



HAMPSHIRE
PENSION FUND

Annual report
and accounts

2021/22



Hampshire
County Council

[hants.gov.uk](https://www.hants.gov.uk)



Contents

Interactive links to be added once page numbers confirmed

Introduction

- Foreword by the Chairman of the Pension Fund Panel and Board x
- Summary report x
- Who’s who x

Governance

- Pension Fund Panel and Board membership x
- Panel and Board report x
- Scheme member reports x
- Training and development report x
- Risk management report x
- Governance Compliance Statement x
- The Fund’s statutory statements and other policies x

Investment pooling

- Progress on investment pooling including ACCESS annual report x

Hampshire Pension Fund Investments

- Investment policy including Responsible Investment x
- Investment performance report x
- Responsible Investment activity 2021/22 x

Administration of the Hampshire Pension Fund

- Scheme administration report x

Financial performance and Pension Fund accounts

- Financial performance report x
- Statement by the Actuary x
- Financial statements x
- Statement of Responsibilities x
- Independent Auditor’s Statement x

Other useful resources

- Useful websites and document links x
- Glossary x

We hope you find this annual report informative and useful. There is a glossary of terms at [page XX](#).

If you have any comments on the annual report, please call 01962 845588, email budget@hants.gov.uk or write to:

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

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

Section 1

Introduction



Foreword

Welcome to the Hampshire Pension Fund annual report for 2021/22.



Councillor
Mark Kemp-Gee

When writing to you in July of last year, I ventured to hope that the immense effort to develop and deploy vaccines against the coronavirus pandemic would result in success.

This has proved to be the case and profound gratitude is due from all of us to those responsible for these vital medical successes and also, most importantly as well, to all emergency and front line workers who maintained the fabric of our society and way of life during such a critical period in our history. Thank you.

However just as we were proceeding to overcome one cataclysmic event in world history, Russia invaded Ukraine. This abhorrent, outrageous and cruel event

has provided another profound set of complicated and worrying circumstances for us all to contend with.

The UN Climate Change Conference (COP26) held in October and November 2021 highlighted further challenges facing the people of our planet. I am pleased to report that the Pension Fund Panel and Board has continued to make what I feel is excellent progress in further developing our approach to Responsible Investment (RI) this year, including in relation to climate change. This has been aided by the additional capacity afforded to us by our RI Sub-Committee and details of our RI activity can be found on [page xx](#) of this report. I hope you find this of interest and would welcome your thoughts and views.

As responsible investors we continue to believe in the importance of stewardship and engagement and this year we were accepted as signatories to the UK Stewardship Code 2020 – we were pleased to be accepted within the first intake as one of only six Local Government Pension Scheme (LGPS) funds. We have also made our annual

Task Force for Climate-related Financial Disclosures (TCFD) report. We have taken further steps to actively limit the carbon emissions from our investments by making changes to an additional two investment portfolios, which brings the total to six of our investment portfolios that have limited carbon emissions over recent years. Our investment managers have been willing and able to help us to promote this initiative whilst also providing assurance that investment returns will not be negatively affected. This work has resulted in a meaningful reduction of 69% in carbon footprint in 2 years, for the Pension Fund's equities investments and further information is provided at [page X](#) of this annual report. This year culminated in the Pension Fund consulting on its draft updated RI policy, which I am proud to say included a commitment to the aim for the Pension Fund's investments to have net-zero greenhouse gas emissions by 2050, as well as a commitment to remove thermal coal from the Pension Fund's investment portfolios.

The Pension Fund's scheme members have been served exceptionally well again this



Foreword continued

year by our Pension Services team, who have continued to work incredibly hard to deliver the excellent level of service our members deserve. I am very proud of their achievements, consistently hitting targets for key performance indicators despite the challenges presented by the pandemic and once again receiving a very positive report from their Customer Service Excellence review. Similar praise is also due to the Investments and Borrowing team, who continue to manage relationships with the Fund's investment managers and who ensure the Pension Fund is represented in the ongoing development of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool alongside our colleagues from the 10 other partner LGPS funds.

Investment pooling has continued to be a focus for the Fund and all of our listed equity investments and our index linked bonds portfolio are managed through pooled arrangements, which equates to about two thirds of our investments: an excellent achievement. Going forward the focus is now on pooling the non-listed asset classes and investment portfolios

covering our multi-asset credit exposure will move into ACCESS during 2022/23. I look forward to providing you with a further update on the ACCESS pool's progress next year. Additionally, I continue to serve as the Chairman of the ACCESS pool's Joint Committee, having been elected to that position by the chairpersons of the 11 constituent LGPS funds. A full update on investment pooling is provided on [page xx](#).

Investment pooling has helped us to deliver savings in the costs we pay to our investment managers, but such savings are only meaningful if the Fund's investments perform to expectations and deliver the returns we need to meet the Fund's liabilities. After financial markets across the globe fell in March 2020 the Pension Fund experienced a strong recovery for 2020/21 and the first three quarters of 2021/22. Unfortunately, the final quarter of the year saw the impact of high inflation, resulting interest rate rises, global supply issues and a commodities crisis which were all exacerbated by the Russian invasion of Ukraine; these all impacted negatively on the total value of the Pension Fund's assets. Bearing this in mind I am

pleased to say the final quarter of 2021/22 didn't undo all of the good work of the investment managers as the value of the Pension Fund's assets grew over 2021/22 and the total value has grown by 7% to just over £9.6bn.

The 31 March 2022 is a very important date for the LGPS, including Hampshire, as it marks the next triennial valuation. This is the date at which the Pension Fund's Actuary values the Pension Fund's assets and liabilities, following which both the employer contribution rates and the strategic investment asset allocation will be reviewed over 2022/23. I look forward to sharing the outcomes of these exercises once the work has been completed.

As members of the Panel and Board we must ensure we continue to develop and maintain our skills and knowledge to provide successful oversight of the Fund and are fortunate to have once again received several excellent bespoke in-house training sessions this year. The pandemic introduced the sector to the benefits of online training sessions which the members of the Panel and Board have



Foreword continued

continued to enjoy. We have also started attending external training sessions and conferences in person again, as we began to finally put the pandemic behind us. Training continues to be given high priority and more details can be found on [page xx](#).

Finally, I would like to thank the members of the Pension Fund Panel and Board for their valuable input and dedication during 2021/22 and the role they play in the robust governance of the Fund. Full details of the membership of the Panel and Board during the year covered by our annual report can be found on [page xx](#).

I hope you find the following report helpful.

[Signature to go here](#)

Councillor Mark Kemp-Gee

Chairman, Pension Fund Panel and Board
July 2022



Summary report

The Hampshire Pension Fund is part of the Local Government Pension Scheme (LGPS) and has over 191,000 members. It makes investments so that it can pay pensions to these members when they reach retirement age. Some members will already be retired and receiving their pensions, whereas others will just be starting out in their careers.

Governance

Hampshire County Council is the local authority responsible for administering the Hampshire Pension Fund, known as the Administering Authority. In this capacity, the County Council has delegated responsibility for the governance and management of the Pension Fund to the Pension Fund Panel and Board.

The Panel and Board meets regularly and has 15 members, made up of 9 County Councillors, 3 scheme member representatives and 3 employer

representatives. These membership arrangements have been designed to allow all key stakeholders to have the opportunity to be represented on the committee. During 2021/22 there was a County Council election where some members of the Panel and Board chose to not stand again, others were given different duties and one member lost their seat. As a result of the election, Cllr Christopher Carter, Cllr Andrew Gibson, Cllr Peter Latham, Cllr Bruce Tennent and Cllr Stephen Barnes-Andrews left the Panel and Board, and new members were Cllr Alex Crawford, Cllr Dominic Hiscock, Cllr Derek Mellor, Cllr Rob Mocatta and Cllr Rob Harwood.

The unitary employer representative position alternates on an annual basis between representatives from Southampton City Council and Portsmouth City Council. As a result, Cllr Rob Harwood took over from Cllr Cal Corkery as a full member of the Panel and Board, with Cllr Cal Corkery fulfilling the substitute role. There were no other changes to the composition of the Panel and Board during 2021/22.

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

During 2021/22 the Panel and Board oversaw its normal schedule of business. This included agenda items related to the governance of the Fund, updates on administration and investment performance, and presentations from the Fund's investment managers. There was a particular focus on the Fund's approach to Responsible Investment (RI) during the year, which was further developed through the RI Sub-Committee, resulting in an updated RI policy being drafted and consulted upon with the Pension Fund's membership. Further details can be found in the Board Report on [page xx](#).



Summary report continued

Investment pooling

In 2015 the Department of Communities and Local Government issued guidance which set out how the government expected LGPS funds to pool their investment assets, delivering:

- benefits of scale,
- strong governance and decision making,
- reduced costs and excellent value for money,
- an improved capacity and capability to invest in infrastructure.

The Hampshire Pension Fund is a member of the ACCESS pool (A Collaboration of Central, Eastern and Southern Shires) with 10 other LGPS Administering Authorities.

Over recent years the Pension Fund has worked with its ACCESS colleagues to transfer its investment assets to the pool, and as at 31 March 2022 has pooled £6.0bn (62.6%) of its investments. This is a slight decrease in comparison to the

position reported at 31 March 2021, due to the relative changes in the market value of investments. The number of portfolios that the Pension Fund invests through ACCESS has not changed in 2021/22.

During 2021/22 the Pension Fund's investment management has cost the Fund £60.7m, which as a proportion of the value of the total investment assets is 0.65%. The pooled investments cost 0.22% as a proportion of the total value of pooled investments, and by comparison, the non-pooled investments cost 1.92% as a proportion of the total value of non-pooled investments. The investment management costs of pooled investments are disproportionately lower because the assets that have not been pooled attract significantly higher costs, but these assets are held to ensure the Pension Fund's investment strategy is suitably diversified.

The action of pooling has saved the Pension Fund £2.6m since pooling began, as the savings achieved on investment management fees have outweighed the costs of setting up and maintaining the pool, as well as the transition of moving

investment assets into the pool. More details can be found on [page X](#) of this annual report.

An annual report is also produced by the ACCESS pool, which can be found on [its website](#).

Investments

The Pension Fund employs a specialist (known as an actuary) to work out how much money will be needed to pay the pensions of all active, deferred and pensioner members of the scheme. This indicates what investment returns are likely to be needed and how much scheme members and their employers need to contribute to the Fund each year. The actuary's report can be found on [page xx](#).

The Pension Fund sets an Investment Strategy with the aim of achieving the required investment returns. It also maintains a Funding Strategy Statement, which sets out how employers' pension liabilities can be best met and the approach to employers' contributions.



Summary report continued

These two strategies can be found on **the Pension Fund's website**.

Under the Investment Strategy, money is invested across different types of investments (known as asset classes) so that the Fund's investments are diversified, limiting exposure to any single asset or risk. The Panel and Board has appointed external specialists in each asset class to manage these investments. These specialists are called investment managers. By using a number of different investment managers the Pension Fund achieves further diversification.

In 2021/22 the value of the Pension Fund grew by over £0.6bn (about 6%). It is now valued at just over £9bn which was mostly because of the performance of the Pension Fund's investments.

Each of the Pension Fund's investments is measured against a benchmark. The average benchmark return in 2021/22 (weighted to reflect the relative sizes of the Pension Fund's different investments) was 8.6%. The Pension Fund's investments achieved returns of 7.1% and so performed

slightly below the benchmarks on average. More details can be found in the investment Performance Report on [page xx](#).

Responsible Investment

The Pension Fund believes that investing responsibly is an important part of achieving its objectives, as Environmental, Social and Governance (ESG) factors can have a positive or negative impact on the Pension Fund and its investments. The Pension Fund was only one of six LGPS funds accepted as a signatory to the revised UK Stewardship Code 2020 which is about how investors should act when making and owning investments. This Pension Fund is also a signatory to the UN Principles for Responsible Investment and has produced a report in line with the recommendations of the Task Force for Climate-related Financial Disclosures. It expects its investment managers to demonstrate strong stewardship and engagement on the Fund's behalf.

The Panel and Board's Responsible Investment (RI) Sub-Committee met twice during 2021/22 and the RI Policy was

updated and consulted with the Pension Fund's membership. The Fund has also changed the objectives for two of its portfolios during the year so they will target lower carbon emissions without sacrificing returns. This follows making similar change to other portfolios over the last two years. The Pension Fund continues to use specialist RI benchmarking (GRESB) for its property portfolio. More details on the Pension Fund's approach to RI and its activity during 2021/22 can be found in the section starting on [page xx](#) of this annual report.

Administration

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 county area. These are 'scheduled bodies', which means their employees have a statutory right to be in the Scheme.



Summary report continued

Other scheduled bodies include the Office of the Police and Crime Commissioner and the Chief Constable for Hampshire, Hampshire and Isle of Wight 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.

Responsibility for the administration of the Pension Fund is delegated to Hampshire Pension Services (HPS), part of the Corporate Operations department of the County Council. Administration of the scheme includes administering all casework, handling all member queries, paying pensioners, working with employers (including new and exiting employers)

and providing employer training and support. HPS performs these aspects to an extremely high standard, complying with the requirements for the national standard for excellence in customer service (CSE) which has been held and retained since 2009.

Pension Services monitor their administration performance against service standards for key case work and achieved 100% against service standards for all key processes during 2021/22. In addition to this annual benefit statements were produced for over 99% of active members and for over 100% of deferred members by the statutory deadline, and Pensions Savings Statements were all produced in line with that statutory deadline. The annual internal audit opinion concluded that Pension Services have a sound framework of internal control in place, which is operating effectively. No risks to the achievement of system objectives were identified.

Further information on the administration of the Hampshire Pension Fund can be found starting on [page X](#) of this annual report.

Financial performance and Pension Fund accounts

The Pension Fund's costs are managed in line with a budget which is agreed each year by the Pension Fund Panel and Board. Management expenses, which are made up of investment management fees, administrative costs, and oversight and management fees were lower than forecast. Further information can be found of [page XX](#) of this annual report.

The Pension Fund is required to produce its financial statements each year, showing the Fund's assets and liabilities as measured at 31 March, and accounting for the income and expenditure activity during the financial year from 1 April to 31 March. The Pension Fund's financial statements can be found starting on [page XX](#) of this annual report.



