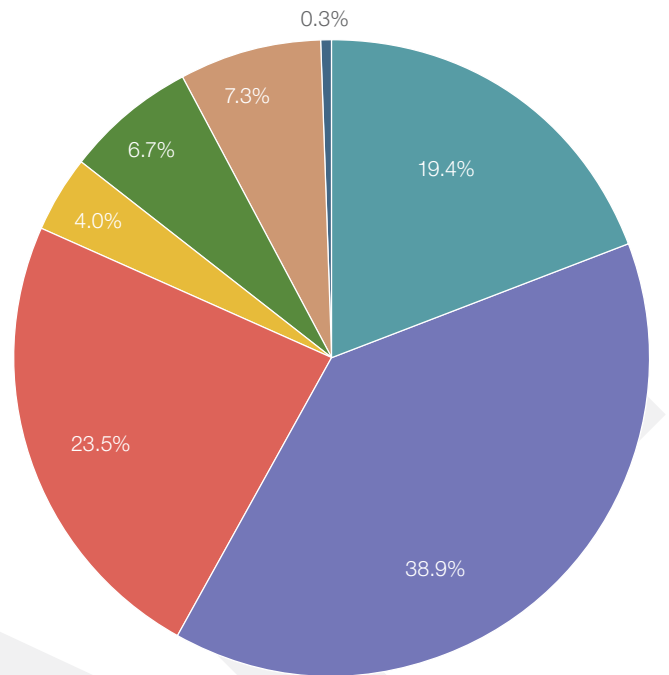
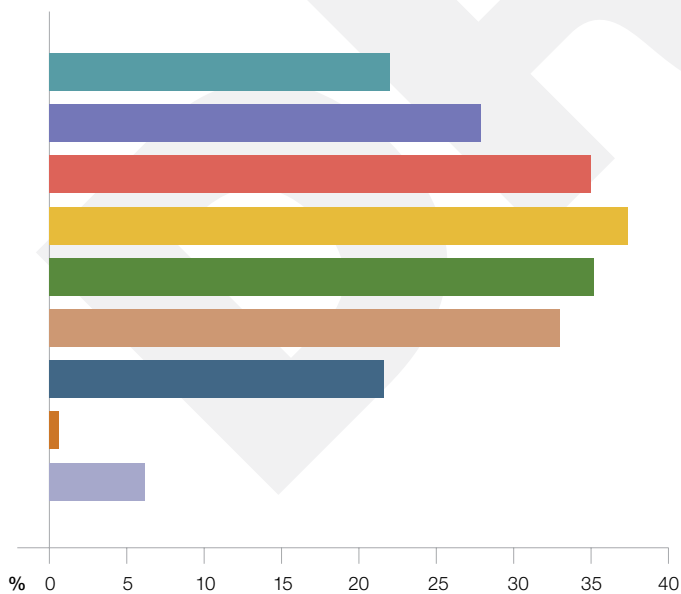
Investment overview

During 2016/17, stock markets delivered very strong positive performance, as the UK stock market returned 22.0% and world stock markets returned 33.0% overall. UK index-linked bonds have also delivered high returns of 21.6% for the year, and global bonds delivered modest positive returns of 0.6% in 2016/17.

The UK commercial property market has continued to deliver positive returns of 6.2% in 2016/17, although this is less than the very strong returns over the previous few years.

Market returns in 2016/17

| | % |
|--------------------------|------|
| UK equities | 22.0 |
| European equities | 27.9 |
| North American equities | 35.0 |
| Pacific Basin equities | 37.4 |
| Emerging Market equities | 35.2 |
| Global equities | 33.0 |
| UK index-linked bonds | 21.6 |
| Global bonds | 0.6 |
| UK property | 6.2 |



Breakdown of the Hampshire Pension Fund's investments on 31 March 2017

| | % |
|-------------------------------|--------------|
| UK equities | 19.4 |
| Overseas equities | 38.8 |
| UK fixed interest bonds | 23.5 |
| Overseas fixed interest bonds | 4.0 |
| UK and European property | 6.7 |
| Alternative investments | 7.3 |
| Cash held pending investment | 0.3 |
| Total | 100.0 |

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

Pension Fund investment management structure

| | Target portfolio size % | Actual allocation at 31 March 2017 % | Benchmark | Annual target performance gross/ net of fees |
|--|-------------------------------|--|--|--|
| Low-risk active UK equities | | | | |
| Schroders Investment Management | 14.0 | 12.8 | FTSE All Share | +1.25% gross |
| High-performance global equities | | | | |
| Acadian Asset Management | 1.7 | 1.9 | MSCI World | +1.5% to 2.5% net |
| Baillie Gifford & Co | 7.9 | 8.8 | MSCI All Countries World | +1.5% to 2.5% net |
| Newton Investment Management | 10.9 | 11.5 | MSCI All Countries World | +1.5% to 2.5% net |
| Standard Life Investments | 5.5 | 5.8 | MSCI All Countries World | +1.5% to 2.5% net |
| Aberdeen Frontier Markets Equity | 0.0 | 0.2 | MSCI Frontier Markets Index | – |
| Passive equities | | | | |
| State Street (UK equities) | 5.0 | 5.5 | FTSE All Share Index | – |
| State Street (global equities) | 9.0 | 11.4 | FTSE All World Equity Index | – |
| Active global bonds | | | | |
| Western Asset Management | 5.0 | 4.2 | Barclays Capital Global Aggregate Bonds Index | +1.5% gross |
| Passive index-linked bonds | | | | |
| Legal & General | 10.5 | 11.2 | FT British Government Over Five Years Index-Linked Gilts Index | – |
| State Street Global Advisors | 10.5 | 11.3 | As above | – |
| UK property | | | | |
| CBRE Global Investors | 10.0 | 6.3 | Retail Prices Index (RPI) | +4.5% net |
| European property | | | | |
| Aberdeen Property Investors | 0.0 [†] | 0.1 | Eurozone Harmonised Index of Consumer Prices (HICP) | +5% gross |
| Private equity and other alternatives | | | | |
| Aberdeen Asset Management | 5.0 | 2.9 | – | +9% to 11.5% net (local) |
| Hedge funds | | | | |
| Morgan Stanley | 3.5 | 3.6 | – | +5.5% to 8.0% net (local) |
| Infrastructure | | | | |
| GCM Grosvenor | 1.5–5.0* | 1.1 | – | +7.5% to 10.0% net (base) |
| Cash | | | | |
| Managed in house | 0.0 | 1.4 | – | – |
| Total | 100.0 | 100.0 | | |

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

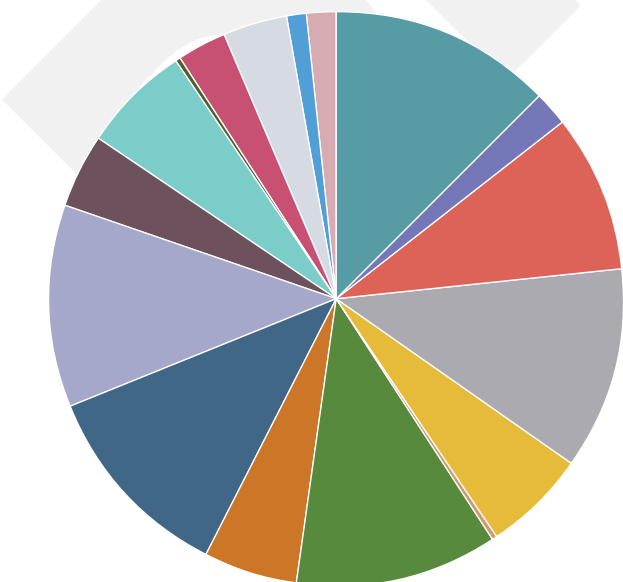
[#] this is a relatively immature portfolio and will be built up over time with the funds being taken from passive equities as required

Investment Overview continued

The value of the investments held by each of the Fund's managers on 31 March 2017 is shown in the following table.

Value of investments on 31 March 2017

| Manager | £million |
|---|--------------|
| Schroders (UK equity portfolio) | 802 |
| Acadian (global equity portfolio) | 119 |
| Baillie Gifford (global equity portfolio) | 558 |
| Newton (global equity portfolio) | 729 |
| Standard Life (global equity portfolio) | 368 |
| Aberdeen (frontier markets fund) | 13 |
| State Street (passive global equities portfolio) | 724 |
| State Street (passive UK equities portfolio) | 347 |
| Legal & General (index-linked bond portfolio) | 710 |
| State Street (index-linked bond portfolio) | 718 |
| Western (global bond portfolio) | 265 |
| CBRE (UK property) | 402 |
| Aberdeen (European property) | 7 |
| Aberdeen (private equity and other alternatives) | 186 |
| Morgan Stanley (hedge funds) | 225 |
| GCM Grosvenor (infrastructure) | 69 |
| Held centrally (for pension payments, investment, etc.) | 95 |
| Total | 6,337 |