Who's who

Administering authority and scheme manager

Hampshire County Council

Treasurer

Rob Carr, Director of Corporate Operations

Independent adviser

Carolan Dobson

Asset Pool

ACCESS

Pool Operator

Link Fund Solutions

Custodian

JP Morgan

Actuary

Aon

Bankers

The National Westminster Bank plc

External auditor

EY

AVC providers

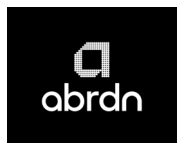
Zurich, Prudential, Utmost

County Council contacts

Head of Pensions, Investments & Borrowing: Andy Lowe 01962 845588

Legal adviser: Paul Hodgson

Investment managers



Section 2

Governance of the Hampshire Pension Fund



Pension Fund Panel and Board

Membership at 31 March 2022

County Council members



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



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



Cllr Alex Crawford
1 year's membership



Cllr Alan Dowden
5 years' membership



Cllr Jonathan Glen
5 years' membership



Cllr Dominic Hiscock
1 year's membership



Cllr Andrew Joy
9 years' membership



Cllr Derek Mellor
1 year's membership



Cllr Rob Mocatta
1 year's membership



Pension Fund Panel and Board continued

Employer representatives



Cllr Rob Harwood
Unitary Council
representative
1 year's membership



Cllr Paul Taylor
District Council
representative
3 years' membership



Neil Wood
Active scheme member
representative
6 years' membership

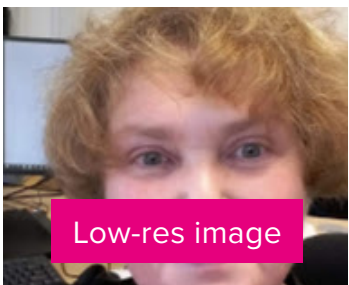


Lindsay Gowland
Deferred scheme
member representative
3 years' membership

County Council deputies

Cllr Tim Davies
Cllr David Drew
Cllr Kim Taylor
Cllr Jacky Tustain

Member representatives



Liz Bartle
Other employer
representative
3 years' membership



Cllr Cal Corkery
Substitute employer
representative
3 years' membership



Cliff Allen
Pensioner scheme
member representative
9 years' membership



Sarah Manchester
Substitute scheme
member representative
4 years' membership



Pension Fund Panel and Board continued

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

The Panel and Board's objectives are:

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

More detail can be found in the **Business Plan**.

Membership of the Panel and Board

The Pension Fund Panel and Board has 15 full members and 6 substitute or deputy members and is supported by an independent adviser and officers of the Pension Fund.

The Panel and Board's membership arrangements have been designed to allow all key stakeholders to have the opportunity to be represented on the committee. The arrangements have the endorsement of the Department for Levelling Up, Housing and Communities (previously known as the Ministry of Housing, Communities and Local Government).

The Panel and Board's full members include 9 County Council elected members, 3 employer representatives and 3 scheme member representatives. The employer representatives represent the Southampton and Portsmouth unitary authorities, Hampshire's district authorities, and other scheme employers respectively.



Pension Fund Panel and Board continued

The 3 scheme member representatives cover active contributors to the scheme, members with deferred pension rights, and members currently in receipt of their pension.

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. An independent adviser to the Panel and Board attends all Panel and Board meetings but does not have voting rights.

During 2021/22 there was a County Council election where members of the Panel and Board chose to not stand again, others were given different duties and one member lost their seat. As a result of the election, Cllr Christopher Carter, Cllr Andrew Gibson, Cllr Peter Latham, Cllr Bruce Tennent and Cllr Stephen Barnes-Andrews left the Panel and Board, and new members were Cllr Alex Crawford, Cllr Dominic Hiscock, Cllr Derek Mellor, Cllr Rob Mocatta and Cllr Rob Harwood.

The unitary employer representative position alternates on an annual basis between representatives from Southampton City Council and Portsmouth City Council. As a result, Cllr Rob Harwood took over from Cllr Cal Corkery as a full member of the Panel and Board, with Cllr Cal Corkery fulfilling the substitute role. There were no other changes to the composition of the Panel and Board during 2021/22.

The Panel and Board also operates a dedicated sub-committee focused on responsible investment. The membership of this sub-committee is drawn from the full members of the Panel and Board and is reviewed annually. Membership comprises 4 County Councillors, 1 scheme member representative and 1 employer representative.

During 2021/22 Cllr Dowden, Cllr Mellor, Lindsay Gowland and Liz Bartle replaced Cllr Corkery, Cllr Joy and Neil Wood on the Responsible Investment (RI) Sub-Committee as part of the annual review and rotation of membership.

There were 4 meetings of the Panel and Board during 2021/22 and 2 of the RI sub-committee. In 2021/22 the Panel and Board moved to four quarterly meetings, with separate virtual investment manager briefings and agreed to review this new arrangement at the end of the first year. As planned the Panel and Board received all of the necessary governance and investment papers required for the management of the Pension Fund, and there was no reduction in the number of regular items reported to the Panel and Board with the move to quarterly meetings.

In addition, six virtual investment manager briefings were held in 2021/22, allowing Members to hear from all of the Pension Fund's investment managers. These briefings have been well attended with 50-75% attendance, including the Panel and Board substitute members and its independent advisor, and the feedback from Members has been positive. Virtual meetings have reduced the travel requirements for both Members and the Fund's investment managers (a number of which are based overseas) and eased diary scheduling.

Pension Fund Panel and Board continued

On the basis that 2021/22's arrangements of four quarterly Panel and Board meetings and separate investment manager briefings has been successful, the Panel and Board agreed that this schedule is maintained going forward. In addition the investment manager briefings will remain virtual but now that the option is available, face-to-face meetings will be considered if required.

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. The Training and Development Report provides more details on [page XX](#).

Attendance at Panel and Board meetings, RI Sub-Committee meetings, internally organised training events, and other external training opportunities in 2021/22 is shown in the table [to the right](#).

Panel and Board member	Pension Fund Panel and Board	Responsible Investment Sub-Committee	Training sessions	
			Internal	External
Cllr Kemp-Gee	4/4	2/2	16	4
Cllr Thacker	4/4	1/2	12	0
Cllr Crawford	2/4		14	5
Cllr Dowden	2/4		10	2
Cllr Glen	3/4		15	21
Cllr Harwood	1/4		3	0
Cllr Hiscock	4/4		16	7
Cllr Joy	1/4	1/2	14	0
Cllr Latham	1/4		1	0
Cllr Mellor	3/4	2/2	15	3
Cllr Mocatta	4/4		5	0
Cllr P Taylor	0/4		0	0
Dr Liz Bartle	3/4	1/2	7	2
Dr Cliff Allen	4/4		15	1
Lindsay Gowland	3/4	2/2	13	3
Neil Wood	4/4		11	0
Sarah Manchester (Substitute)	0/4		13	9
Cllr Davies (Substitute)	2/4		14	0
Cllr Corkery (Substitute)	0/4		0	0
Cllr Drew (Substitute)	2/4		7	0
Cllr K Taylor (Substitute)	0/4		2	0
Cllr Tustain (Substitute)	0/4		5	0



Pension Fund Panel and Board continued

It should be noted that internal training sessions, including sessions provided by ACCESS, 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 and Responsible Investment Sub-Committee meetings, the number of meetings attended is shown against the number of possible meetings for that member.

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

Details of the Pension Fund's approach to conflicts of interest in relation to responsible investment and stewardship are set out in the Responsible Investment Policy, which can be found in the Investment Strategy Statement.



Panel and Board report

Hampshire Pension Fund has the endorsement of the the Department for Levelling Up, Housing and Communities (previously known as the Ministry of Housing, Communities and Local Government) for the arrangement of managing the Fund with a joint Panel and Board.

This efficient governance model was developed to ensure effective oversight whilst avoiding unnecessary duplication across two committees.

Board issues are dealt with under separate governance agenda items. Items that have been considered in 2021/22 are as follows:

Meeting	Agenda
27 July 2021	<ul style="list-style-type: none"> • Appointments to the Responsible Investment Sub-Committee • Annual internal audit opinion • Administration performance update • Communication Policy Statement • Communication review • Risk Register review • ACCESS fiduciary duty legal advice • Cash management • Pension Fund Annual Report • Pension Fund investment management costs • Investment update
28 September 2021	<ul style="list-style-type: none"> • Responsible Investment (RI) Sub-Committee minutes • Training in 2021/22 • ACCESS draft responsible investment guidelines • Actuary contract extension • UBS Factor Investing portfolio – options for carbon reduction • Property investment portfolio • Alternative investment portfolio • Investment update

Meeting	Agenda
10 December 2021	<ul style="list-style-type: none"> • ACCESS Joint Committee minutes • Internal Audit progress report • Administration performance update • Business Plan including Budget, Risk Register and Training Plan • Good Governance Review update • Conflicts of Interest Policy • Funding Strategy Statement • Employer Policy • Administration Strategy Statement including Decision Matrix • Investment Strategy Statement • Representation Policy • Communication Policy Statement • Governance Policy and Compliance Statement • Cash management and Annual Cash Investment Strategy 2022/23 • Cyber security and business continuity • Investment update

Meeting	Agenda
25 March 2022	<ul style="list-style-type: none"> • Responsible Investment (RI) Sub-Committee minutes • ACCESS Joint Committee minutes • ACCESS Business Plan • Pension Fund Panel and Board meetings • ACCESS Joint Committee observer arrangements • Update to the Responsible Investment Policy • Responsible Investment Policy consultation • Annual Responsible Investment update • Responsible Investment review of the Pension Fund’s investment portfolios and plan for meeting the 2050 net-zero aim • Pension Fund’s Custodian performance report • Investment update • Alternative Investments portfolio update



Panel and Board report continued

In addition, during these meetings the Panel and Board received 11 virtual presentations from its investment managers providing the opportunity to scrutinise the performance and approach adopted by these managers. It also received 4 deputations from scheme members, all of which related to climate change.

The Pension Fund's dedicated Responsible Investment Sub-Committee of the Panel and Board met twice during 2021/22 and considered the following items:

- Scheme member communication
- Stewardship highlight reports
- Climate change scenario analysis
- ACCESS draft Responsible Investment Guidelines
- Changes to the UBS and Barings portfolios
- UK Stewardship Code

- Task Force on Climate Related Financial Disclosures
- Updates to the Responsible Investment Policy

The RI Sub-Committee also received 2 deputations from scheme members related to climate change and the Pension Fund's investments.

The Panel and Board receives regular updates on investment pooling and the performance of assets managed within the pool, providing oversight as part of the effective governance of pooling arrangements. These arrangements have been set up to ensure each administering local authority may exercise proper democratic accountability and continue to meet fiduciary responsibilities. The Chairman of the Panel and Board is a member of the ACCESS pool's Joint Committee and was elected as Chairman of the Joint Committee during 2019/20. Officers represent the administering authority in various officer groups.

More detail on the governance of the Pension Fund is provided in the **Governance Policy Statement** and the Governance Compliance Statement on **page xx** of this annual report.

Further information on the governance arrangements for the ACCESS pool can be found on the **pool's website**.



Scheme member reports

The County Council has appointed a combined Pension Fund Panel and Board for Hampshire that has 15 full members and has the endorsement of MHCLG (now known as the Department for Levelling Up, Housing and Communities).

The Panel and Board's membership includes three scheme member representatives, representing active, deferred and pensioner members respectively. The scheme member representatives play an important role in the governance of the Pension Fund, representing the views of scheme members. This involves two-way communication with scheme members to understand their views and pass on relevant information about the Pension Fund whilst also participating in decision making on behalf of all scheme members and for the benefit of the Pension Fund overall. They are appointed for a four year term and are supported by a substitute representative, with further details set out in the **Pension Fund's Representation Policy**.

Neil Wood

Active scheme member representative
nwood@fareham.gov.uk

Although we seem to say it every year, the last year of the Pension Fund Panel and Board has again been a busy one. Whilst we have not seen the back of the COVID-19 pandemic, the last twelve months have seen a return to face to face meetings for the new format of four Panel and Board meetings per year. Although there are fewer meetings the agendas are always full of reports covering all our usual business as well as new topics as they arise. The Investment Manager meetings have continued virtually and are helping to contribute to a reduction in our carbon footprint especially with some Investment Managers previously travelling from overseas to attend meetings. It seems this style of meeting does generate more debate and challenging questions for the managers.

Environmental, Social and Governance (ESG) issues continue to be a major part of our agenda and everyone is working hard to

write or update the policies that will shape future funding of our investments. ESG has been the theme of all deputations to the Panel and Board during the year and it is nice to see both parties recognising the work of the other one in helping to find the right balance in how we invest the funds of the members. The Pension Fund's assets have grown to high levels of £9.6bn during the year even with difficult economic and political events putting the strategies and investments to the test.

During all these difficult times it has been good to see that the work of the Pensions, Investments and Borrowing team remains at a very high level in providing services to scheme members and long may it continue to do so.

The future remains even more uncertain with the current cost of living crisis, the ongoing situation in the Ukraine as well as the ESG issues that we are dealing with.

If you have any queries about the work of the Panel and Board or LGPS please do not hesitate to contact me.



Scheme member reports continued

Lindsay Gowland

Deferred scheme member representative
clerklindsay@yahoo.co.uk

There has been no let up for the Hampshire Pension Fund Panel and Board this year. We are now back to meeting face to face and although the number of formal meetings has been reduced to 4, there has been no reduction in our effectiveness or scrutiny and we receive regular virtual briefings from our investment managers. We have received a number of deputations on climate change and fossil fuels, all of which have been carefully listened to and considered. The Panel and Board considers the Environmental, Social and Governance risks of all its investments and is a signatory to the UN Principles for Responsible Investment and the UK Stewardship Code. We are working to reduce investments in fossil fuels, although only 2.2% of the Fund is invested in fossil fuels compared to just over 3% in renewable energy.

This year we have reviewed our Responsible Investment Policy which includes our aim to have net-zero greenhouse gas emissions by 2050; the Pension Fund is currently consulting on scheme members' and employers' views on our Responsible Investment Policy and in particular our policy on managing the Fund's impact on climate change.

The Board firmly believe that, as shareholders, we are best placed to challenge large companies on moving away from fossil fuels. The danger is that, if we disinvest, our holdings will be purchased by organisations which care less and are merely interested in extracting profit; they may not constantly challenge the company on its environmental impact. We have also considered our exposure to Russia, ensuring not only that we are not facilitating the war in any way but also that our investments are protected. We have also spent time examining our cyber security, to ensure that there is minimal risk to the Pension Fund's assets and your personal data.

The number of deferred members of the Pension Fund now stands at 82,346 which is an increase of 3,512. Again, this year, the Administration team achieved a 100% success rate in dealing with deferred pension issues and dealt with queries. If you haven't already done so, please log onto the Members Portal and check that your details are up to date.



Scheme member reports continued

Dr Cliff Allen

Pensioner scheme member representative
cliffallen203@aim.com

In the past year the Pension Fund has continued to experience the economic effects of the pandemic and also the conflict in Ukraine. This has led to shortages of supply and increases in demand for energy, goods, services and specific food commodities nationally and globally. Inflation is the economic effect of high demand and reduced supply. Consequences are higher costs and interest rates resulting in an increase in the cost of living. Pensioners are rightly concerned about the performance of the Pension Fund and its capacity to meet the pension liabilities in these difficult times.

In the short term the economy is going through a tough time. However, the medium to long term outlook is set to improve and our investments can benefit from the long term outlook. The Pension Fund is invested for the long term and managed efficiently by the Pension Fund Panel and Board, advised by its Officers. The Hampshire LGPS is

one of only two joint pension committee and governance boards adopting this efficient system. It drives one of the lowest costing administration and governance processes while maintaining a high level of quality service delivery. In other parts of the annual report you will see reported in more detail the performance of our investment strategy. In essence we have balanced risk and reward by investing in a diversified portfolio. There are investment managers with different investment strategies invested in diverse investment sectors, selecting a diversified range of investments across a global geography. Investment managers operate according to a mandate set by the Panel and Board governed by leading policy and practice that includes scrutiny of performance and environmental, social and governance risk factors.

Pensioners are able to be assured that although the current context is fluid and volatile the Pension Fund is performing to expectations and providing the benefits needed to meet the long term liabilities of the Fund.



Training and Development Report

Training Policy

As an administering authority of the Local Government Pension Scheme (LGPS), Hampshire County Council recognises the importance of ensuring that all officers and members charged with financial management and decision making for 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 will provide and arrange training for relevant officers and members. This training is designed to enable officers and members to acquire and maintain an appropriate level of expertise, knowledge, and skills. A formal training plan is prepared each year to identify and meet the training needs of the Pension Fund Panel and Board, both as a group and as individuals, and is based upon the recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Finance Knowledge and Skills Framework.

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

Further details of the **Panel and Board’s Training Policy and Plan** are available on the Pension Fund’s website.

Training received in 2021/22

During the year four internal training sessions were arranged by the Hampshire Pension Fund for Panel and Board members and officers and held virtually. The topics covered in these sessions were focused on delivering training to increase knowledge based on the Panel and Board members’ self-assessment of their training requirements, as well as to enhance the Panel and Board’s knowledge of the risk to the Pension Fund of inadequate cyber security, and how the County Council’s IT Services department mitigates those risks. The training programme included an introductory session on Hymans Robertson’s LGPS Online Learning Academy

training modules which all Panel and Board members, as well as senior officers, have been provided access with. The modules have been designed to cover the requirements of the Scheme Advisory Board’s Good Governance review.

Date	Topic	Provider
November 2021	LGPS Online Learning Academy	Hymans Robertson
December 2021	Scheme Advisory Board	Joanne Donnelly, Scheme Advisory Board
December 2021	Residential Property	CBRE
March 2022	Cyber Security	Hampshire IT Services



Training and Development Report continued

These training sessions 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 members and officers, and was provided by Arlingclose, the County Council’s advisers on treasury management.

The internal training sessions 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 and staff. In 2020/21 the coronavirus pandemic gave the Panel and Board the opportunity to try things differently and completed all of their internal training sessions online in succinct sessions that allowed more members of Panel and Board to take part,

as the sessions were more accessible than in person meetings. As a result the Panel and Board decided to conduct each of the 2021/22 training sessions online, and going forward will make a decision on virtual versus in person training sessions on a case by case basis.

During 2021/22 the Panel and Board separated meeting the Fund’s investment managers from the committee meeting cycle, and instead held virtual investment manager briefings throughout the year. The schedule of these briefings is provided **to the right**:

Date	Topic	Provider
June 2021	Global equities portfolios	Baillie Gifford
September 2021	Direct property portfolio	CBRE
September 2021	Infrastructure portfolio	GCM Grosvenor
October 2021	Asset backed securities portfolio	TwentyFour Asset Management
October 2021	Multi Asset Credit portfolio	Barings
November 2021	Global equities portfolio	Acadian
November 2021	Multi Asset Credit Portfolio	Alcentra
February 2022	Asset backed securities portfolio	Insight
February 2022	Global equities portfolio	Dodge & Cox
March 2022	Private equity portfolio	abrdn
March 2022	Private debt	JP Morgan Alternatives Asset Management



Training and Development Report continued

In addition, Panel and Board members and officers attended an ACCESS Investor Day provided by LINK Asset Services.

Individual Panel and Board members and officers attended a range of training events in 2021/22 provided by the Pension Fund's investment managers and other external organisations, as follows:

Training Provider	Events
Baillie Gifford	The future of mobility with pensions and investments Baillie Gifford Disruption Week: Sustainable food and agriculture Reflections from COP26 Long Term Global Growth – Team evolution webinar
Barings	Barings conference days 1 and 2
CBRE	CBRE UK Affordable Housing Fund – Annual impact framework discussion
DG Publishing	Local Authority Responsible Investment Seminar days 1 and 2 Private and public pensions summit
European Pension Fund Investment Forum	EPFIF UK open forum
Federated Hermes International	A practical guide to integrating ESG and engagement insights
GCM Grosvenor	Real estate
Hymans Robertson	LGPS valuation seminar
Insight Investment	Responsible investment webinar
IPE	ESG deep dive

Training Provider	Events
JP Morgan	American investment Emerging markets investment Global core real assets investment Global growth and income Indian investment Japanese investment
Local Government Association	Fundamentals days 1,2 and 3 Levelling up and impact investment
LGC / EMAP	Investment & Pensions Summit days 1 and 2
River and Mercantile	Dynamic asset allocation
Scheme Advisory Board / DG Publishing	LGPS Live
SEI	Russia, Ukraine conflict, global market update
SPS	Alternative investment strategies for pension funds ESG and impact investing for pension funds Optimising value in bonds for pension funds Private market investments annual conference Property, infrastructure and real asset investment strategies for pension funds
UBS	Market response: Russia/Ukraine war Investment realities in 2022



Training and Development Report continued

Evaluation of training

Training logs for each member of the Panel and Board are completed on an on-going basis and are used to record the training undertaken during the year. The training logs include details of all relevant training courses, seminars and events attended, along with an assessment of whether each training event has fulfilled the need it was intended to meet. This information is used to help design the training plan for the following year.

Each individual officer's training needs are assessed annually, and training plans prepared for each section and department within the County Council. The actual training provided is evaluated each year to assess its effectiveness against the aims and objectives identified prior to the training event. In addition, professional finance staff in the Corporate Operations Directorate are required by the accountancy bodies to maintain their levels of Continuing Professional Development.

Training in 2022/23

During the early part of 2022/23, individual members of the Panel and Board will be reviewing their knowledge and skills against a Training Needs Analysis. The purpose of this exercise is to allow Panel and Board members to consider their existing level of knowledge and areas where additional training is likely to be beneficial.

The Training Needs Analysis is 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 and helps to ensure the Panel and Board meet the requirements set out in the guidance referenced in the regulations. The Training Needs Analysis is also completed by all new Panel and Board members to enable them to identify any training requirements.

The training plan for 2022/23 is due to be approved by the Pension Fund Panel and Board in September 2022 based on the Training Needs Analysis. Proposed training includes further in-house training sessions, external training events, use of online learning tools, briefing information in reports to the Panel and Board from officers, and background reading as appropriate.

Relevant internal training sessions will be arranged for 2022/23 and 2023/24 based on the Training Needs Analysis.



Risk Management Report

The management of risk is part of the control framework managed by the Director of Corporate Operations’ officers with assurance provided through the work of Hampshire County Council’s internal audit function.

The aims of the Pension Fund are published in the Funding Strategy Statement, which is reported to the Pension Fund Panel & Board annually. Risks are identified by analysing what may interfere with the achievement of these aims, including risks associated with investment pooling arrangements.

An assessment of each risk is conducted by the staff of Director of Corporate Operations with assistance from the Fund Actuary. This involves assessing the likelihood and impact of each

risk, then identifying appropriate mitigation to manage these risks.

The risk register is reported to the Pension Fund Panel & Board annually and the full register is published on the Pension Fund’s website.

Control assurance reports from investment managers and the custodian (JP Morgan) are received by the Pension Fund and are also used to provide assurance over third party operations.

Risks are categorised as follows:

Categorisation	Description
Employer risks	These risks arise because of the large number of employer bodies within the scheme, 350 of which had active members at 31 March 2022.
Operational risks	Operational risks exist where the activities of the Pension Fund may be disrupted due to issues such as the loss of staff, premises or key IT capabilities of the Fund or its suppliers
Administration risks	The Pensions Regulator identifies key risk areas around how the Pension Fund is administered on a day to day basis
Investment risks	All investments come with a degree of risk. This includes risks relating to investment performance, security, and liquidity, as well as regulation and the risk of targeting the wrong level of returns. ESG risks are also considered here.
Liability risks	Changes that affect the Pension Fund’s liabilities and affect the funding ratio. For example demographics, inflation and interest rates.
Funding risk	Is the Pension Fund going to remain solvent?
Regulatory and compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.
Pooling risk	That the investment pool which Hampshire has joined does not function effectively and provide the investments that Hampshire requires in order to implement its Investment Strategy.
Contractual risk	The contractual arrangements between the County Council (on behalf of the Pension Fund) and its suppliers are challenged as unlawful.



Governance Compliance Statement

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

Ref.	Principles	Compliance	Comments
A. Structure			
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance	Hampshire County Council's constitution sets out the functions of the Joint Pension Fund Panel and Board.
b.	That representatives of participating LGPS employers, admission bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full compliance	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members.

Ref.	Principles	Compliance	Comments
A. Structure			
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Full compliance	A Responsible Investment (RI) Sub-committee has been established that reports to the Joint Pension Fund Panel and Board
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Full compliance	The RI sub-committee is made up of members of the Joint Pension Fund Panel and Board
B. Representation			
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: - employing authorities (including non-scheme employers, e.g. admission bodies) - scheme members (including deferred and pensioner scheme members) - where appropriate, independent professional observers, and - expert advisers (on an ad-hoc basis).	Full compliance.	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members. The Fund's independent adviser attends Joint Pension Fund Panel and Board meetings. Independent professional observers are not regarded as appropriate.



Governance Compliance Statement continued

Ref.	Principles	Compliance	Comments
B. Representation			
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance.	Equal access is provided to all members of the Joint Pension Fund Panel and Board.
C. Selection and role of lay members			
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance	
D. Voting			
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance.	All representatives on the Joint Pension Fund Panel and Board have full voting rights, but the Panel and Board works by consensus without votes often being required.

Ref.	Principles	Compliance	Comments
E. Training / facility time / expenses			
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance.	Full training and facilities are made available to all members of the Joint Pension Fund Panel and Board.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.	
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance.	A training plan has been prepared for the Joint Pension Fund Panel and Board, and training logs are maintained for individual Panel and Board members.



Governance Compliance Statement continued

Ref.	Principles	Compliance	Comments
F. Meetings (frequency / quorum)			
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance.	
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Full compliance.	The RI sub-committee meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance.	The Joint Pension Fund Panel and Board includes lay members. An Annual Employers Meeting of the Pension Fund is held and road shows are arranged for employers.
G. Access			
a.	That, subject to any rules in the County Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance.	Equal access is provided to all members of the Joint Pension Fund Panel and Board.

Ref.	Principles	Compliance	Comments
H. Scope			
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance.	The Joint Pension Fund Panel and Board deals with Fund administration issues as well as Fund investment.
I. Publicity			
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance.	The County Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.



The Pension Fund's statutory statements

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

- Business Plan, including the Fund's Budget, Risk Register and Training Plan
- Funding Strategy Statement
- Investment Strategy Statement 2022 including Responsible Investment Policy
- Governance Policy Statement and Compliance Statement
- Communication Policy Statement
- Administration Strategy – including Decision Matrix
- Employer Policy

These statements were last reviewed and approved at meetings of the Pension Fund Panel and Board during 2021/22: democracy.hants.gov.uk/ieListMeetings.aspx?CId=189&Year=0

All of the statutory statements are available on the Pension Fund website at the following link and form part of the Annual Report:

hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies

The Pension Fund also publishes the following documents on this webpage:

- Representation Policy
- Conflicts of Interest Policy

The Terms of Reference for the Panel and Board and the RI Sub-Committee are available as part of the **County Council's constitution**.

Section 3

Investment pooling

Progress on investment pooling



In 2015 the Department of Communities and Local Government (DCLG as it then was) issued **LGPS: Investment Reform Criteria and Guidance** which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity and capability to invest in infrastructure.

The Hampshire Pension Fund is a member of the ACCESS pool (A Collaboration of Central, Eastern and Southern Shires) with 10 other Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire, East Sussex, Essex, Hertfordshire, Isle of Wight, Kent, Norfolk, West Northamptonshire, Suffolk, and West

Sussex. The following paragraphs describe Hampshire’s individual pooling progress. ACCESS’ annual report, highlighting the progress of the pool overall is contained in the following section.

The proportion of the Pension Fund’s investments held under the ACCESS pool has reduced due to the relative changes in the market value of investments.

The number of portfolios that the Pension Fund invests through ACCESS has not changed in 2021/22.