Performance of the managers

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

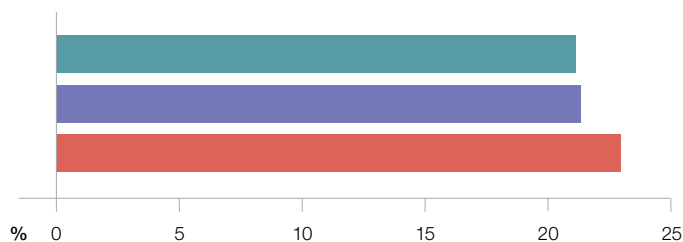
Both global and UK equity markets, and UK index linked bonds delivered strong positive returns for the year, while global bond markets gave modest positive returns, and the Pension Fund's investment managers have all delivered positive returns during 2016/17, as set out in detail below. The Pension Fund 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

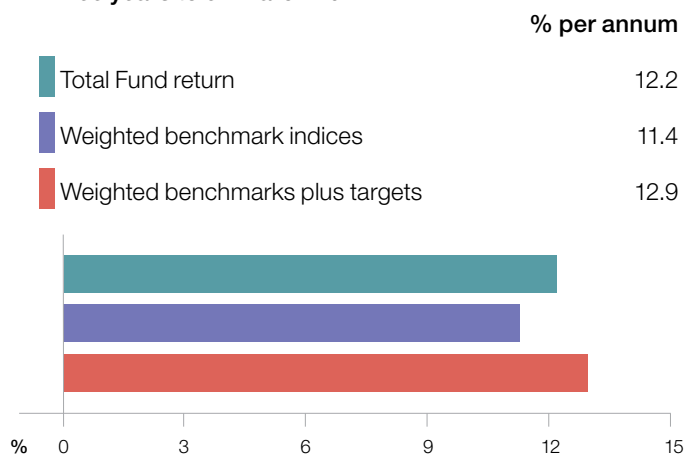
The total investment return for the Hampshire Pension Fund in 2016/17 was 21.4%. This compares with a weighted benchmark return of 21.5%. The investment managers are set targets to outperform or match their benchmark indices. The weighted return of these benchmark indices plus targets for 2016/17 was 23.0%. The Fund's investment return was 12.2% per annum over the three years to March 2017, and 7.4% 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 2017

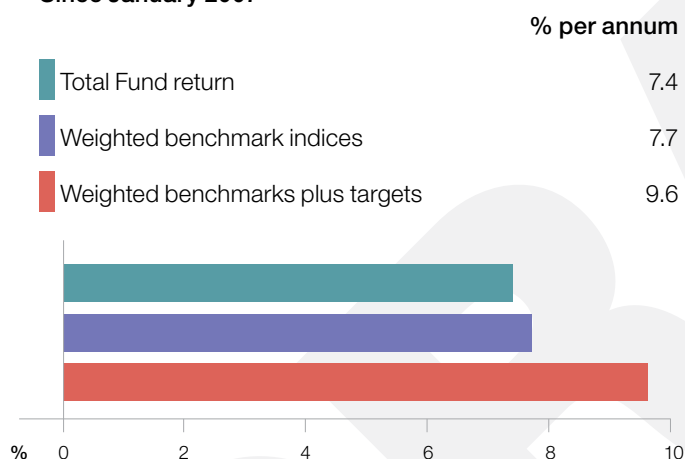
| | % |
|----------------------------------|------|
| Total Fund return | 21.4 |
| Weighted benchmark indices | 21.5 |
| Weighted benchmarks plus targets | 23.0 |



**Total investment returns for the Fund
Three years to 31 March 2017**



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

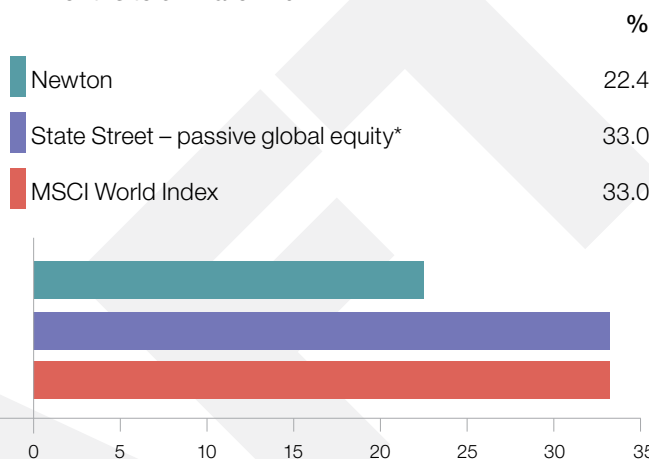


Global equities

During the year, the Pension Fund's investment management arrangements for global equities were changed following a competitive tender process. From December 2016, Aberdeen no longer manage a global equities portfolio for the Pension Fund, and Acadian, Baillie Gifford, and Standard Life have been awarded mandates. Full details of the investment management arrangements are on page 11. All Countries Performance is not shown for the new managers as no meaningful data is yet available. The global stock markets returned 33.0% in 2016/17, as measured by the MSCI All Countries World Index. Newton have underperformed the index in 2016/17. Stock selections in the healthcare and consumer discretionary sectors that had delivered positive performance in previous years performed badly in 2016/17, and were the main causes of the portfolio's

underperformance. Over the longer term, Newton have slightly outperformed their benchmark index over the period since January 2007.

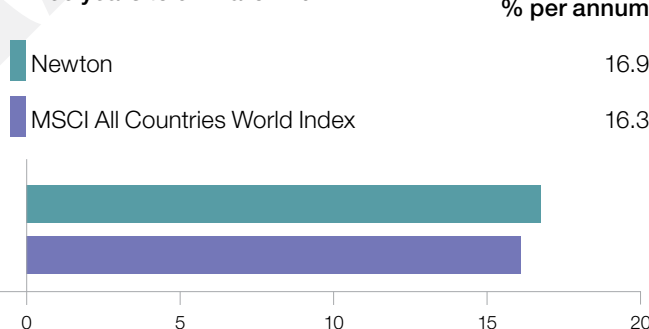
**Global equities
12 months to 31 March 2017**



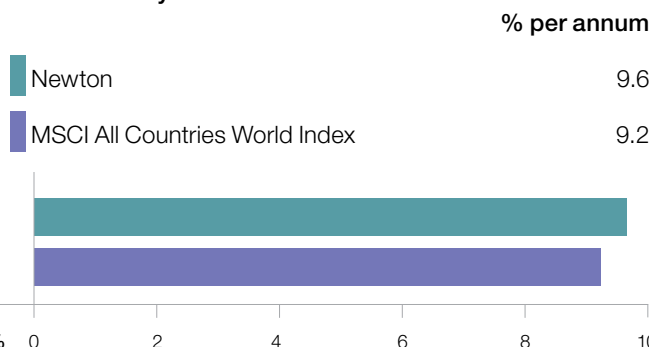
*performance data is not available for periods over 1 year due to the length of time the portfolio has been held

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

**Global equities
Three years to 31 March 2017**



**Global equities
Since January 2007**



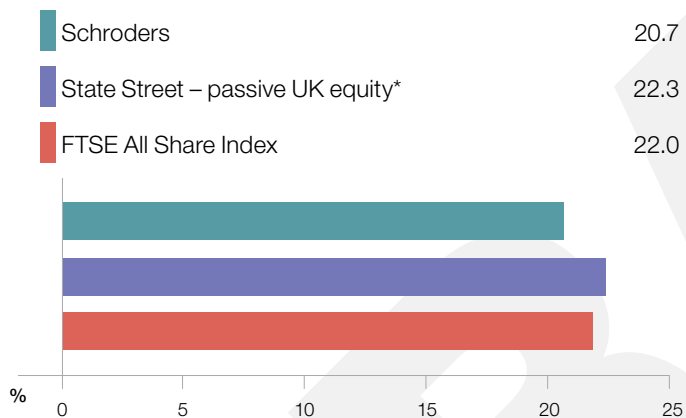
Investment Overview continued

UK equities

The UK stock market returned 22.0% during 2016/17 as measured by the FTSE All Share Index, and the Fund's UK equity manager, Schroders, has underperformed the FTSE All Share index over the last year, but has outperformed over the last three years, and the period since January 2007. Underperformance in 2016/17 was partly due to an underweight allocation to the mining sector, which performed well, as well as stock selection within this sector detracting from returns. This was combined with an overweight position in the poorly performing life insurance sector.

UK equities

12 months to 31 March 2017

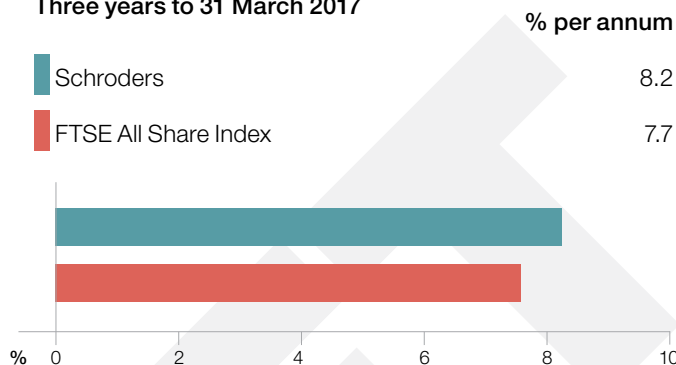


*performance data is not available for periods over 1 year due to the length of time the portfolio has been held

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

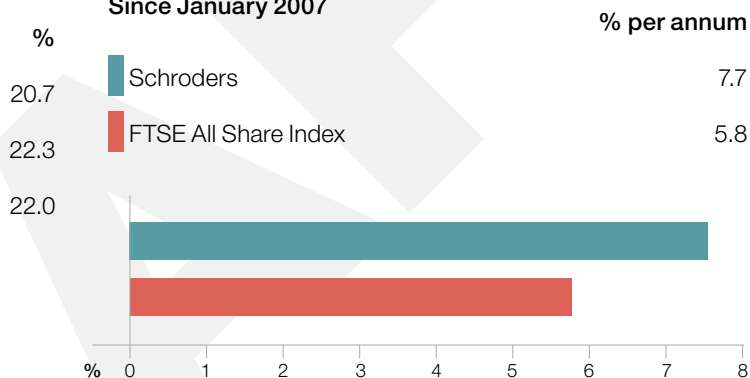
UK equities

Three years to 31 March 2017



UK equities

Since January 2007



Bonds

Legal & General and State Street passively manage portfolios of UK index-linked bonds. Both managers delivered returns that matched their target index during 2016/17.