ACCESS’s business plan for 2022/23 includes the creation of sub-funds to enable Hampshire to transfer its Multi-asset Credit portfolios, as well as continuing to develop options for pooling Alternative assets that will ultimately provide options for Hampshire for pooling new Alternative assets.

Value of pooled and non-pooled investments

	2020/21		2021/22	
	£000	%	£000	%
Equities	2,793,703	30.8	2,802,238	29.1
Passive investments	3,254,406	35.9	3,228,342	33.5
Pooled sub-total	6,048,109	66.7	6,030,580	62.6
Bonds	1,415,873	15.6	1,404,139	14.6
Property	543,685	6.0	665,297	6.9
Alternative assets	935,896	10.3	1,419,000	14.7
Cash and other assets	129,252	1.4	107,858	1.1
Non-pooled subtotal	3,024,706	33.3	3,596,294	37.4
Total	9,072,815	100.0	9,626,874	100.0



Progress on investment pooling continued

Pooled costs and savings

Hampshire Pension Fund’s investment management costs of £60.7m are also reported in the Fund’s accounts and are broken down into the following criteria based on the guidance published by CIPFA for pension fund annual reports. The data is based on data provided by the Pension Fund’s investment managers who have completed the Cost Transparency Initiative template. The Fund’s investment management costs shown in the table below are broken down into the following categories:

- Direct fees – that are invoiced to the Pension Fund by its investment managers.
- Indirect fees – are charged directly against the Fund’s investments within investment vehicles such as pooled funds within the ACCESS pool and held outside, as well as the alternative investment funds that the Pension Fund invests in directly.
- Transaction costs – such as broker commission paid in the purchase and sale of investments, costs within the alternative investment funds, as well as the costs of maintaining the Fund’s directly held property.
- Custody and other costs – the fees paid to the Fund’s custodian for the safe custody and administration of the Fund’s investments and consultancy costs where they specifically relate to investments.

	Pooled		Non-pooled		Total	
	£000	%	£000	%	£000	%
Direct fees	672	0.02	8,018	0.45	8,690	0.09
Indirect fees	11,259	0.19	5,865	0.42	17,124	0.18
Transaction costs	1,217	0.02	33,472	1.05	34,689	0.37
Custody and other costs	0	0.00	219	0.00	219	0.00
Total	13,148	0.23	47,574	1.92	60,722	0.63



Progress on investment pooling continued

The investment management costs of pooled investments are disproportionately lower because the assets that have not been pooled, specifically property and alternative assets, attract significantly higher costs, but these assets are held to ensure the Pension Fund's investment strategy is suitably diversified. The costs of the Pension Fund's investments are considered by the Pension Fund Panel and Board in considering investment returns on a net of costs basis when evaluating investment performance and options.

The investment performance of both the Pension Fund's pooled and non-pooled investments are shown in the Investment Performance section of the Annual Report.

Cumulative pooling costs and savings	£000
Pool setup and on-going costs*	553
Transition costs	539
Investment management fee savings	(3,681)
Net saving of pooling to date	(2,589)

*The breakdown of pool costs is detailed in the ACCESS Annual Report

ACCESS Annual Report

The ACCESS Annual Report is published on the ACCESS pool's website.

The report provides more details on ACCESS and the progress that has been made in pooling in 2021/22

The report can be found [here](#).

Section 4

Hampshire Pension Fund investments



Investment Policy including Responsible Investment

The Pension Fund Panel and Board is responsible for determining at a strategic level how investments will be made by the Pension Fund, with the objective of achieving the investment return required to meet the target calculated by the Fund's actuary without exposing the Fund to excessive risk.

The Investment Strategy Statement sets out the Pension Fund's strategic asset allocation and has been designed to achieve this objective by ensuring the Pension Fund can meet 100% of pension liabilities over the long term by investing within reasonable risk parameters whilst also ensuring primary contribution rates are kept affordable and steady.

Investment Strategy: Understanding cost, risk and return

The Pension Fund's investments are grouped into three categories in the Investment Strategy Statement: growth, income and protection. Holding different

types of investments helps the Fund to achieve diversification, which means the required investment returns are not heavily dependent on the performance of one economy, sector, or asset class. The Pension Fund uses different fund managers so that returns are not reliant on how well a single fund manager performs. These fund managers all manage diversified portfolios, the most concentrated of which holds around 30 stocks, whilst the most diverse will hold many hundreds of securities.

Different asset classes bring different levels of risk and uncertainty. The Pension Fund therefore invests in assets across multiple classes, aiming to ensure the profile of returns will not be completely correlated, for example by investing in assets that deliver an income stream as well as those held to deliver capital growth. Where investments are in riskier asset classes, such as equities, the aim is to ensure that the return achieved more than compensates for the risk taken.

In line with its investment beliefs, the Pension Fund holds passive investments, which are low cost and are designed

simply to track a given market, and actively managed investments, where a premium is paid to an investment manager to select the right investments to outperform the comparative market. The Pension Fund's investment managers have all completed the Cost Transparency Initiative templates which allow the Pension Fund to better understand the costs associated with its investment portfolio and the relationship between investment management costs and investment returns.





Investment Policy including Responsible Investment continued

Responsible Investment Policy and ESG considerations

The Hampshire Pension Fund believes in the importance of Responsible Investment (RI) and is a signatory to both the UK Stewardship Code and the UN Principles for Responsible Investment (PRI). It also supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

The Pension Fund's investment principles include:

- i) that it has a long-term focus, and
- ii) a belief in the importance of Responsible Investment, including consideration of social, environmental and corporate governance (ESG), which can both positively and negatively influence investment returns.

The UN PRI provides the following examples of ESG factors:

- Environmental – climate change – including physical risk and transition risk, resource depletion, including water, waste and pollution, deforestation
- Social – working conditions, including slavery and child labour, local communities, including indigenous communities, conflict, health and safety, employee relations and diversity
- Governance – executive pay, bribery and corruption, political lobbying and donations, board diversity and structure, tax strategy

These factors are not exhaustive but provide a baseline when considering ESG issues as part of the Pension Fund's overall investment strategy.

The Hampshire Pension Fund Panel and Board has created a dedicated Responsible Investment Sub-Committee that meets at least twice a year to consider emerging

ESG issues and support the implementation of the Responsible Investment Policy.

The Pension Fund delegates its investment decisions to appointed investment managers, then engages in responsible stewardship with these investment managers by reviewing and monitoring the investments being made. The Pension Fund will act to challenge its investment managers where it is difficult to see how an underlying investment can avoid a net negative contribution to a sustainable society, while engaging in dialogue about investments that will deliver a positive contribution to understand what the Fund can learn from these investments.

In all situations the Pension Fund expects its investment managers to engage with the companies they have invested in to exercise the Fund's responsibility to vote on company resolutions wherever possible. The Responsible Investment Policy sets out expectations for different types of investment manager (by asset class), which can be found in full on the **Responsible Investment webpage**.



Investment Policy including Responsible Investment continued

In March 2022 the Pension Fund Panel and Board agreed proposed revisions to the RI policy including that:

- the Pension Fund supports the objectives of the Paris Agreement, and believes that keeping a global temperature rise this century to well below 2°C relative to pre-industrial levels is entirely consistent with securing strong financial returns,
- to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a **Just Transition**,
- the Pension Fund commits to the aim for its investments to have net-zero greenhouse gas emissions by 2050, and
- working with the Fund’s investment managers to remove thermal coal from the Fund’s portfolios due to its very high carbon emissions and lack of possible transition to lower carbon alternatives.

The Pension Fund has consulted with scheme members and employers on the proposed changes to the RI policy in April and May 2022

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:

- historic tax reclamation services
- historic filing of US-based class action lawsuits
- foreign exchange settlement to enable the Pension Fund to buy and sell assets in foreign currencies

- reporting on the value of the Pension Fund’s assets and the investment performance of the Fund’s investment managers.

Pooled investments are managed by the pool operator (Link Asset Services) and are held in custody by Northern Trust, the custodian appointed by Link. All other assets are held in pooled funds by the Pension Fund. JP Morgan reports on the performance of the entire portfolio.

Matters relating to implementation of the Funding Strategy Statement

Employers paid the rates certified for the second year from the 2019 triennial valuation in 2021/22. 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, which can be found on the **Pension Fund’s website**.



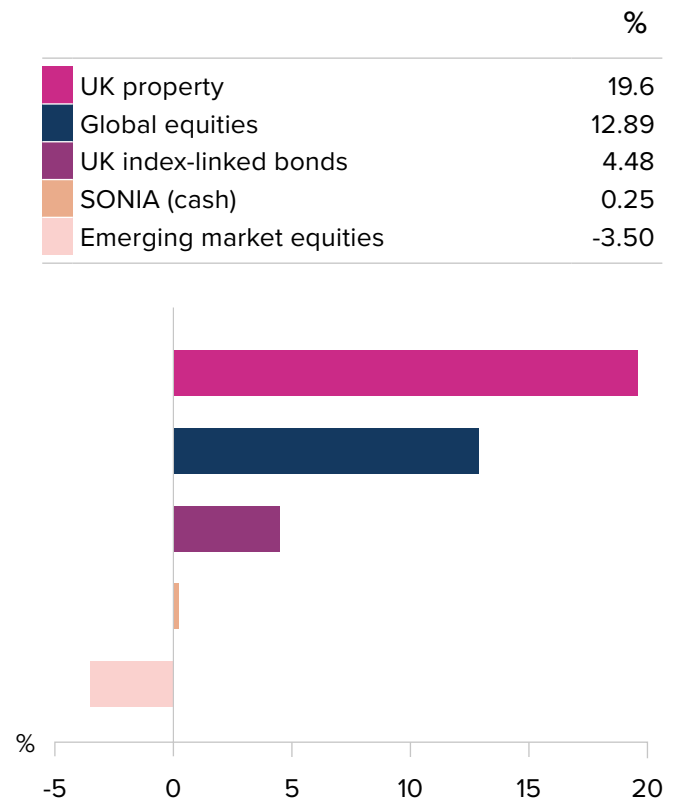
Investment Performance Report

Economic context

The global coronavirus pandemic had a significant impact on financial markets at the end of 2019/20, however stock markets then rebounded throughout 2020/21 and most of 2021/22. Financial markets then began to sell off in early December 2021 based on fears of high inflation and faster than expected rises in interest rates. The Russian invasion of Ukraine on 24 February 2022 as well as the impact of the spike in coronavirus cases in China in March 2022 meant that emerging market equities had a significant reversal in performance during 2021/22, with ongoing impacts on global businesses.

The UK commercial property market delivered a strong return of 19.60% during 2021/22 in comparison to a near flat return of 1.20% in 2020-21, and UK index-linked bonds delivered positive returns of 4.48% after having returned a gain of 2.23% in 2020/21. In addition, having risen by 39.58% the previous year, global stock markets again rose but by a more modest 12.89% over the 12 months to 31 March 2022. The return on cash using SONIA as the measure was approximately 0.25% which is a slight increase on the previous year's return of 0.14%, reflecting the initial increase in UK base rate. By comparison emerging market equities fell by 3.50% during 2021/22 reflecting the impact of Russia's invasion of Ukraine as well as the situation in China, whilst the previous year was a significant positive return of 40.50%.

Market returns in 2021/22





Investment Performance Report continued

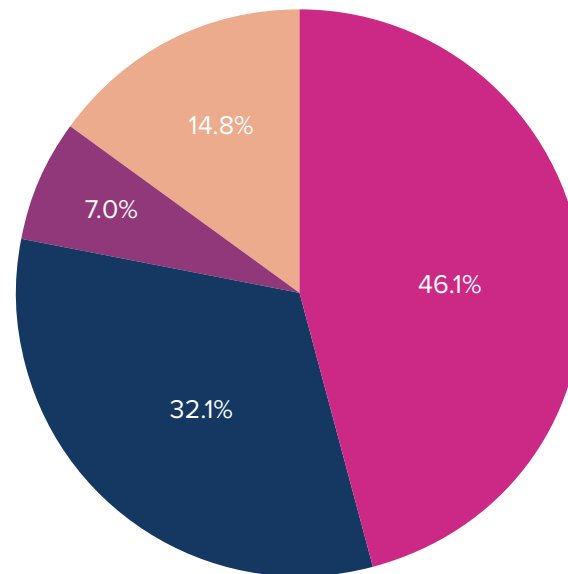
The Hampshire Pension Fund's investment portfolio

The Pension Fund holds a portfolio of investments that has been constructed in line with its Investment Strategy. This strategy includes the belief that investing across a range of asset classes will provide diversification benefits by reducing volatility and improving the Fund's risk-return characteristics.

The majority of the Fund's investments are through pooled investment vehicles, both inside and outside of the ACCESS investment pool. The Fund also owns directly held property assets as well as investments in private equity, infrastructure and private debt through its portfolio of alternative investments.

Breakdown of the Hampshire Pension Fund's investments on 31 March 2022*

	%
Pooled funds – Equities	46.1
Pooled funds - Fixed income	32.1
Property	7.0
Alternatives	14.8
Total	100

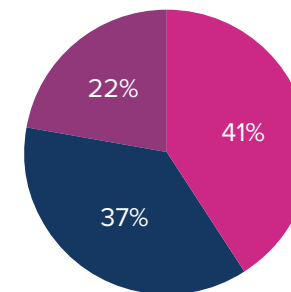


* Based on Note 11 of the Pension Fund's accounts showing total investment assets.

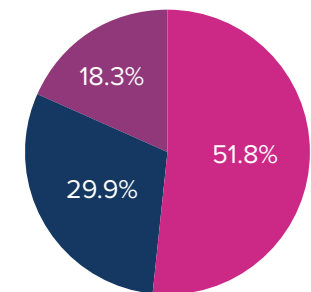
The Fund's Investment Strategy has been set to ensure that the Fund invests in assets with different characteristics. The maximum and minimum amounts allowed within the strategy and the current target and actual allocations at 31 March 2022 are shown in the table. More details can be found in the Investment Strategy Statement.

	Min.	Max.	Target	Actual
Growth	40%	70%	41%	51.8%
Income	10%	45%	37%	29.9%
Protection	10%	30%	22%	18.3%

Target



Actual





Investment Performance Report continued

The Fund has appointed investment managers responsible for specialist portfolios with the aim of delivering the objectives set out in the Investment Strategy. The target portfolio size for each investment manager is shown alongside the actual size

of each portfolio at the start and end of the year. The relevant performance benchmark for each manager is shown as well as the outperformance target where applicable. Just under two thirds of the Fund's assets are now invested through the ACCESS pool.

Pension Fund investment management structure

	Target portfolio size (%)	Actual allocation at 31 March 2021* (%)	Actual allocation at 31 March 2022* (%)	Benchmark	Annual target performance gross/net of fees	ACCESS pool?
Growth						
High-performance global equities (pooled)						
LF ACCESS Managed Volatility (Acadian)	6.5	5.9	6.4	MSCI World	+1.5% to 2.5% net	Y
LF ACCESS Global Alpha (Baillie Gifford)	5.0	7.5	6.6	MSCI All Countries World	+1.5% to 2.5% net	Y
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	7.0	10.1	8.2	MSCI All Countries World	+1.5% to 2.5% net	Y
LF ACCESS Global Stock Fund (Dodge & Cox)	6.5	7.2	7.9	MSCI All Countries World	+1.5% to 2.5% net	Y
Passive equities (pooled)						
UBS (UK equities)*	0.0	2.7	0.0	FTSE All Share Index	-	Y
UBS (global equities)	3.0	7.6	7.4	FTSE All World Equity Index	-	Y
UBS (alternative beta)	8.0	8.3	9.0	MSCI All Countries World	-	Y
Private equity and other alternatives						
abrdn	5.0	4.9	6.3	-	+9.0% to 11.5% net	N



Investment Performance Report continued

	Target portfolio size (%)	Actual allocation at 31 March 2021* (%)	Actual allocation at 31 March 2022* (%)	Benchmark	Annual target performance gross/net of fees	ACCESS pool?
Income						
Multi-asset Credit						
Alcentra	5.5	5.1	4.9	3 month GBP SONIA	+3.0%	N
Barings	4.5	4.3	4.0	3 month GBP SONIA	+3.0%	N
Asset Backed Securities						
Insight	1.0	3.1	2.8	3 month GBP SONIA	+2.0%	N
TwentyFour	1.0	3.1	2.8	3 month GBP SONIA	+2.0%	N
Private debt						
JP Morgan	5.0	2.4	3.6	3 month GBP SONIA	+4.0%	N
Infrastructure						
GCM Grosvenor	10.0	3.0	4.9	-	+7.5% to 10.0% net	N
UK property						
CBRE Investment Management	10.0	6.0	6.9	Retail Prices Index (RPI)	+3.5% net	N



Investment Performance Report continued

	Target portfolio size (%)	Actual allocation at 31 March 2021* (%)	Actual allocation at 31 March 2022* (%)	Benchmark	Annual target performance gross/net of fees	ACCESS pool?
Protection						
Passive index-linked bonds						
UBS	22.0	17.4	17.2	FT British Government Over Five Years Index-Linked Gilts Index	-	Y
Other						
Cash and other net assets	0.0	1.4	1.1	-	-	N
Total	100	100	100			

* as per Note 11b in the Pension Fund's accounts

The most significant changes in actual allocations over the course of the year are largely related to the relative performance of different asset classes, as well as the decision to fully divest from the UBS passive UK equities portfolio.

The Pension Fund's alternative and property investment managers are continuing to build out their portfolios in these more illiquid asset classes and it will take time for funds to be fully deployed in line with the strategic allocations that have been set.



Investment Performance Report continued

The value of the investments held by each of the Fund's managers on 31 March 2022 is shown in the following table.

Manager	Value of investments on 31 March 2022** (£ million)
Growth	
LF ACCESS Managed Volatility (Acadian)	619
LF ACCESS Global Alpha (Baillie Gifford)	633
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	791
LF ACCESS Global Stock Fund (Dodge & Cox)	760
UBS (passive global equities portfolio)	717
UBS (passive alternative beta portfolio)	864
abrdn (private equity and other alternatives)	603
Income	
Alcentra (Multi-asset Credit)	476
Barings (Multi-asset Credit)	387
Insight (ABS)	272
TwentyFour (ABS)	269
JP Morgan Alternative Asset Management (private debt)	342
GCM Grosvenor (infrastructure)	474
CBRE Investment Management (UK property)	665
Protection	
UBS (index-linked bond portfolio)	1,647
Cash and other net assets	108
Total	9,627

** as per Note 11b in the Pension Fund's accounts

Monitoring the performance of the investment managers

All the Pension Fund's investment managers have been set performance targets, with the expectation that these targets will be achieved over any three to five-year period. The performance of managers investing in listed equities is benchmarked against the relevant global, local or specialist index. Active managers are set targets to outperform a benchmark index, whereas passive managers should track the index. Managers in asset classes other than listed equities are given targets relevant to both their asset class and the level of risk the Pension Fund considers appropriate to achieve its investment objectives.

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.

Investment performance of the overall Pension Fund

The Hampshire Pension Fund's assets delivered a total return of 7.1% against a weighted benchmark of 8.6% in 2021/22. The weighted benchmark return is the average return for the relevant benchmarks of the Pension Fund's investments, weighted to reflect the relative size of each portfolio. The final quarter of the year to 31 March 2022 was a turnaround in comparison to the strong performance seen by the first three quarters of the year, due to the impact of high inflation, resulting interest rate rises, and global supply issues and a commodities crisis exacerbated by the Russian invasion of Ukraine.



Investment Performance Report continued

The largest portfolio, LF ACCESS Long Term Global Growth as well as LF ACCESS Global Alpha suffered from the turnaround in markets and the performance return for the year was negative in comparison to a positive market. Other portfolios such as LF ACCESS Global Stock Fund thrived by comparison, and as a result produced a positive return for the Pension Fund however the total performance of the other portfolios were not enough to meet the weighted benchmark return of the Pension Fund.

The Fund's investment return was 9.1% per annum over the three years to March 2022, and 7.7% per annum over the five years to March 2022. The 3-year return is greater than the 5-year return because the positive impacts experienced by some companies during and coming out of the pandemic have a greater effect on performance over the shorter timeframe. Over the 3-year period the LF ACCESS Long Term Global Growth investment portfolio managed by Baillie Gifford was an exceptional performer for the Pension Fund, as was the LF ACCESS Global Alpha, LF ACCESS Global Stock Fund and the Multi-Asset Credit portfolios.

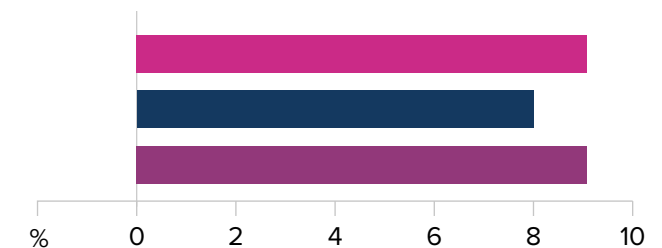
The total return was in line with the weighted target set for its investment managers.

Over the five-year period to 31 March 2022 the Fund has achieved total returns greater than the weighted benchmark but below the weighted targets set for its investment managers. All performance figures are net of fees.

Three years to 31 March 2022

% per annum

Total Fund return	9.1
Weighted benchmark indices	8.0
Weighted benchmarks plus targets	9.1

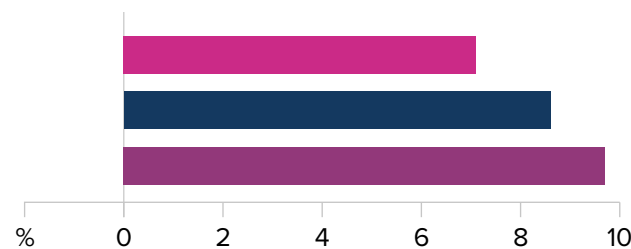


Total investment returns for the Fund

12 months to 31 March 2022

%

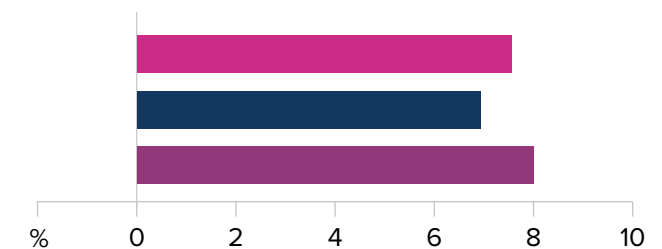
Total Fund return	7.1
Weighted benchmark indices	8.6
Weighted benchmarks plus targets	9.7



Five years to 31 March 2022

% per annum

Total Fund return	7.7
Weighted benchmark indices	6.8
Weighted benchmarks plus targets	8.0





Investment Performance Report continued

Global equities

The Pension Fund invests in global equities through a combination of passive and actively managed mandates. The four actively managed mandates are all invested through the ACCESS pool managed by Link Fund Solutions. The passive mandates are managed by UBS, the ACCESS pool's passive manager.

Full details of the investment management arrangements are on [page xx](#) and performance data is only shown where meaningful data is available.

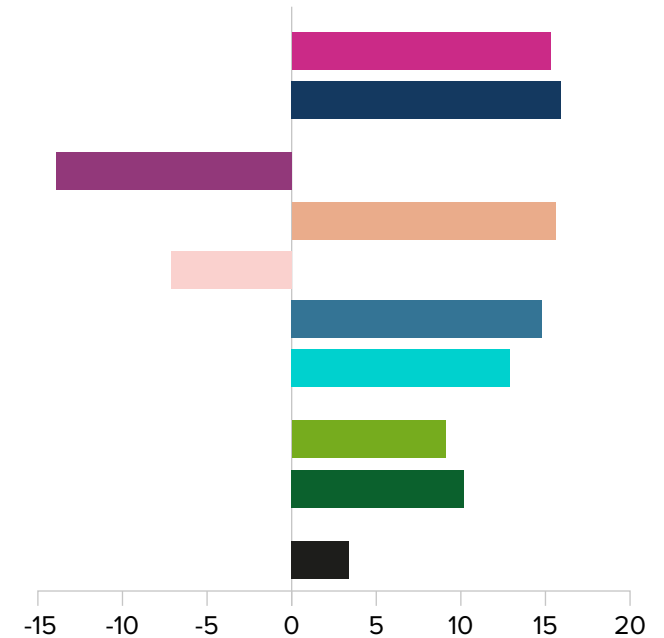
Global stock markets gained 12.89% in 2021/22, as measured by the MSCI All Countries World Index (ACWI), and 15.90% when emerging market stocks were excluded (MSCI World).

The ACCESS Global Stock Fund managed by Dodge & Cox has outperformed the index during 2021/22 following the market's reaction to increased inflation and interest rates, with the expectation of further interest rate rises to come.

Global equities (12 months to 31 March 2022)

	%
ACCESS Managed Volatility (Acadian)	15.3
MSCI World	15.9
ACCESS Long Term Global Growth (Baillie Gifford)	-13.9
ACCESS Global Stock Fund (Dodge & Cox)	15.6
ACCESS Global Alpha (Baillie Gifford)	-7.1
UBS Alternative Beta	14.8
MSCI All Countries World Index	12.9
UBS Global Equities	9.1
FTSE All World Equity Index	10.2
All active global investment managers	3.4

In contrast the ACCESS Long Term Global Growth and the ACCESS Global Alpha portfolios, both managed by Baillie Gifford, had an extremely difficult year both underperforming the benchmark as well as providing negative absolute returns. This was due to the value of the stocks held reducing (particularly technology companies) based on concerns around expectations of future profits.



In aggregate, the Fund's active global equity managers underperformed the MSCI ACWI benchmark, returning 3.4% compared with the 12.9% gain for the index.



Investment Performance Report continued

All six of the Pension Fund’s current global equity portfolios have a track record of at least three years and their performance is shown in the table **to the right** against their respective benchmarks. The table also shows the aggregate performance of all the Pension Fund’s active equity managers over three years, including those where the Pension Fund has now disinvested. The Fund’s active equity managers have underperformed the wider market in aggregate.

The Baillie Gifford Long Term Global Growth Fund has achieved very strong returns over this period, significantly outperforming the benchmark.

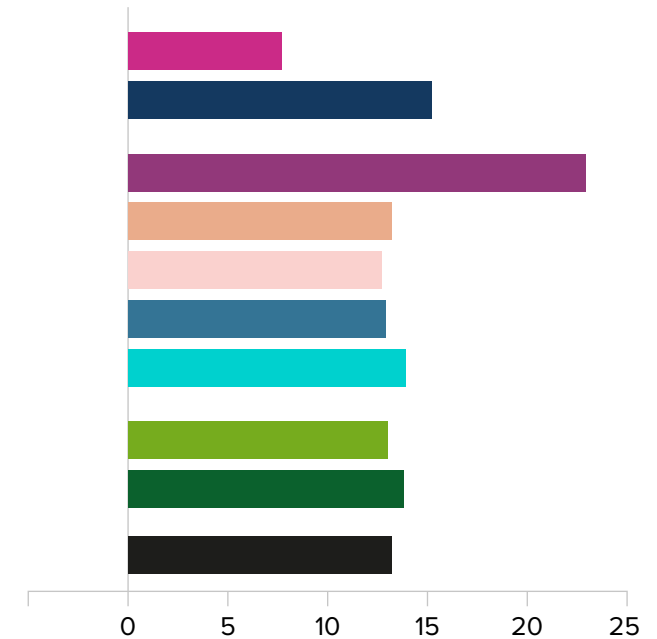
This has been because of a concentrated portfolio of growth stocks that have benefited from disruption and change, particularly during the global coronavirus pandemic.

The Acadian portfolio has underperformed the benchmark because the strategy

Global equities (Three years to 31 March 2022)

	% per annum
ACCESS Managed Volatility (Acadian)	7.7
MSCI World	15.2
ACCESS Long Term Global Growth (Baillie Gifford)	22.9
ACCESS Global Stock Fund (Dodge & Cox)	13.2
ACCESS Global Alpha (Baillie Gifford)	12.7
UBS Alternative Beta	12.9
MSCI All Countries World Index	13.9
UBS Global Equities	13.0
FTSE All World Equity Index	13.8
All active global investment managers	13.2

focuses on low volatility stocks and although during the three year period there has been significant volatility in the form of the pandemic, the global market downturn experienced in March 2020 was generally universal to all companies, including low volatility stocks.