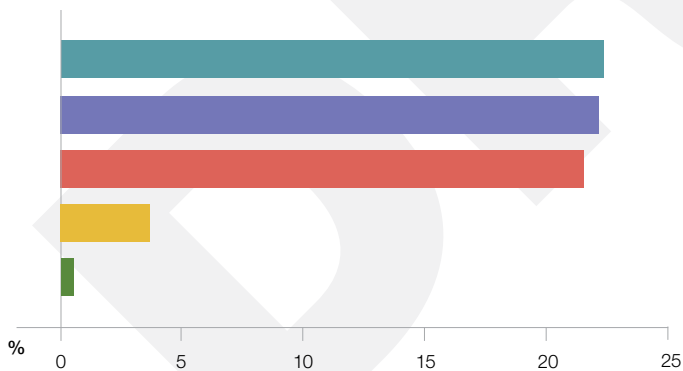
The Barclays Capital Global Aggregate Bonds Index has returned 0.6% during 2016/17, and the Fund's active global bonds manager, Western, has outperformed the benchmark index over the last year, the last three years, and the period since January 2007.

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

Bonds

12 months to 31 March 2017

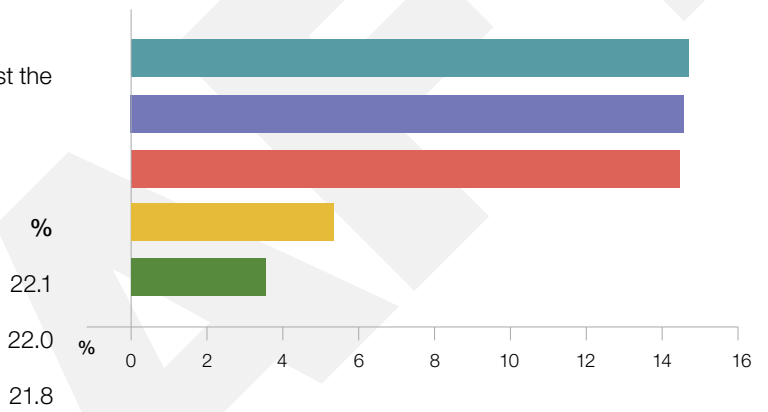
| | |
|---|------|
| Legal & General | 22.1 |
| State Street | 22.0 |
| FT UK Index-Linked Bonds | 21.8 |
| Western | 3.5 |
| Barclays Capital Global Aggregate Bonds Index | 0.6 |



Bonds

Three years to 31 March 2017

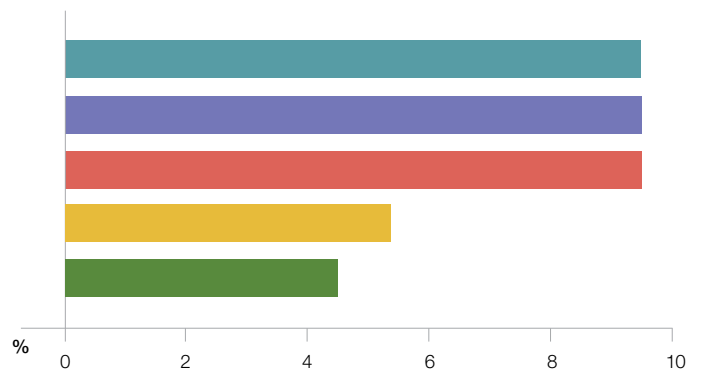
| | % per annum |
|---|-------------|
| Legal & General | 14.7 |
| State Street | 14.6 |
| FT UK Index-Linked Bonds | 14.5 |
| Western | 5.3 |
| Barclays Capital Global Aggregate Bonds Index | 3.7 |



Bonds

Since January 2007

| | % per annum |
|---|-------------|
| Legal & General | 9.4 |
| State Street | 9.4 |
| FT UK Index-Linked Bonds | 9.4 |
| Western | 5.4 |
| Barclays Capital Global Aggregate Bonds Index | 4.6 |



Investment Overview continued

Property

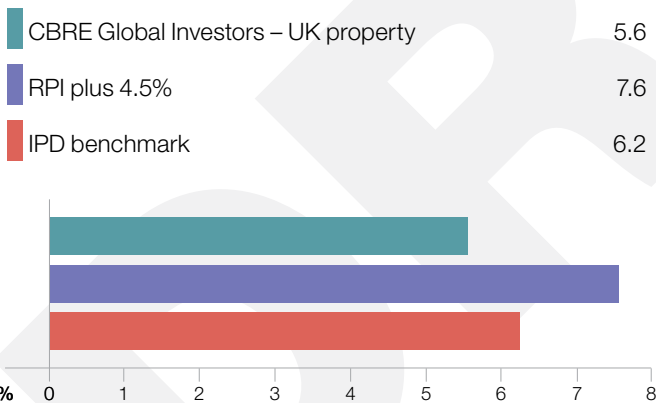
CBRE Global Investors manage a portfolio of UK properties, with a performance target of the Retail Price Index (RPI) plus 4.5%, over seven to 10 years. CBRE Global Investors performance return of 5.6% in 2016/17 was lower than their target. Over the longer term CBRE Global Investors have exceeded their RPI plus 4.5% target over the last three year period, although they have underperformed over the period since January 2007, due to very challenging market conditions for property in 2008 and 2009.

CBRE Global Investors underperformed the Investment Property Databank (IPD) benchmark return of 6.2% during 2016/17, but the portfolio has outperformed the IPD benchmark over the longer term. The IPD benchmark reflects the returns achieved by similarly sized property portfolios.

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

Property

12 months to 31 March 2017



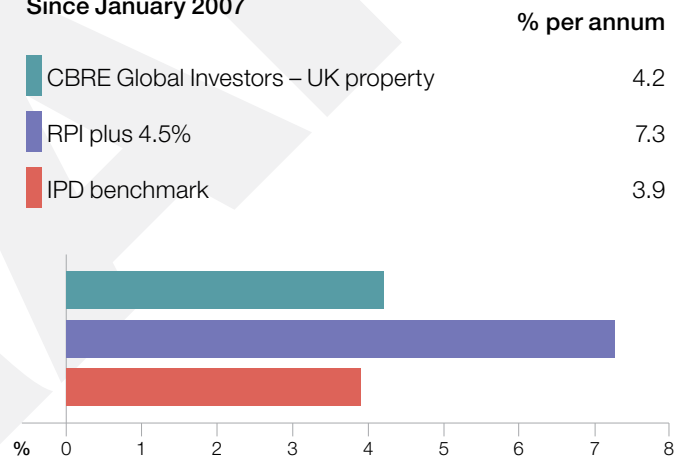
Property

Three years to 31 March 2017



Property

Since January 2007



Analysis of Fund Assets and Investment Income

The following tables show an analysis of the fund assets and investment income as at 31 March 2017, split between UK, non-UK and global portfolios.

Fund Assets at 31 March 2017

| | UK £m | Non-UK £m | Global £m | Total £m |
|---------------------------|----------------|--------------|----------------|----------------|
| Equities | 1,188.8 | – | 2,383.5 | 3,572.3 |
| Bonds | 1,441.2 | – | 246.3 | 1,687.5 |
| Property | 377.9 | 30.7 | – | 408.6 |
| Alternatives | 25.1 | – | 420.9 | 446.0 |
| Cash and cash equivalents | 19.4 | – | – | 19.4 |
| Total | 3,052.4 | 30.7 | 3,050.7 | 6,133.8 |

Investment income received in 2016/17

| | UK £m | Non-UK £m | Global £m | Total £m |
|---------------------------------|-------------|--------------|--------------|--------------|
| Equities | 30.7 | – | 29.9 | 60.6 |
| Bonds | – | – | 8.2 | 8.2 |
| Property | 22.4 | 1.4 | – | 23.8 |
| Alternatives | 0.9 | – | 14.4 | 15.3 |
| Cash and cash equivalents | 0.6 | – | – | 0.6 |
| Other (including stock lending) | – | – | 0.8 | 0.8 |
| Total | 54.6 | 1.4 | 53.3 | 109.3 |

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.

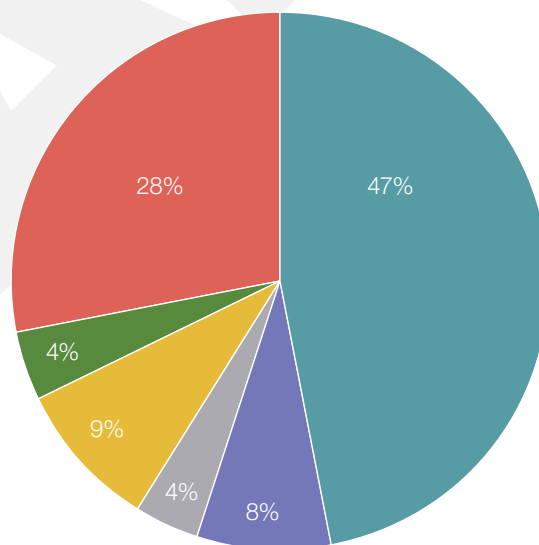
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years.

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 2017 there were 38,216 pensioners, 64,060 deferred members, and 57,781 contributors, a total of 160,057 Scheme members.

| | Number of contributors | % |
|---|------------------------|------------|
| Hampshire County Council | 26,904 | 47 |
| Portsmouth City Council | 4,830 | 8 |
| Southampton City Council | 2,464 | 4 |
| District and Borough Councils | 5,118 | 9 |
| Office of Police and Crime Commissioner and Chief Constable | 2,498 | 4 |
| Other organisations | 15,967 | 28 |
| Totals | 57,781 | 100 |



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

| Employer Type | Employers | Active members |
|---------------------|------------|----------------|
| Scheduled | 165 | 56,024 |
| Resolution | 59 | 290 |
| Admitted | 50 | 1,078 |
| Community admitted | 18 | 98 |
| Transferee admitted | 25 | 291 |
| Total | 317 | 57,781 |

Pension Fund Administration

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

There are 44 full time equivalent members of staff involved in the administration of the scheme, split into two main teams, supported by finance, projects and systems staff:

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

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

The annual internal audit opinion concluded that substantial assurance can be placed on Pensions Services' framework of governance, risk management and management control. Audit testing has demonstrated controls to be working in practice.

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

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

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

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

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

A review was completed in April 2017 and Pensions Services continue to have no partial compliances and have been awarded compliance plus in three criteria.

Compliance plus was awarded for:

- The continuation to meet the eight key measures of success and the ethical way in which the targets are promoted and progress against them.
- The policy in rotating staff onto the Quality and Communications Team.
- The use of staff insight and ongoing use of project to provide a momentum for continuous improvement.

Pensions Services ran six training events in the year which were attended by 75 people representing 47 employers and one Employer Focus Group meeting. In addition Pensions Services staff attended various employer liaison meetings throughout the year.

Scheme Administration Report continued

Scheme information for members is provided on the Pensions Services website. Members can view their own record including their annual benefit statement via member self-service. Approximately 20,000 members have registered so far.

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

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Administration performance

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

100% of targets were met during 2016/17.

Table 1 – % 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 |

What does membership cost and what are the benefits?

The Scheme operates tiered employee contribution rates. Employees pay a rising percentage depending on their pay band. The rates that apply from 1 April 2017 are set out in the following table:

| Actual pensionable pay | Contribution rate per year |
|------------------------|----------------------------|
| Up to £13,700 | 5.50% |
| £13,701 to £21,400 | 5.80% |
| £21,401 to £34,700 | 6.50% |
| £34,701 to £43,900 | 6.80% |
| £43,901 to £61,300 | 8.50% |
| £61,301 to £86,800 | 9.90% |
| £86,801 to £102,200 | 10.50% |
| £102,201 to £153,300 | 11.40% |
| £153,301 and more | 12.50% |

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

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 14.1% for employers in the Scheduled Body group and 16.6% for employers in the Admission Body group.

Scheme Administration Report continued

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 2016/17 was £4,984 (£4,986 in 2015/16).

Retirement age

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

A total of 2,262 Scheme members retired during 2016/17, with an average retirement age of 61 years. Of this number, 1,160 (or 51.3%) took some form of early retirement, of which about half were individuals choosing to take a reduced pension.

Timeliness of contributions

All employer contributions due for 2016/17 have been received. The latest was £117.62 credited on 18 May 2017, which was 19 days after the deadline.

A total of £2.636m was paid late (£6.592m in 2015/16) which was 1.06% of the total contributions received. The average delay on all late payments received during 2016/17 was 8 days (10 days in 2015/16). Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2016/17.

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 2015/2016 and is summarised in the following table:

| | 2015/16 | | 2014/15 | |
|----------------------------|-----------|-----------|-----------|-----------|
| | Hampshire | All Funds | Hampshire | All Funds |
| Admin cost per member | £16.64 | £44.25 | £16.22 | £33.76 |
| Investment cost per member | £115.31 | £170.65 | £125.48 | £163.90 |

Pension Fund management expenses are disclosed based on the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs published in June 2014. Based on this guidance the Pension Fund now accounts separately for the administration and governance costs. This change was reflected in the 2015/16 figures, but not the 2014/15 figures. Consequently the 2015/16 figure has been shown as a combined administration and governance cost per member for comparison purposes.

Membership information

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

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

| Year ending | No. of contributors | No. of deferred pensioners | 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 |

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

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

There were seven formal complaints made in 2016/17. These were all investigated and changes were made to processes where appropriate.

Appeals

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

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

The Fund considered one stage one Internal Dispute Resolution Procedure (IDRP) appeal against the Pension Fund during 2016/17. This was partially upheld.

There were six stage two appeals, all against employers.

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 16 December 2016.

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 affecting the Pension Fund directly or one of its key suppliers. | L | M | <p>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.</p> <p>Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.</p> |

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

Risk Management Report continued

| Risk | Description | Likelihood | Impact | Mitigation |
|----------------------------|---|------------|--------|---|
| Administration risk | The Pensions Regulator identifies the risks being around: | L | 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> |

| 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 months 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. 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 Management Report continued

| 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 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 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. |
| | Liability risk – that the Fund's liabilities are not accurately calculated resulting in the return target being too low and employer's contributions having to rise. | | | The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions. |
| | Environmental, social and governance (ESG) factors – that these factors 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 | Description | Likelihood | Impact | Mitigation |
|-----------------------|--|------------|--------|--|
| | 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 effecting 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 Department of Communities and Local Government (DCLG) 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 Management Report continued

| Risk | Description | Likelihood | Impact | Mitigation |
|---------------------------------------|--|------------|--------|--|
| Funding risk (continued) | <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 necessary 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. | M | L | 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

Pension Fund Budget Commentary

| | Budget 2016/17 £'000 | Actual 2016/17 £'000 | Budget 2017/18 £'000 | Actual 2018/19 £'000 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| Contributions received – Employers – normal | 126,680 | 131,096 | 135,700 | 140,400 |
| Contributions received – Employers – deficit | 67,370 | 65,449 | 71,820 | 77,600 |
| Contributions received – Employers – total | 194,050 | 196,545 | 207,520 | 218,000 |
| Contributions received – Members | 61,000 | 60,963 | 62,570 | 64,720 |
| Transfer values | 0 | -948 | 0 | 0 |
| Benefits paid | -232,900 | -235,256 | -247,300 | -262,950 |
| Net additions/withdrawals from dealings with members | 22,150 | 21,304 | 22,790 | 19,770 |
| Investment management fees | 24,195 | 25,293 | 27,170 | 30,370 |
| Staff | 1,400 | 1,409 | 1,485 | 1,510 |
| Premises | 60 | 58 | 60 | 60 |
| IT | 260 | 255 | 260 | 260 |
| Supplies & Services | 220 | 199 | 220 | 220 |
| Other | 10 | - | 0 | 0 |
| Administrative Costs | 1,950 | 1,921 | 2,025 | 2,050 |
| Staff | 275 | 215 | 220 | 225 |
| Premises | 10 | 6 | 10 | 10 |
| IT | 10 | 7 | 10 | 10 |
| Supplies & Services | 510 | 395 | 446 | 415 |
| Other | 5 | 4 | 5 | 5 |
| Oversight & Governance Costs | 810 | 628 | 691 | 665 |
| Management Expenses | 26,955 | 27,841 | 29,911 | 33,100 |

Financial Performance Report continued

Dealings with members

Employer contributions received were greater than the budgeted figure as the increase in pensionable pay was higher than forecast. In addition there was an exit payment of just under £1m payable by one of the Fund's employers.

Pension benefits paid out were greater than forecast due to a higher than expected increase in the number of pensioners. This was partly mitigated by the payment of pension lump sums being lower than forecast.

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 significantly more than was forecast in calculating the expected management fees.

Administration costs were as broadly as forecast in 2016/17. 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 2017

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Hampshire County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £5,213.4M) covering 81% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 is:
 - 17.1% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate)Plus
 - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 19 years from 1 April 2017 (the secondary rate), equivalent to 7.5% of pensionable pay (or £73.6M in 2017/18, and increasing by 3.5% p.a. thereafter).
3. In practice, each individual employer's or Group of Employers' position is assessed separately and contributions are set out in Aon Hewitt Limited'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.

Statement of the Actuary continued

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. 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. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 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 Hewitt Limited does not accept any responsibility or liability to any party other than our client, Hampshire County Council, the Administering Authority of the Fund, in respect of this Statement.