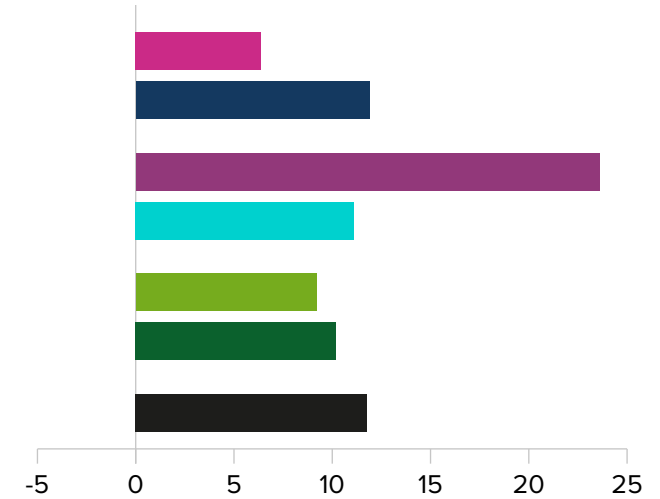
Investment Performance Report continued

Three of the Pension Fund's current active global equity portfolios have a track record of five years and their performance is shown in the table (right) below against their respective benchmarks. As shown over the three year period, the Long Term Global Growth portfolio, managed by Baillie Gifford, has significantly outperformed the benchmark due to its concentrated portfolio of stocks during a favourable period on the whole.

The table also shows the aggregate performance of the Fund's active global equity managers over the last 5 years including the Fund's previous managers and shows the Fund's managers have outperformed the benchmark.

Global equities (Five years to 31 March 2022)

	% per annum
ACCESS Managed Volatility (Acadian)	6.4
MSCI World	11.9
ACCESS Long Term Global Growth (Baillie Gifford)	23.6
MSCI All Countries World Index	11.1
UBS Global Equities	9.2
FTSE All World Equity Index	10.2
All active global investment managers	11.8





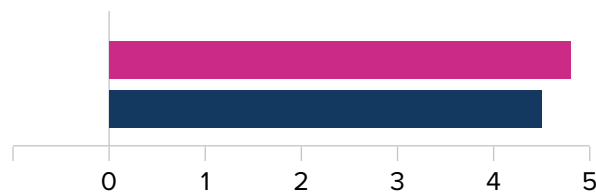
Investment Performance Report continued

Fixed income

The FTSE British Government Over Five Years Index-Linked Gilts Index returned 4.48% during 2021/22 and UBS delivered returns of 4.82%. Over 5 years the portfolio performance has closely mirrored the benchmark at 3.23% per annum, in comparison to the benchmark return of 3.24%.

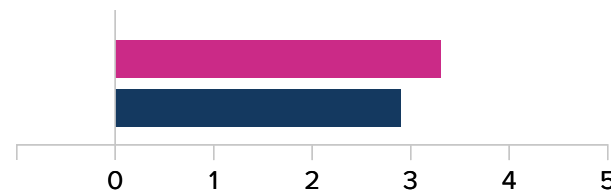
Index linked gilts (12 months to 31 March 2022)

	%
UBS	4.8
FTSE index linked gilts index	4.5



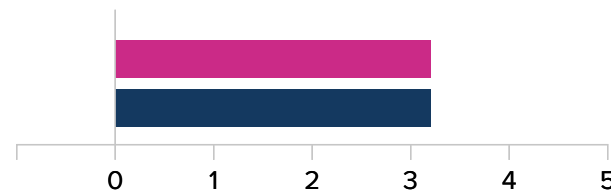
Index linked gilts (3 years to 31 March 2022)

	% (per annum)
UBS	3.3
FTSE index linked gilts index	2.9



Index linked gilts (5 years to 31 March 2022)

	% (per annum)
UBS	3.2
FTSE index linked gilts index	3.2



The Pension Fund appointed Alcentra and Barings as its two Multi-Asset Credit (MAC) investment managers during 2019. Both investment managers predominantly invest directly in bonds and loans and have been given a target to deliver returns of 3% per annum above the 3 month average SONIA rate. Both portfolios were recovering well from the Coronavirus pandemic, unfortunately the increase in interest rates towards the end of the financial year had a negative impact on fixed rate bonds within the portfolio. Despite this Alcentra provided a positive return in comparison to 3 month SONIA during 2021/22, however Barings underperformed 3 month SONIA and provided an absolute negative return during 2021/22 in part due to its exposure to emerging markets, specifically Russia and China.

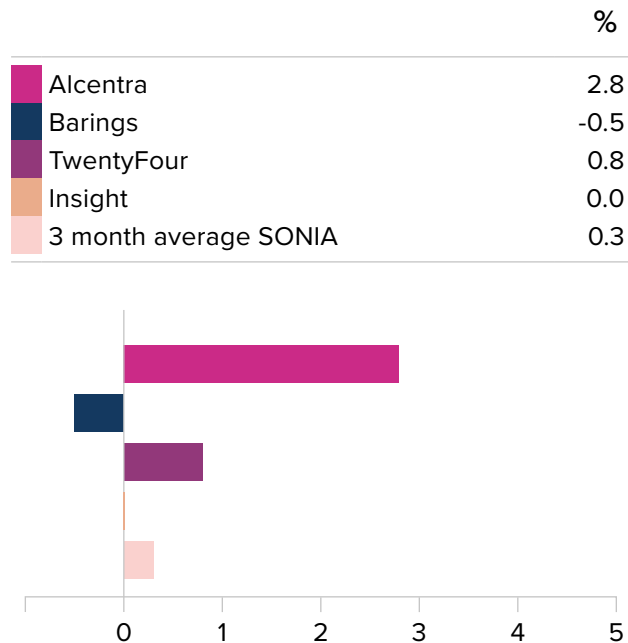
The Pension Fund appointed Insight and TwentyFour as its two Asset Backed Securities (ABS) investment managers during 2019/20. Due to the impact of increasing interest rates and the cost of living crisis both managers have performed below their performance target of SONIA +2% over the past 12 months.



Investment Performance Report continued

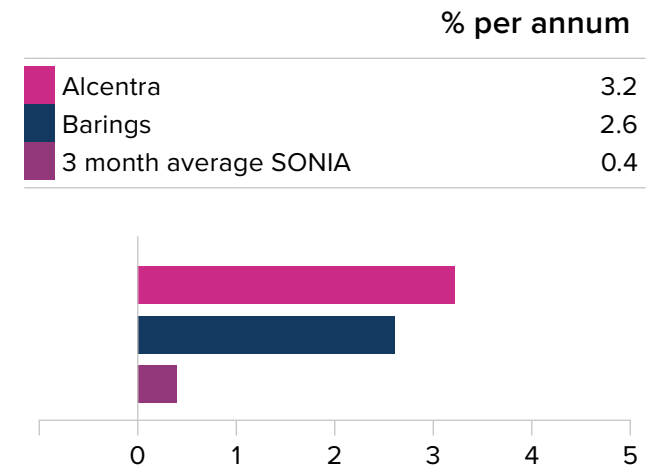
The Fund's investments in private debt through JP Morgan Alternative Asset Management are covered under the section on alternative investments on [page xx](#).

Actively managed fixed income (12 months to 31 March 2022)



Two of the Fund's current actively managed fixed income portfolios have a track record of three years or more and their performance is shown in the table on the right against SONIA. As discussed above Alcentra and Barings have been asked to deliver 3% per annum above the 3 month average SONIA rate. Over the three year period to 31 March 2022 both investment managers have provided portfolio returns above SONIA, however the performance for both is just below the target set. Although these investment managers provided good returns over the period covered by the global pandemic, unfortunately the events of the last quarter of 2021/22 has brought performance returns below the target.

Actively managed fixed income (3 years to 31 March 2022)





Investment Performance Report continued

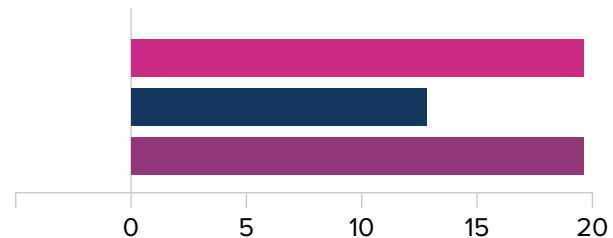
Property

CBRE Investment Management manage a portfolio of UK properties, with a performance target of the Retail Price Index (RPI) plus 3.5% over 7 to 10 years. CBRE Global Investors' performance return of 19.6% in 2021/22 was above their target of 12.8%, but in line with the average UK commercial property market (depicted by the MSCI Quarterly Universe benchmark in the table to the right). 2021/22 has been a good year for the UK commercial property market following the difficulties caused by the global pandemic.

CBRE Investment Management have underperformed their RPI plus 3.5% target over the last 3 years due to the impact of the pandemic but have outperformed over the 5 year period.

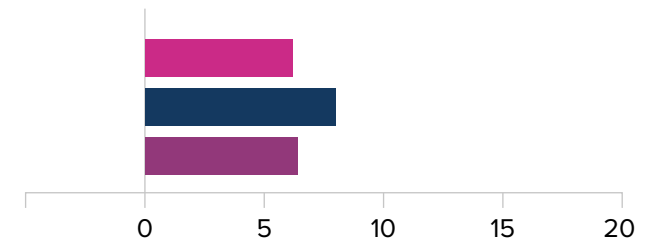
Property (12 months to 31 March 2022)

	%
CBRE Investment Management – UK property	19.6
RPI plus 3.5%	12.8
MSCI Quarterly Universe benchmark	19.6



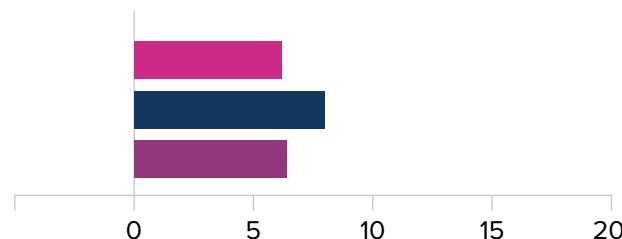
Property (Five years to 31 March 2022)

	% per annum
CBRE Investment Management – UK property	6.4
RPI plus 3.5%	7.4
MSCI Quarterly Universe benchmark	6.8



Property (Three years to 31 March 2022)

	% per annum
CBRE Investment Management – UK property	6.2
RPI plus 3.5%	8.0
MSCI Quarterly Universe benchmark	6.4





Investment Performance Report continued

Alternative investments

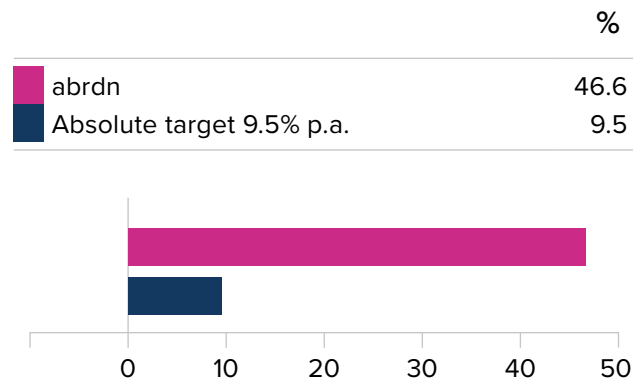
The Pension Fund’s private equity, infrastructure and private debt portfolios are managed by abr dn, GCM Grosvenor and JP Morgan Alternative Asset Management respectively. These investments are relatively illiquid and investments in the infrastructure portfolio in particular should be considered long-term investments. By being able to take a long-term view and being prepared to hold illiquid investments, the Pension Fund believes it can benefit from greater returns.

The performance of these portfolios are measured using the Internal Rate of Return (IRR), which gives an annualised effective interest rate for the investment, taking account of the timing of the cashflows.

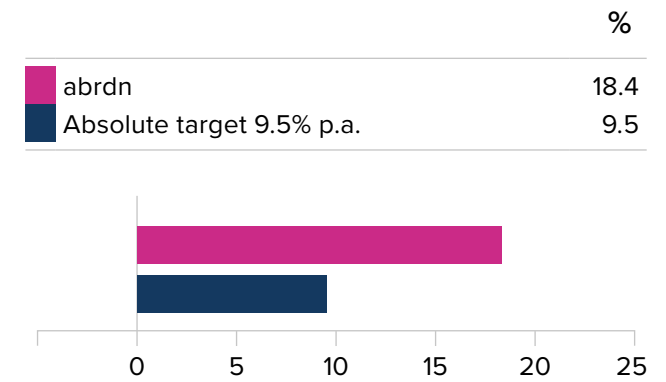
The private debt portfolio has been in place since May 2019 and therefore performance data is not available for the 3 or 5 year periods.

All of the alternative investment portfolios performed above their performance target in the time periods of data available.