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

Aon Hewitt Limited

April 2017

Pension Fund Accounts

Fund Account

| | See note | 2015/16 £'000 | 2016/17 £'000 |
|--|----------|------------------|------------------|
| Dealings with members, employers and others directly involved in the Fund | | | |
| Contributions | 7 | 252,343 | 257,508 |
| Transfers in from other pension funds | 8 | 11,543 | 13,765 |
| | | 263,886 | 271,273 |
| Benefits | 9 | -231,411 | -235,256 |
| Payments to and on account of leavers | 10 | -11,604 | -14,713 |
| | | -243,015 | -249,969 |
| Net additions from dealings with members | | | |
| | | 20,871 | 21,304 |
| Management expenses | 11 | -20,430 | -27,841 |
| Net additions/withdrawals inc. fund management expenses | | 441 | -6,537 |
| Returns on investments | | | |
| Investment income | 12 | 101,984 | 109,363 |
| Taxes on income | 13a | -695 | -2,003 |
| Profits and losses on disposal of investments and | | | |
| Changes in the market value of investments | 14a | -25,412 | 1,022,985 |
| Net return on investments | | 75,877 | 1,130,345 |
| Net increase in the net assets available for benefits during the year | | 76,318 | 1,123,808 |
| Opening net assets of the scheme | | 5,137,088 | 5,213,406 |
| Closing net assets of the scheme | | 5,213,406 | 6,337,214 |

Pension Fund Accounts continued

Net Assets Statement for the year ending 31 March 2017

| | See note | 31 March 2016 £'000 | 31 March 2017 £'000 |
|--|-----------|---------------------------|---------------------------|
| Investment assets | | 4,907,387 | 6,116,083 |
| Cash deposits | | 36,451 | 19,806 |
| Investment liabilities | | -7,246 | -2,543 |
| Total net investments | 14 | 4,936,592 | 6,133,346 |
| Long term debtors | 23 | 7,607 | 6,085 |
| Current assets | 21 | 286,680 | 216,644 |
| Current liabilities | 22 | -17,473 | -18,861 |
| Net assets of the Fund available to fund benefits at the period end | | 5,213,406 | 6,337,214 |

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

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 2016/17 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 317 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

| Hampshire Pension Fund | 31 March 2016 | 31 March 2017 |
|--|----------------|----------------|
| Number of employers with active members | 329 | 317 |
| Number of employees in Scheme | | |
| County Council | 26,747 | 26,874 |
| Other employers | 31,068 | 30,907 |
| Total | 57,815 | 57,781 |
| Number of pensioners | | |
| County Council | 16,043 | 16,706 |
| Other employers | 20,476 | 21,510 |
| Total | 36,519 | 38,216 |
| Deferred pensioners | | |
| County Council | 29,701 | 31,693 |
| Other employers | 30,156 | 32,367 |
| Total | 59,857 | 64,060 |
| Total members in the Pension Fund | 154,191 | 160,057 |

Notes to the Pension Fund Accounts continued

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 2017. 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 13.1% to 15.6% of pensionable pay plus a past service deficit contribution.

d) Benefits

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

| | Service pre 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 2016/17 financial year and its position at year-end at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* 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.

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition 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.

Notes to the Pension Fund Accounts continued

f) Management 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 change.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2016/17 £0.4m of fees is based on such estimates (2015/16 £0.1m).

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 16). For the purposes of disclosing levels of fair value hierarchy the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/ Investment Association, 2016)

h) Freehold and leasehold properties

The properties were valued on 31 March 2017 by an external valuer, Paul Willis, BSc MRICS of Colliers International in accordance with the Royal Institute of Chartered Surveyors' Valuation Professional Standards (January 2014), see Note 16 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 15).

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 20).

n) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with 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 24).

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 2012*. The value of unquoted private equity investments at 31 March 2017 was £241 million (£170 million at 31 March 2016).

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 19.

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.

Notes to the Pension Fund Accounts continued

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the 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 2017 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 20) | 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 2017, the Fund had a balance of debtors and prepayments of £53.5 million. A review of debtor balances suggested that an impairment of £0.042 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 £0.042 million to be set aside as an allowance. |
| Private equity | Private equity investments are valued at fair value in accordance with the <i>International Private Equity Venture Capital Valuation Guidelines 2012</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 £241 million. The investment manager recommends a tolerance of +/- 10% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £24.1million. |
| 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 £204 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 +/- £10.2 million. |

6. Events after the reporting date

There have been no events since 31 March 2017, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions receivable

By category

| | 2015/16 | 2016/17 |
|--------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Employees' contributions | 59,535 | 60,963 |
| Employers' contributions | | |
| Normal contributions | 132,494 | 131,096 |
| Deficit recovery contributions | 60,314 | 65,449 |
| Total Employers' contributions | 192,808 | 196,545 |
| Total | 252,343 | 257,508 |

By authority

| | 2015/16 | 2016/17 |
|-----------------------------|----------------|----------------|
| | £'000 | £'000 |
| Administering authority | 95,423 | 96,996 |
| Scheduled bodies | 146,511 | 148,482 |
| Admitted bodies | 5,623 | 7,575 |
| Community admission bodies | 847 | 707 |
| Transferee admission bodies | 2,716 | 2,462 |
| Resolution bodies | 1,223 | 1,286 |
| Total | 252,343 | 257,508 |

8. Transfers in from other pension funds

| | 2015/16 | 2016/17 |
|----------------------|---------------|---------------|
| | £'000 | £'000 |
| Group transfers | 41 | 566 |
| Individual transfers | 11,502 | 13,199 |
| Total | 11,543 | 13,765 |

9. Benefits payable

By category

| | 2015/16 | 2016/17 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Pensions | 182,116 | 190,471 |
| Commutation and lump sum retirement benefits | 43,067 | 40,744 |
| Lump sum death benefits | 6,228 | 4,041 |
| Total | 231,411 | 235,256 |

By authority

| | 2015/16 | 2016/17 |
|-----------------------------|----------------|----------------|
| | £'000 | £'000 |
| Administering authority | 90,874 | 87,930 |
| Scheduled bodies | 130,080 | 136,618 |
| Admitted bodies | 5,279 | 5,686 |
| Community admission bodies | 1,664 | 1,891 |
| Transferee admission bodies | 2,544 | 2,249 |
| Resolution bodies | 970 | 882 |
| Total | 231,411 | 235,256 |

Notes to the Pension Fund Accounts continued

10. Payments to and on account of leavers

| | 2015/16 | 2016/17 |
|------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Refunds to members leaving service | 779 | 1,085 |
| Payments for members joining | | |
| State scheme | 369 | 565 |
| Group transfers | 2,371 | 2,200 |
| Individual transfers | 8,085 | 10,863 |
| Total | 11,604 | 14,713 |

11. Management expenses

| | 2015/16 | 2016/17 |
|--------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Administrative costs | 1,800 | 1,920 |
| Investment management expenses | 17,855 | 25,293 |
| Oversight and governance costs | 775 | 628 |
| Total | 20,430 | 27,841 |

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 investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14a).

11a) Investment Management Expenses

| | 2015/16 | 2016/17 |
|-------------------|---------------|---------------|
| | £'000 | £'000 |
| Management fees | 16,317 | 21,243 |
| Custody fees | 121 | 140 |
| Transaction costs | 1,417 | 3,910 |
| Total | 17,855 | 25,293 |

12. Investment income

| | 2015/16 | 2016/17 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Income from bonds | 7,343 | 8,182 |
| Income from equities | 58,365 | 59,991 |
| Pooled property investments | 2,448 | 2,513 |
| Pooled investments – unit trusts and other managed funds | 591 | 609 |
| Property (see note 12a) | 21,711 | 21,329 |
| Interest on cash deposits | 660 | 616 |
| Alternative investment income | 10,451 | 15,332 |
| Stock lending | 391 | 595 |
| Other | 24 | 196 |
| Total | 101,984 | 109,363 |

12a) Property income

| | 2015/16 | 2016/17 |
|---------------------------|---------------|---------------|
| | £'000 | £'000 |
| Rental income | 21,711 | 21,329 |
| Direct operating expenses | -2,113 | -1,777 |
| Total | 19,598 | 19,552 |

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

13. Other fund account disclosures

13a) Taxes on income

| | 2015/16 | 2016/17 |
|-----------------|------------|--------------|
| | £'000 | £'000 |
| Withholding tax | 695 | 2,003 |
| Total | 695 | 2,003 |

13b) External Audit Costs

| | 2015/16 | 2016/17 |
|--------------------------------------|-----------|-----------|
| | £'000 | £'000 |
| Payable in respect of external audit | 32 | 32 |
| Total | 32 | 32 |

14. Investments

| | Market value 31 March 2016 | Market value 31 March 2017 |
|-------------------------------------|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Investment assets | | |
| Bonds | 246,436 | 244,402 |
| Equities | 1,909,250 | 2,468,116 |
| Pooled investments | 2,039,243 | 2,546,862 |
| Pooled property investments | 36,480 | 30,726 |
| Alternative investments | 298,727 | 445,974 |
| Property (see Note 14(e)) | 375,280 | 377,915 |
| Derivative contracts: | | |
| – Futures | 393 | 430 |
| – Forward currency contracts | 1,541 | 1,548 |
| – Purchased/written options | 37 | 108 |
| – Spot foreign exchange contracts | 0 | 2 |
| Cash deposits | 36,451 | 19,806 |
| Total investment assets | 4,943,838 | 6,135,889 |
| Investment liabilities | | |
| Derivative contracts: | | |
| – Futures | -305 | -555 |
| – Forward currency contracts | -6,898 | -1,874 |
| – Purchased/written options | -34 | -112 |
| – Spot foreign exchange contracts | -9 | -2 |
| Total investment liabilities | -7,246 | -2,543 |
| Net investment assets | 4,936,592 | 6,133,346 |

Notes to the Pension Fund Accounts continued

14a) Reconciliation of movements in investments and derivatives

Period 2016/17

| | Market value 1 April 2016 | 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 2017 |
|-----------------------------------|------------------------------|--|--|---|-------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'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 |

Period 2015/16

| | Market value 1 April 2015 £'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 2016 £'000 |
|-----------------------------------|---------------------------------------|---|---|--|--|
| Bonds | 237,162 | 627,545 | -627,677 | 9,406 | 246,436 |
| Equities | 1,922,482 | 537,658 | -481,012 | -69,878 | 1,909,250 |
| Pooled investments | 2,030,638 | 5,716 | -6,050 | 8,939 | 2,039,243 |
| Pooled property investments | 53,568 | 80 | -22,616 | 5,448 | 36,480 |
| Alternative investments | 350,519 | 41,427 | -112,944 | 19,725 | 298,727 |
| Property | 354,075 | 13,414 | -5,805 | 13,596 | 375,280 |
| | 4,948,444 | 1,225,840 | -1,256,104 | -12,764 | 4,905,416 |
| Derivative contracts: | | | | | |
| - Futures | -270 | 11,319 | -7,997 | -2,964 | 88 |
| - Forward foreign exchange | -2,031 | 48,328 | -39,331 | -12,323 | -5,357 |
| - Purchased/written options | -515 | -1,751 | -21 | 2,290 | 3 |
| | -2,816 | 57,896 | -47,349 | -12,997 | -5,266 |
| Other investment balances: | | | | | |
| - Cash deposits | 49,765 | | | 349 | 36,451 |
| - Spot foreign exchange contracts | -9 | | | | -9 |
| Net investment assets | 4,995,387 | | | -25,412 | 4,936,592 |

Purchases and sales of derivatives are recognised in note 14a 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.

Notes to the Pension Fund Accounts continued

14b) Analysis of investments

| | 31 March 2016 £'000 | 31 March 2017 £'000 |
|---|------------------------|------------------------|
| Fixed interest securities | | |
| UK | | |
| Public sector quoted | 1,457 | 1,548 |
| Corporate quoted | 11,458 | 11,781 |
| Corporate unquoted | 0 | 0 |
| Overseas | | |
| Public sector quoted | 151,633 | 160,998 |
| Public sector unquoted | 10,855 | 12,878 |
| Corporate quoted | 70,472 | 57,197 |
| Corporate unquoted | 561 | 0 |
| | 246,436 | 244,402 |
| Equities | | |
| UK – Quoted | 785,188 | 822,111 |
| Overseas – Quoted | 1,124,062 | 1,646,005 |
| | 1,909,250 | 2,468,116 |
| Pooled funds – additional analysis | | |
| UK | | |
| Fixed income unit trusts | 1,170,187 | 1,427,909 |
| Unit trusts | 299,598 | 366,217 |
| Overseas | | |
| Fixed income unit trusts | 14,088 | 15,252 |
| Unit trusts | 555,370 | 737,484 |
| | 2,039,243 | 2,546,862 |
| Pooled property investments | 36,480 | 30,726 |
| Alternative investments | 298,727 | 445,974 |
| Property | 375,280 | 377,915 |
| Derivatives | 1,971 | 2,088 |
| | 712,458 | 856,703 |
| Cash deposits | 36,451 | 19,806 |
| Total investment assets | 4,943,838 | 6,135,889 |
| Investment liabilities | | |
| Derivatives | -7,246 | -2,543 |
| Total investment liabilities | -7,246 | -2,543 |
| Net investment assets | 4,936,592 | 6,133,346 |

14c) Investments analysed by fund manager

| | Market value 31 March 2016 | | Market value 31 March 2017 | |
|-----------------------|-------------------------------|--------------|-------------------------------|--------------|
| | £'000 | % | £'000 | % |
| Aberdeen | 695,651 | 13.3 | 15,973 | 0.3 |
| Acadian | 0 | 0 | 118,986 | 1.9 |
| Baillie Gifford | 0 | 0 | 558,474 | 8.8 |
| CBRE Global Investors | 399,601 | 7.7 | 401,724 | 6.3 |
| Legal & General | 581,153 | 11.2 | 709,623 | 11.2 |
| Newton | 710,483 | 13.6 | 729,437 | 11.5 |
| Schroders | 664,553 | 12.8 | 802,242 | 12.7 |
| Standard Life | | | 367,573 | 5.8 |
| State Street | 1,416,997 | 27.2 | 1,789,197 | 28.2 |
| Western | 255,926 | 4.9 | 264,967 | 4.2 |
| | 4,724,364 | | 5,758,196 | |
| Other investments | 336,322 | 6.4 | 487,687 | 7.7 |
| Other net assets | 152,720 | 2.9 | 91,331 | 1.4 |
| Total | 5,213,406 | 100.0 | 6,337,214 | 100.0 |

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

Notes to the Pension Fund Accounts continued

14d) Stock lending

The Fund's Statement of Investment Principles sets the parameters for the Fund's stock lending programme. At the year-end, the value of quoted stock on loan was £237.3m (£89.9m 2015/16). 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 2017, the custodian bank held collateral at fair value of £262.1m (£97m 2015/16). Collateral consists of acceptable securities and government debt.

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

There are no liabilities associated with the loaned assets.

14e) Property holdings

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

Details of these directly owned properties are as follows.

| | Year ending 31 March 2016 £'000 | Year ending 31 March 2017 £'000 |
|----------------------------|---------------------------------------|---------------------------------------|
| Opening balance | 354,075 | 375,280 |
| Additions | 12,502 | 4,600 |
| Disposals | -4,893 | -2,617 |
| Net change in market value | 13,596 | 652 |
| Closing balance | 375,280 | 377,915 |

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

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

| | Year ending 31 March 2016 £'000 | Year ending 31 March 2017 £'000 |
|----------------------------|---------------------------------------|---------------------------------------|
| Within one year | 21,094 | 20,291 |
| Between one and five years | 67,198 | 63,969 |
| Net change in market value | 13,596 | 652 |
| Closing balance | 149,642 | 144,464 |

15) Analysis of derivatives

Objectives and policies for holding derivatives

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

Futures

Outstanding exchange traded futures contracts are as follows:

| Type | Expires | Economic exposure £'000 | Market value 31 March 2016 £'000 | Economic exposure £'000 | Market value 31 March 2017 £'000 |
|-------------------------------|--------------------|----------------------------|--|----------------------------|--|
| Assets | | | | | |
| UK Fixed Income Futures | Less than one year | 0 | 0 | 0 | 0 |
| Overseas fixed income futures | Less than one year | 55,252 | 393 | 101,928 | 430 |
| Total assets | | | 393 | | 430 |
| Liabilities | | | | | |
| UK Fixed Income Futures | Less than one year | 1,580 | -4 | -16,311 | -147 |
| Overseas fixed income futures | Less than one year | -87,498 | -301 | -127,476 | -408 |
| Total liabilities | | | -305 | | -555 |
| Net futures | | | 88 | | -125 |

Notes to the Pension Fund Accounts continued

Open forward currency contracts

At 31 March 2017, the Fund had open forward currency contracts in place with a net unrealised loss of £0.326 million.

| Settlement | Currency bought | Local value '000 | Currency sold* | Local value '000 | Asset value £'000 | Liability value £'000 |
|---|-----------------|------------------|----------------|------------------|-------------------|-----------------------|
| Up to 1 month | GBP | 330 | JPY | -45,533 | 3 | |
| 1 to 6 months | GBP | 8,885 | AUD | -14,526 | 37 | |
| 1 to 6 months | GBP | 2,662 | CAD | -4,340 | 60 | |
| 1 to 6 months | GBP | 5,912 | CNY | -51,025 | 11 | |
| 1 to 6 months | GBP | 64,756 | EUR | -74,894 | 648 | -3 |
| 1 to 6 months | GBP | 24,289 | JPY | -3,415,610 | | -239 |
| 1 to 6 months | GBP | 5,821 | MXN | -151,584 | | -573 |
| 1 to 6 months | GBP | 8,305 | PLN | -41,693 | | -100 |
| 1 to 6 months | GBP | 140,647 | USD | -175,902 | 288 | -190 |
| 1 to 6 months | AUD | 3,582 | GBP | -2,180 | 2 | |
| 1 to 6 months | AUD | 8,818 | USD | -6,751 | 43 | -66 |
| 1 to 6 months | BRL | 15,716 | USD | -4,979 | 4 | -73 |
| 1 to 6 months | CNY | 50,905 | USD | -7,404 | 16 | -45 |
| 1 to 6 months | EUR | 6,933 | GBP | -6,003 | | -68 |
| 1 to 6 months | EUR | 4,830 | USD | -5,191 | 50 | -63 |
| 1 to 6 months | JPY | 171,416 | GBP | -1,236 | | -5 |
| 1 to 6 months | JPY | 441,230 | USD | -3,906 | 48 | |
| 1 to 6 months | MXN | 35,188 | GBP | -1,357 | 127 | |
| 1 to 6 months | PLN | 2,000 | GBP | -404 | | -1 |
| 1 to 6 months | USD | 5,030 | BRL | -15,716 | 111 | |
| 1 to 6 months | USD | 24,301 | GBP | -19,468 | 38 | -90 |
| 1 to 6 months | USD | 3,321 | JPY | -375,900 | | -45 |
| 1 to 6 months | USD | 17,419 | KRW | -9,815,105 | 62 | -313 |
| Open forward currency contracts at 31 March 2017 | | | | | 1,548 | -1,874 |
| Net forward currency contracts at 31 March 2017 | | | | | | -326 |
| Prior year comparative: | | | | | | |
| Open forward currency contracts at 31 March 2016 | | | | | 1,541 | -6,898 |
| Net forward currency contracts at 31 March 2016 | | | | | | -5,357 |