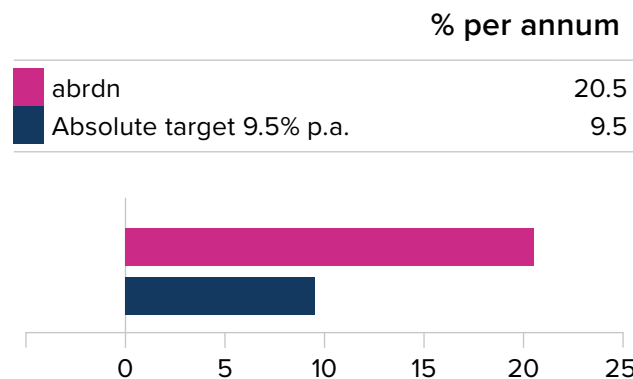
Private equity and other
(12 months to 31 March 2022)



Private equity and other
(Five years to 31 March 2022)



Private equity and other
(Three years to 31 March 2022)

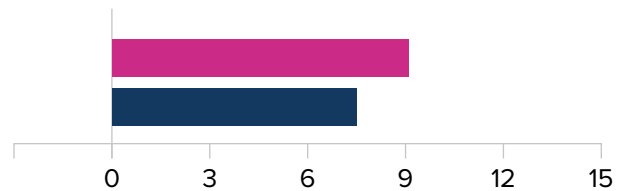




Investment Performance Report continued

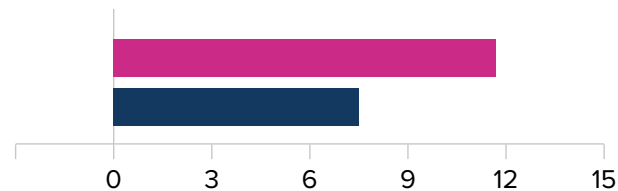
Infrastructure (12 months to 31 March 2022)

	%
GCM Grosvenor	9.1
Absolute target 7.5% p.a.	7.5



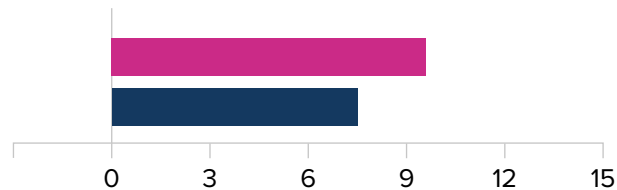
Infrastructure (Five years to 31 March 2021)

	% per annum
GCM Grosvenor	11.7
Absolute target 7.5% p.a.	7.5



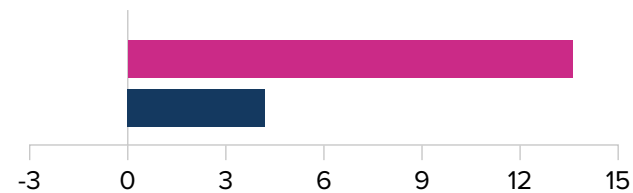
Infrastructure (Three years to 31 March 2022)

	% per annum
GCM Grosvenor	9.6
Absolute target 7.5% p.a.	7.5



Private debt (12 months to 31 March 2022)

	%
JP Morgan Alternative Asset Management	13.6
LIBOR +4% p.a. target	4.2





Responsible Investment Activity 2021/22

The Pension Fund believes that an important part of responsible investment is being transparent about its Responsible Investment (RI) Policy and the RI activity of the Fund. This report provides an update on the Pension Fund's RI activity.

Introduction

The Pension Fund:

- Has an RI policy, which is part of its investment strategy. This explains how Economic, Social and Governance (ESG) factors will be considered when making investment decisions for different asset classes and how the Pension Fund expects its investment managers to talk to companies about ESG issues and take part in shareholder voting.
- Has set up a group to focus on RI. The RI Sub-Committee was formed in September 2019 and is made up of

members of the Pension Fund Panel and Board and makes recommendations to the Panel and Board.

- Is a signatory to the UN Principles for Responsible Investment (PRI) which sets out six principles for responsible investors to follow.
- Was one of only six LGPS funds accepted as a signatory to the revised UK Stewardship Code 2020 which is about how investors should act when making and owning investments.
- Provides training for the Panel and Board on RI to ensure members have relevant and up-to-date knowledge and understanding of this topic.
- Has produced a third annual update to report to scheme members specifically on RI activity and opened a consultation for scheme members and employers on proposed changes to the RI policy in April and May 2022.

Responsible Investment Sub-Committee

The following items were considered by the RI Sub-Committee during 2021/22:

- Scheme member communication
- Stewardship (voting and engagement)
- Climate change scenario analysis
- ACCESS's draft RI guidelines
- Changes to limit carbon emissions in UBS and Barings portfolios
- Annual Task Force on Climate-related Financial Disclosure (TCFD) and UK Stewardship Code reports
- Proposed updates to the RI policy

The Pension Fund Panel and Board agreed to make changes to the Barings Multi-asset Credit (MAC) and UBS alternative factor global passive equity portfolios to target lower carbon emissions without impacting investment returns following the recommendations of the RI Sub-Committee.



Responsible Investment Activity 2021/22 continued

Addressing climate change concerns

The Fund supports the reporting requirements of the Taskforce on Climate Change Financial Disclosure (TCFD) and this update is part of those reporting requirements. The Pension Fund first captured the carbon footprint of its investments in 2019. At that time data was only available for the Pension Fund’s listed equity portfolios (49% of its investments). Since the original reporting we can now report on carbon data for index-linked gilts and some of the Fund’s multi-asset credit and asset-backed securities investments (72% of the total Pension Fund).

The carbon footprint of the Pension Fund’s equities has reduced by 69% in comparison to the Fund’s starting point in 2019 and is 40% below the current benchmark.

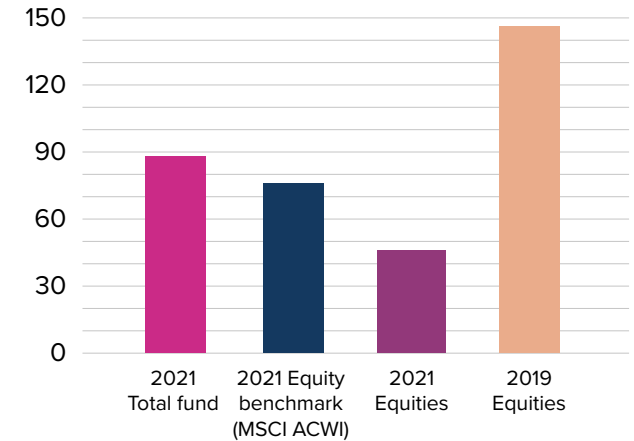
This reduction has been achieved through the focus of the Fund’s RI policy; measuring and reducing the carbon footprint of all the companies it invests in, not just fossil fuel companies, and working with investment managers to find ways to reduce the overall

carbon footprint. Of the seven portfolios where carbon data can be reported, six either already have very low emissions or the Pension Fund Panel and Board have agreed a limit to cap emissions below as follows:

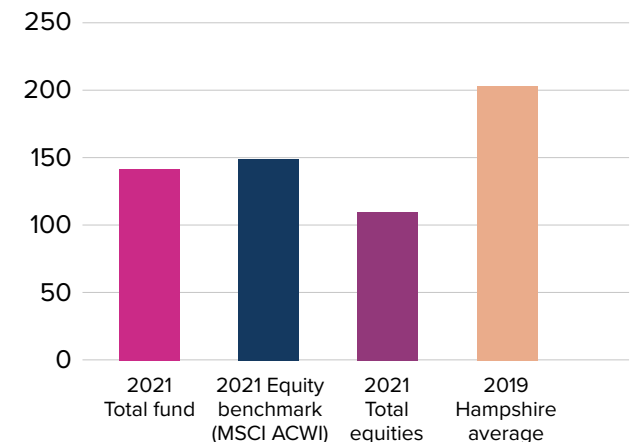
- Acadian Managed Volatility – carbon emissions limited to 50% of the benchmark
- Baillie Gifford Longterm Global Growth – carbon emissions are only 6% of the benchmark
- Baillie Gifford Global Alpha – moved to a Paris Agreement aligned strategy
- UBS passive global equities – moved to a climate aware strategy
- UBS passive factor equities – moved to a carbon aware strategy
- Barings multi-asset credit - carbon emissions limited to 70% of the benchmark

At the 31st December 2021, the Pension Fund had £323m (3.3%) invested in renewable energy and £214m (2.2%) invested in fossil fuel companies.

Carbon footprint (tCO2e/£m invested) 31 Dec 2021



Weighted average carbon intensity (tCO2e/£m revenue) 31 Dec 2021





Responsible Investment Activity 2021/22 continued

We believe that there are significant climate change mitigation benefits that come from the Pension Fund's continued engagement as a shareholder with the fossil fuel companies it is invested in.

Simply disinvesting from all fossil fuel companies is not a straightforward solution to tackling climate change. This is because:

- The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition – that the benefits of a low carbon economy transition are shared widely, ensuring that those who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.
- Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.
- If the Pension Fund sells its shares in fossil fuel companies, we will lose our

ability as a Responsible Investor to engage with those companies, to hold them to account and to influence and support them in their move towards a lower-carbon economy. The investors that would buy these shares from us may not do this.

- In the short to medium term, there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy, such as producing the steel to build wind turbines. However, by investing in and engaging with these companies we can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

The next steps on Climate Change

The Pension Fund's proposed changes to its RI policy include the commitment to the aim for its investments to have net-zero greenhouse gas emissions by 2050. This is in line with the UK Government's own target for net-zero emissions by 2050, and a number of employers in the Hampshire Fund declaring climate emergencies.

The Pension Fund's aim is set in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met.

To support its proposed net-zero aim, the Pension Fund will support the following standards and initiatives, alongside its existing commitments to the UK Stewardship Code, United Nations Principles of Responsible Investment and TCFD:

- Institutional Investors Group on Climate Change (IIGCC)
- Transition Pathway Initiative (TPI)
- Just Transition

The Pension Fund will work with its specialist RI consultant to develop a plan and trajectory for how it can achieve its net-zero aim and continue to work with its investments managers to agree how to limit the carbon emissions of investment portfolios whilst continuing to achieve the necessary investment returns to pay pensions.



Responsible Investment Activity 2021/22 continued

Russia

At the outbreak of Russia's invasion of Ukraine in February 2022, the Pension Fund held £9m (less than 0.1%) of investments in Russian companies in a number of its portfolios. Following the suspension of trading by foreign investors on the Russian stock market, these companies value were written down to a zero value as at 31 March 2022.

Since the beginning of Russian hostilities, the Pension Fund has remained in dialogue with its investment managers about these Russian stocks. All but one have already confirmed that they will sell these holdings as soon as they are able and the Pension Fund and its investment managers are continuing to monitor the situation.

Stewardship activities

The Pension Fund's investment managers' engagement and shareholder voting continues to be a key feature of the Fund's RI policy and is regularly reviewed. The Fund's investment managers have reported that key themes they have covered are:

- good governance, including board composition and executive pay,
- diversity, inclusion, and the quality of company workforces, including reporting on the gender pay gap, and
- sustainability and climate change including reporting on efforts to eliminate deforestation and integrating ESG metrics into executive compensation programmes.

Analysis of votes cast by the Pension Fund's investment managers during 2021/22 show that the majority of votes cast against company management were for the following reasons:

- nominees for company directors being not sufficiently independent,
- remuneration policies where the level of pay was felt to be excessive
- to improve the empowerment of investors, and

- the appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company was not clear.

It is the Panel and Board's aim to ensure that all voting rights are exercised in accordance with the Pension Fund's voting policy, which allows for investment managers to explain if they have felt it appropriate not to follow the policy as an exception. Exceptions are reported to the Pension Fund Responsible Investment Sub-Committee with an explanation from the investment manager.

Detailed reports on votes cast at shareholder meetings by the Pension Fund's investment managers can be found on the **Fund's RI website**.



Responsible Investment Activity 2021/22 continued

Feedback

We would love to hear your thoughts on how we are doing as a responsible investor and how we are acting on your behalf as scheme members. Please email us at responsible.investment@hants.gov.uk or write to **Responsible Investment, Hampshire Pension Services, The Castle, Winchester, Hampshire, SO23 8UB.**

More information can be found via the **Pension Fund's Responsible Investment website.**

Summary Task Force on Climate-related Financial Disclosures Report 2021

The Hampshire Pension Fund supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and

physical risks. The TCFD has support from over 2,600 organisations responsible for assets of US\$194 trillion. The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners which is published **here.**

The following paragraphs summarise Hampshire's TCFD report.

The Hampshire Pension Fund Panel and Board is responsible for agreeing investment objectives, strategy and structure and for developing and agreeing the Responsible Investment (RI) Policy. All of the Hampshire Pension Fund's investments are managed by specialist external investment managers. The Panel and Board receive regular reports from the Fund's investment managers, which includes their management of responsible investment. As confirmed by the Pension Fund's specialist RI consultant, all but one of the Fund's investment managers are Principles for Responsible Investment (PRI) signatories.

The Pension Fund strongly encourages managers to become signatories and to adhere to the principles.

The Hampshire Pension Fund has a global investment strategy widely diversified by geography, asset class, sector and investment manager. The Hampshire Pension Fund believes that Climate Change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations. Given the diversified nature of the Fund's strategy it will be exposed to all of the risks identified in the TCFD analysis, though the degree and timing of the impact cannot be accurately gauged. The Fund continues to encourage greater levels of climate-related disclosures through its discussions with its investment managers and their engagement and voting with the companies they invest in to address this issue.



Responsible Investment Activity 2021/22 continued

The largest allocation in the Pension Fund's investment strategy is to equities, therefore the Fund's primary concern is that its investment managers and the management of the companies in which they invest have fully assessed climate-related risks and the potential impact on asset valuations, in particular from:

- obsolescence, impairment or stranding of assets;
- changing consumer demand patterns; and
- changing cost structures including increased emissions pricing, insurance and investment in new technologies.

The TCFD recommendations call for asset owners to disclose a weighted average carbon footprint, which the Hampshire Pension Fund has done and included in this report, as well as its full TCFD report. As outlined above, the Pension Fund has consulted on proposed changes to its RI policy including the commitment to the aim for its investments to have net-zero greenhouse gas emissions by 2050. The Fund has commissioned expert advice for how it can set a plan to achieve this aim.

Section 5

Administration of the Hampshire Pension Fund



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 and Isle of Wight 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.

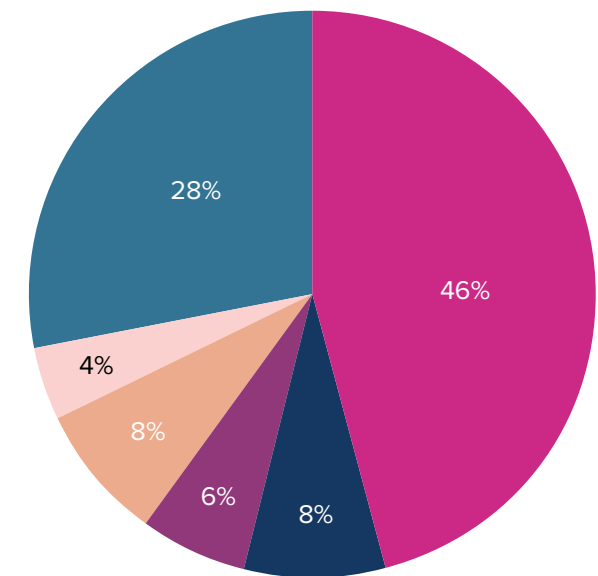
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years.