* List of currencies

| | | |
|-------------------------|----------------------------|-----------------------|
| AUD = Australian Dollar | BRL = Brazilian Real | CAD = Canadian Dollar |
| CNY = Chinese Yuan | EUR = Euro | GBP = British Pound |
| JPY = Japanese Yen | KRW = South Korean Won | MXN = Mexican Peso |
| PLN = Polish Zloty | USD = United States Dollar | |

Purchased/written options

| Investment underlying option contract | Expires | Put/call | Notional holding 31 March 2016 £'000 | Market value £'000 | Notional holding 31 March 2017 £'000 | Market value £'000 |
|---------------------------------------|---------------------|----------|--|-----------------------|--|-----------------------|
| Assets | | | | | | |
| Overseas fixed interest purchased | Less than one month | Call | 0 | 0 | 106 | 97 |
| Overseas fixed interest purchased | One to three months | Call | 0 | 0 | 8 | 4 |
| Overseas fixed interest purchased | One to three months | Put | 0 | 0 | 14 | 7 |
| Overseas cash purchased | Less than one month | Call | 50 | 0 | 0 | 0 |
| Overseas cash purchased | One to three months | Call | 91 | 37 | 0 | 0 |
| Total assets | | | | 37 | | 108 |
| Liabilities | | | | | | |
| Overseas cash purchased | One to three months | Put | 0 | 0 | -28 | -10 |
| Overseas fixed interest written | One to three months | Call | -24 | -34 | 0 | 0 |
| Overseas fixed interest written | One to three months | Call | 0 | 0 | -189 | -97 |
| Overseas fixed interest written | One to three months | Put | 0 | 0 | -25 | -5 |
| Total liabilities | | | | -34 | | -112 |
| Net purchased/written options | | | | 3 | | -4 |

Notes to the Pension Fund Accounts continued

16. 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 unobservable | Observable and affecting the | Key sensitivity valuation provided |
|--|-----------------------------|--|---|------------------------------------|
| Market quoted investments day of the accounting period | 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 |
| 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 unobservable | Observable and affecting the | Key sensitivity valuation provided |
|--|-----------------------------|---|--|---|
| Freehold and leasehold properties | 2 | Valued at fair value at the year-end used the investment method of Paul Willis, BSc MRICS of Colliers International in accordance with the Royal Institute of Chartered Surveyors' <i>Valuation Professional Standards (January 2014)</i> . | 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 (2012)</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 2017.

| | Assessed valuation range (+/-) | Value at 31 March 2017 £'000 | Value on increase £'000 | Value on decrease £'000 |
|--|--------------------------------------|------------------------------------|-------------------------------|-------------------------------|
| Alternative Investments – Hedge funds | 5% | 204,482 | 214,706 | 194,260 |
| Alternative Investments – Private Equity | 10% | 241,492 | 265,641 | 217,342 |

16a) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

| Values at 31 March 2017 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total £'000 |
|--|------------------------|----------------------------|--|------------------|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'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 (see Note 14e) | | 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 |

| Values at 31 March 2016 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total £'000 |
|--|------------------------|----------------------------|--|------------------|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 4,202,468 | 49,867 | 279,772 | 4,532,107 |
| Non-financial assets at fair value through profit and loss (see Note 14e) | | 375,280 | | 375,280 |
| Financial liabilities at fair value through profit and loss | | -7,246 | | -7,246 |
| Net investment assets | 4,202,468 | 417,901 | 279,772 | 4,900,141 |

The presentation of the table above has changed from the 2015/16 Pension Fund accounts, in line with CIPFA guidance. 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.

Notes to the Pension Fund Accounts continued

16b) Transfers between Levels 1 and 2

Derivative contracts in futures and options in UK bonds transferred from Level 2 to Level 1 following updated CIPFA guidance, as these investments are quoted on an active exchange.

16c) Reconciliations of fair value measurements within level 3

| Period 2016/17 | Market value 1 April 2016 | 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 2017 |
|-------------------------|------------------------------|---|---|--|-------------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Alternative investments | 298,727 | 246,462 | -166,805 | 67,530 | 445,914 |

17. Financial instruments

17a) Classification of financial instruments

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

| 31 March 2016 | | | 31 March 2017 | | |
|---|--------------------------------|--|---|--------------------------------|--|
| 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 | | |
| 246,436 | | | Fixed interest securities | 244,402 | |
| 1,909,250 | | | Equities | 2,468,116 | |
| 2,039,243 | | | Pooled investments | 2,546,862 | |
| 36,480 | | | Pooled property investments | 30,726 | |
| 298,727 | | | Private equity/ infrastructure | 445,974 | |
| 375,280 | | | Property | 377,915 | |
| 1,971 | | | Derivative contracts | 2,088 | |
| | 279,135 | | Cash | | 182,932 |
| | 14,819 | | Debtors | | 8,613 |
| 4,907,387 | 293,954 | 0 | | 6,116,083 | 191,545 |
| | | | Financial Liabilities | | |
| -7,246 | | | Derivative contracts | -2,543 | |
| | | -4,912 | Creditors | | -4,987 |
| -7,246 | 0 | -4,912 | | -2,543 | 0 |
| 4,900,141 | 293,954 | -4,912 | | 6,113,540 | -4,987 |
| | 5,189,183 | | | 6,300,098 | |

Notes to the Pension Fund Accounts continued

17b) Net gains and losses on financial instruments

| 31 March 2016 £'000 | | 31 March 2017 £'000 |
|------------------------|------------------------------------|------------------------|
| | Financial assets | |
| -12,415 | Fair value through profit and loss | 1,049,360 |
| | Financial liabilities | |
| -12,997 | Fair value through profit and loss | -26,375 |
| -25,412 | Total | 1,022,985 |

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

18. 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,

18a) 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 that the following movements in market price risk or the 2016/17 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 | 9.10% |
| Overseas equities | 10.00% |
| UK bonds | 12.79% |
| Overseas bonds | 7.35% |
| Property | 3.58% |
| Alternative investments | 7.76% |
| Cash | 0.16% |

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 2017 £'000 | Potential market movement £'000 | Value on increase £'000 | Value on decrease £'000 |
|---------------------|------------------------------------|---------------------------------------|-------------------------------|-------------------------------|
| UK Equities | 1,188,328 | 108,138 | 1,296,466 | 1,080,190 |
| Global Equities | 2,383,489 | 238,349 | 2,621,838 | 2,145,140 |
| UK bonds | 1,441,238 | 184,334 | 1,625,572 | 1,256,904 |
| Overseas bonds | 246,324 | 18,105 | 264,429 | 228,219 |
| Property | 408,641 | 14,629 | 423,270 | 394,012 |
| Alternatives | 445,974 | 34,608 | 480,582 | 411,366 |
| Cash | 19,352 | 31 | 19,383 | 19,321 |
| Total assets | 6,133,346 | 598,194 | 6,731,540 | 5,535,152 |

| Asset type | Value at 31 March 2016 £'000 | Potential market movement £'000 | Value on increase £'000 | Value on decrease £'000 |
|---------------------|------------------------------------|---------------------------------------|-------------------------------|-------------------------------|
| UK Equities | 1,084,786 | 98,716 | 1,183,502 | 986,070 |
| Global Equities | 1,679,432 | 167,943 | 1,847,375 | 1,511,489 |
| UK bonds | 1,183,102 | 151,319 | 1,334,421 | 1,031,783 |
| Overseas bonds | 242,333 | 17,811 | 260,144 | 224,522 |
| Property | 411,760 | 14,741 | 426,501 | 397,019 |
| Alternatives | 298,727 | 23,181 | 321,908 | 275,546 |
| Cash | 36,452 | 58 | 36,510 | 36,394 |
| Total assets | 4,936,592 | 473,769 | 5,410,361 | 4,462,823 |

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 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 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 |

| Assets exposed to interest rate risk | Value as at 31 March 2016 £'000 | Potential movement on 1% change in interest rates £'000 | Value on increase £'000 | Value on decrease £'000 |
|--------------------------------------|------------------------------------|--|----------------------------|----------------------------|
| Cash & cash equivalents | 242,684 | 0 | 242,684 | 242,684 |
| Cash deposits | 36,451 | 0 | 36,451 | 36,451 |
| Bonds | 246,436 | 19,206 | 227,230 | 265,642 |
| Total | 525,571 | 19,206 | 506,365 | 544,777 |

Notes to the Pension Fund Accounts continued

| 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 |

| Income exposed to interest rate risk | Amount receivable as at 31 March 2016 £'000 | Potential movement on 1% change in interest rates £'000 | Value on increase £'000 | Value on decrease £'000 |
|---|--|--|----------------------------|----------------------------|
| Cash deposits / cash & cash equivalents | 660 | 2,158 | 2,818 | -1,498 |
| Bonds | 7,343 | 0 | 7,343 | 7,343 |
| Total | 8,003 | 2,158 | 10,161 | 5,845 |

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 9.3% (as measured by one standard deviation).

A 9.3% 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 9.3% 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:

| Assets exposed to currency risk | Asset value as at 31 March 2017 | Potential market movement | Value on increase | Value on decrease |
|--|--|--------------------------------------|------------------------------|------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Quoted securities | 1,646,005 | 153,078 | 1,799,083 | 1,492,927 |
| Unit trusts | 752,736 | 70,004 | 822,740 | 682,732 |
| Alternative investments | 445,974 | 41,476 | 487,450 | 404,498 |
| Pooled property investments | 4,169 | 388 | 4,557 | 3,781 |
| Public sector bonds | 173,875 | 16,170 | 190,045 | 157,705 |
| Corporate bonds | 57,197 | 5,319 | 62,516 | 51,878 |
| Total | 3,079,956 | 286,435 | 3,366,391 | 2,793,521 |

| Assets exposed to currency risk | Asset value as at 31 March 2016 | Potential market movement | Value on increase | Value on decrease |
|--|--|--------------------------------------|------------------------------|------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Quoted securities | 1,124,062 | 104,538 | 1,228,600 | 1,019,524 |
| Unit trusts | 569,457 | 52,960 | 622,417 | 516,497 |
| Alternative investments | 298,727 | 27,782 | 326,509 | 270,945 |
| Pooled property investments | 8,998 | 836 | 9,834 | 8,162 |
| Public sector bonds | 157,212 | 14,621 | 171,833 | 142,591 |
| Corporate bonds | 71,033 | 6,606 | 77,639 | 64,427 |
| Total | 2,229,489 | 207,343 | 2,436,832 | 2,022,146 |

Notes to the Pension Fund Accounts continued

18b) 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 5 years. The Fund's cash holding under its treasury management arrangements at 31 March 2017 was £63.46 million (31 March 2016: £131.05 million). This was held with the following institutions:

| | Rating as at | Balances as at | Balances as at |
|-----------------------------------|-----------------|-------------------|-------------------|
| | 31 March 2017 | 31 March 2016 | 31 March 2017 |
| | | £'000 | £'000 |
| Money market funds | | | |
| Aberdeen | AAAm | 12,420 | 6,340 |
| Blackrock | AAAm | 11,630 | 6,340 |
| Deutsche | AAAm | 10,110 | 6,340 |
| Federated | | | |
| Investors UK | AAAm | 11,140 | 6,340 |
| Insight | AAAm | 10,930 | 0 |
| Standard Life (formerly Ignis) | AAAm | 8,810 | 6,340 |
| Bank deposit | | | |
| Barclays | A- | 10,560 | 0 |
| Close Brothers | A | 4,000 | 0 |
| Credit Suisse | A | 5,000 | 0 |
| Lloyds | A | 6,400 | 1,000 |
| Nationwide | | | |
| Building Society | A | 5,000 | 10,000 |
| Nordea Bank AB | AA- | 5,000 | 10,000 |
| Overseas Chinese Banking Corp | AA- | 5,000 | 0 |
| Rabobank | A+ | 0 | 5,000 |
| Santander UK | A | 9,910 | 0 |
| Svenska Handelsbanken | AA- | 12,140 | 4,810 |
| Treasury bills | | | |
| UK Government | AA | 3,000 | 953 |
| Total | | 131,050 | 63,463 |

18c) 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 in to cash. As at 31 March 2017 the values of illiquid assets was £830m, which represented 13.6% of the total fund assets (2015/16 £686m, which represented 13.2% 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 2017 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 strategies.

19. 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 are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

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

Contribution schedules have been agreed for the two groups of employers. Generally, employers in the Scheduled Body Group are required to pay 14.1% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for 2 years followed by 16.9% of Pensionable Pay from 1 April 2020. In addition, most Scheduled Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2016/17, but increasing at 8.8% p.a. with effect from 1 April 2017 for 3 years and increasing by 3.9% p.a. thereafter until 31 March 2036. Employers in the Admission Body Group are required to pay 16.6% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for 2 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. with effect from 1 April 2017 for 4 years 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.

Notes to the Pension Fund Accounts continued

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 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.

20. Actuarial present value of promised retirement benefits

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

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). 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 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

Assumptions used:

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% |

21. Current assets

| | 31 March 2016 | 31 March 2017 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Debtors: | | |
| – Contributions due - employees | 4,867 | 11,304 |
| – Contributions due - employers | 14,699 | 22,966 |
| – Transfer values receivable (joiners) | 4,153 | 4,720 |
| – Tax | 5,458 | 5,915 |
| – Sundry debtors | 14,819 | 8,613 |
| Cash balances | 242,684 | 163,126 |
| Total | 286,680 | 216,644 |

Analysis of debtors

| | 31 March 2016 | 31 March 2017 |
|---------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Central government bodies | 3,608 | 4,158 |
| Other local authorities | 18,708 | 21,758 |
| NHS bodies | 3 | 1 |
| Public corporations and trading funds | 0 | 0 |
| Other entities and individuals | 21,677 | 27,601 |
| Total | 43,996 | 53,518 |

22. Current liabilities

| | 31 March 2016 | 31 March 2017 |
|-----------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Sundry creditors | 4,912 | 4,987 |
| Transfer values payable (leavers) | 11,530 | 12,426 |
| Benefits payable | 641 | 993 |
| Tax | 390 | 455 |
| Total | 17,473 | 18,861 |

Analysis of creditors

| | 31 March 2016 | 31 March 2017 |
|--------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Central government bodies | 1,693 | 457 |
| Other local authorities | 10,661 | 12,966 |
| NHS bodies | 0 | 2 |
| Other entities and individuals | 5,119 | 5,436 |
| Total | 17,473 | 18,861 |

Notes to the Pension Fund Accounts continued

23. Long term debtors

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

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over ten instalments commencing April 2012. The total amount of the remaining debt is £7,607 million, of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £6,085 million is a long term debtor.

| | 31 March 2016 | 31 March 2017 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Magistrates Courts – agreed liability settlement due from central government body | 7,607 | 6,085 |
| Total | 7,607 | 6,085 |

23. Additional voluntary contributions

| | Market value 31 March 2016 | Market value 31 March 2017 |
|----------------|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Prudential | 6,468 | 8,274 |
| Zurich | 7,844 | 8,188 |
| Equitable Life | 1,217 | 1,115 |
| Total | 15,529 | 17,577 |

During the year, AVC contributions of £2.491 million were paid directly to Prudential (2015/16: £2.599 million), £0.987 million to Zurich (2015/16: £1.074 million), and £0.006 million to Equitable Life (2015/16: £0.007 million).

25. 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 £96.996 million to the Fund in 2016/17 (2015/16 £95.422 million).

During the reporting period, the County Council incurred costs of £2.275 million (2015/16: £2.219 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 charge for the administration of the fund above. Details of salary of the Director of Corporate Resources can be found in the main accounts of Hampshire County Council.

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 2017, the Fund had an average cash balance of £123.1m (year to 31 March 2016: £90.9m), earning interest of £0.490m (2015/16 £0.465) in these funds.

26. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2017 totalled £160.642 million (31 March 2016: £55.914 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.

27. Contingent assets

The Fund had no contingent assets on 31 March 2017.

28. Impairment losses

During 2016/17, the Fund has recognised an impairment loss for bad and doubtful debt of £0.042 million (2015/16: £0.062 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 2017.

Statement of Responsibilities

for the Hampshire Pension Fund Accounts

Fund's responsibilities

The Fund is required to:

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

Director of Corporate Resources' responsibilities

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

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

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Director of Corporate Resources has also:

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

Director of Corporate Resources' statement

I certify that the statement of accounts as set out on pages 33 to 71 presents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.



Carolyn Williamson CPFA
Director of Corporate Resources



Independent Auditors' Statement

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

To be inserted following completion of the audit.

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.

Economic exposure

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

Emerging markets

The financial markets of developing economies.

Equities

Shares in UK and overseas companies.

Full Funding

100% of the Funding Target chosen.

Funding Principle

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

Funding Success

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

Funding Target

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

FT

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

Gilt-edged securities (or Gilts)

Fixed-interest stocks issued by the UK Government.

Global custodian

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

Guarantors

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

Hedge fund

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

Income yield

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

Index

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

Index linked

Investments which generate returns in line with an index.

Index return

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

Informal valuations

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

Interim valuations

Actuarial valuations carried out in between the triennial valuations.

LGPS

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

Glossary continued

MSCI

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

Myners

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

Notional sub-funds

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

Orphan liabilities

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

Pooled investment vehicle

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

Private equity

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

Projected unit actuarial method

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

Quartile

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

Recovery period

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

Relaxation period

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

Relevant Scheme Employer

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

Resolution bodies

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

Roll forward

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

Rolling three-year periods

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

Scheduled bodies

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

Smoothing adjustment

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

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.