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**.

On 31 March 2022 there were 48,036 pensioners, 82,346 deferred members, and 61,044 contributors, a total of 191,426 Scheme members.

	Number of contributors	%
Hampshire County Council	28,049	46
Portsmouth City Council	4,945	8
Southampton City Council	3,522	6
District and Borough councils	4,570	8
Office of Police and Crime Commissioner and Chief Constable	2,657	4
Other organisations	17,301	28
Total	61,044	100





Scheme Administration Report continued

The following table shows a summary of employers in the fund analysed by type:

Employer Type	Employers	Active members	Deferred members	Pensioner members
Scheduled	192	59,108	80,061	45,166
Resolution	56	308	230	241
Admitted	73	1,506	1,174	1,211
Community admitted	10	52	294	392
Transferee admitted	19	70	274	254
Councillors (no active members)	10	0	84	134
Ceased (no active members)	52	0	229	638
Total	412	61,044	82,346	48,036

How the service is delivered

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

Members can access their pension information online via the Member Portal.

There are 59.5 full time equivalent members of staff involved in the administration of the scheme for Hampshire, split into two main teams, supported by finance, projects and systems staff:

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

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

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



Scheme Administration Report continued

The CSE assessment considers how HPS 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 HPS approach, along with details of their customer focussed initiatives and performance.

HPS have held the Customer Service Excellence (CSE) standard since 2009, and following a full assessment in April 2021, underwent a year 2 interim assessment in

January 2022, with compliance plus passes in six areas:

- There is corporate commitment to putting the customer at the heart of service delivery and leaders in our organisation actively support this and advocate for customers.
- We can demonstrate how customer facing staff insights and experiences and incorporated into internal processes, policy development and service planning.
- We make our services easily accessible to all our customers through a provision of a range of alternative channels.
- We monitor and meet our standards, meet departmental and performance targets and we tell our customers about our performance.
- We have developed and learned from best practice identified within and outside our organisation, and we publish our examples externally where appropriate,

- We identify any dips in performance against our standards and explain these to customers together with action we are taking to put things right and prevent further recurrence.

HPS ran 14 remote training events in the year which were attended by 167 people representing 95 employers, and two Employer Focus Group meetings. The Annual Employers Meeting was held as a face to face meeting in October 2021 and was attended by representatives from 59 employers. In addition HPS staff attended various employer liaison meetings throughout the year, as well as the regional payroll officer's group.

Scheme information for members is provided on the HPS website. Members can view their own record including their annual benefit statement via the secure member self-service portal, as well as update personal details and run estimates. 73,275 members (37.6%) had registered for the Member Portal by 30 April 2022 (68,614 by 30 April 2021).



Scheme Administration Report continued

During 2021/22 a new reporting facility was developed which shows the number of members logging into the Member Portal. The table below shows the number of log ins, by membership type for Q4 2021/22.

Member Portal log-ins				
Membership type	Jan '22	Feb '22	Mar '22	Total
Active	3,902	3,997	4,562	12,461
Deferred	2,840	2,724	3,081	8,645
Pensioner	4,851	4,157	4,358	13,366
Total	11,593	10,878	12,001	34,472

Key performance data

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

Achievement against service standards was at 100% for all key processes during the year.

Area of work	Service standard	Number of cases	% cases completed against service standard			
			Q1 – 21/22	Q2 – 21/22	Q3 –21/22	Q4 – 21/22
Retirement	15 days	962	100	100	100	100
Deferred retirement	15 days	1,774	100	100	100	100
Estimate	15 days	4,755	100	100	100	100
Deferred	30 days	6,827	100	100	100	100
Transfers in and out	15 days	330	100	100	100	100
Divorce	15 days	369	100	100	100	100
Refund	15 days	1,405	100	100	100	100
Rejoiners	20 days	623	100	100	100	100
Interfunds	15 days	631	100	100	100	100
Death benefits	15 days	952	100	100	100	100

Annual benefit statements were produced for 99.87% of active members (99.73% in 2020/21) and for 100% of deferred members by the statutory deadline of 31 August 2021. Of the 76 active members who did not have a statement by the deadline, 71 were produced by December 2021 once employers had provided the outstanding information. The remaining 5 statements could not be produced because the employer had not been able to provide earnings details.

Pension Savings Statements (PSS) were produced by the statutory deadline of

6 October for the 97 members who were identified as breaching the annual allowance limit in 2020/21. Of these 25 had a tax charge.

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



Scheme Administration Report continued

Timeliness of contributions

All employer contributions due for 2021/22 have been received. The last contribution payment was received on 3 May 2021, due to a change in the employer’s financial systems.

A total of £0.366m was paid late (£0.591m in 2020/21) which was 0.18% of the total contributions received. The average delay on all late payments received during 2021/22 was 15 days (9 days in 2020/21). Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2021/22.

Mortality screening and National Fraud Initiative

HPS run a monthly mortality screen to ensure that all deaths are reported promptly to the Fund and to minimise overpayments of pension. Overpayments are recovered by the Fund by invoice to the estate, or, with permission from the beneficiary, from a death grant or dependant pension.

The table below shows the breakdown of how overpayments were recovered by the Fund.

Recovered From	Number	Total value
Death Grant	73	£17,202.43
Dependant Pension	176	£81,097.54
Invoice	341	£125,990.82
Write Off	55	£1,442.08
Total	645	£225,732.87

The Fund also participates in the bi-annual National Fraud Initiative (NFI). The most recent NFI exercise in 2021 identified four deaths with a total potential recovery of £1,634.

Cost benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Department for Levelling Up, Housing and Communities.

The most recent data is that for the financial year 2020/21 and is summarised in the following table:

	2020/21	
	Hampshire	All Funds
Administration cost per member	£12.57	£23.91
Governance cost per member	£4.18	£11.71
Investment cost per member	£276.97	£237.11

	2019/20	
	Hampshire	All Funds
Administration cost per member	£12.30	£23.50
Governance cost per member	£4.04	£12.21
Investment cost per member	£267.62	£209.71



Scheme Administration Report continued

Value for money statement

HPS deliver an efficient and effective administration service as demonstrated by:

- delivery against service levels
- internal audit assurance on sound control framework
- retention of Customer Service Excellence award
- low administration cost per member

Work has continued in the year to improve data quality, with a focus on working with employers to improve the timeliness and quality of the information they provide.

Summary of activity in 2021/22

As well as the focus on processing casework, HPS also completed a number of projects.

- Managed the pension transfer for the merger of the Hampshire and Isle of Wight Fire and Rescue Services.

- Onboarded the London Borough of Hillingdon and City of Westminster local government pension funds to the HPS pension administration service, bringing the total number of members administered by HPS to over 334,000.
- Created an identity and logos for both HPS and the Hampshire Pension Fund, and updated the website and documents to reflect these.
- Improved cyber security controls, including the addition of a one time passcode for access to the secure Member and Employer portals.
- Continued to develop the Member Portal and encourage take up, including mailing all pensioners ahead of the annual pension increase in April and increasing the number of documents members can view online.

HPS continue to review the data which is held in the pension system. Common and conditional data scores were reported to the Pensions Regulator in November 2021.

The results of this provided a score for conditional data of 96% (95% in 2020/21). The score for common data was measured as 96% (93% in 2020/21). This improvement is largely the result of the address tracing exercise for deferred members which resulted in over 4,000 records being updated with current addresses.



Scheme Administration Report continued

What does membership cost and what are the benefits?

The Scheme operates tiered employee contribution rates set by Government. Employees pay a rising percentage depending on their pay band. The rates that apply from 1 April 2022 are set out in the following table:

Band	Actual salary	Contribution rate per year	
		Main section	50:50 section
1	Up to £15,000	5.50%	2.75%
2	£15,001 to £23,600	5.80%	2.9%
3	£23,601 to £38,300	6.50%	3.25%
4	£38,301 to £48,500	6.80%	3.4%
5	£48,501 to £67,900	8.50%	4.25%
6	£67,901 to £96,200	9.90%	4.95%
7	£96,201 to £113,400	10.50%	5.25%
8	£113,401 to £170,100	11.40%	5.7%
9	£170,101 and more	12.50%	6.25%

Every three years the Fund’s actuary, Aon, completes an actuarial valuation. This involves looking at the Fund’s investments, future contributions from employees and commitments to decide the future level of employers’ contributions. The most recent actuarial valuation of the Fund was undertaken at 31 March 2019. The actuarial position of the Fund is explained in more detail on [page XX](#).

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

- a percentage of contributor’s pay for future service (primary contribution rate).
- a fixed cash amount based on a percentage of employer payroll for past service (secondary contributions).

At the 2019 valuation for the Fund as a whole, the primary contribution rate was 17.8% and secondary contributions required to remove the past service shortfall over a recovery period of 16 years from 1 April 2020 are £1.3m per annum (increasing at 3.1% per annum).

Prior to 1 April 2019 all the secure scheduled bodies in the Fund participated in a grouped funding arrangement called the 'Scheduled Body Group'. With effect from 1 April 2019 the Scheduled Body Group was disbanded, with the main employers instead having their contributions assessed on an individual basis.

At this valuation, an Academies pool was created, as well as a Town and Parish Council pool. In addition a small Admitted Body Group remains consisting mainly of small charitable bodies. Within these groups, employers pay the same future service contribution.



Scheme Administration Report continued

Following the 2019 Fund Valuation, the Funding Strategy Statement allowed for scheme employers to elect to prepay primary and secondary employer contributions for the full three-year period covered by the valuation (April 2020 – March 2023), or for one year. In total, 16 employers took up this offer, resulting in a total prepayment of £347.2m during 2020/2021. In 2021/2022, 8 employers elected to prepay for a second single year, as illustrated in the table below:

Prepayment election 2021/22	Number of employers	Contributions paid (£m)
Primary only: 1 year	7	37.8
Primary and Secondary: 1 year	1	0.7
Total	8	38.5

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 2021/22 was £4,927 (£5,042 in 2020/21).

Retirement age

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

A total of 2,935 Scheme members retired during 2021/22, with an average retirement age of 62 years. Of this number, 1,393 (47.5%) took some form of early retirement including 124 ill health retirements and 1,176 members choosing to take a reduced pension.



Scheme Administration Report continued

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 AVCs are invested separately from the Fund's main assets and are used to buy extra pension benefits on retirement.

At the start of the year, the Fund had two AVC providers, Prudential and Zurich, with whom active members could pay additional contributions. However in December 2021, Zurich gave notice that they would no longer accept contributions although they would continue to hold AVC investments for those with deferred accounts. Members were given the option to set up a new contract with Prudential and either transfer their Zurich AVC or leave it where it was. 72 members chose to set up a new account and transfer their AVC to Prudential.

Membership information

A full listing of contributing employers to the Hampshire Pension Fund is available [here](#).

Year ending 31 March	No. of contributors	No. of deferred	No. of pensioners
2013	46,319	48,970	33,449
2014	50,551	52,417	33,286
2015	54,679	55,787	34,364
2016	57,815	59,857	36,519
2017	57,781	64,060	38,216
2018	57,877	69,503	39,796
2019	58,055	72,050	41,714
2020	58,913	75,920	43,706
2021	59,000	78,834	45,576
2022	61,044	82,346	48,036

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



Scheme Administration Report continued

Complaints

If you have a complaint about the service, HPS 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 Operations
Hampshire County Council
The Castle
Winchester
SO23 8UB

There were 15 formal complaints received in 2021/22. All the complaints were investigated and changes were made to processes where appropriate. Seven of the complaints related to issues beyond the control of HPS.

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 Finance if it is against HPS.

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 2021/22. This was partially upheld.

There was one stage two appeal against an employer decision on ill health retirement. This was not upheld.

Section 6

Financial performance and Pension Fund accounts



Financial Performance Report – Budget Commentary

Shown below is the Pension Fund’s budget for 2021/22 compared to actual expenditure, and the budget for the years 2022/23 to 2024/25. The budget for 2021/22

was agreed by the Pension Fund Panel and Board at its meeting of 4 December 2020 and revised on 10 December 2021.

	Budget 2021/22 £000	Actual 2021/22 £000	Budget 2022/23 £000	Budget 2023/24 £000	Budget 2024/25 £000
Investment management fees	62,978	60,722	65,478	68,086	70,805
Staff	1,743	1,743	1,874	2,014	2,111
Premises	62	62	64	65	66
IT	300	300	310	317	320
Supplies & Services	275	275	282	288	297
Other	0	75	0	0	0
Administrative Costs	2,380	2,455	2,530	2,684	2,794
Staff	410	409	430	452	471
Premises	5	5	5	5	5
IT	5	5	5	5	5
Supplies & Services	360	355	370	380	390
Other	5	5	5	5	5
Oversight & Governance Costs	785	779	815	847	876
Management Expenses	66,143	63,956	68,823	71,617	74,475



Financial Performance Report – Budget Commentary continued

Management expenses

The Pension Fund pays its investment managers a percentage fee based on the value of investments. Investment management fees were lower than forecast as a result of an overestimate of the value of investments that investment managers fees would be based on.

Staff costs make up the majority of the administrative, oversight and governance costs. These functions were delivered to budget in the year, except for ‘other’ administrative costs. ‘Other’ costs include the net change in the Pension Fund’s bad debt provision and the Pension Fund’s share of costs for a project team set up to administer the McCloud remedy on behalf of the funds administered by Hampshire Pension Services.

The 2021/22 expenditure on the administration and governance of the Pension Fund reflect the costs of delivering the Fund’s statutory responsibilities for the administration of the scheme and management of investments. The level of resource has ensured that the Fund has met its regulatory requirements and delivered at the standards for administration that are expected, which have been reported to the Pension Fund Panel and Board.



Statement of the Actuary for the year ended 31 March 2022

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 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 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £7,181.9m) covering 98.9% 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, and for other membership for future pension revaluation and increases.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

- 17.8% 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

- an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 of this statement, and 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 16 years from 1 April 2020, which together comprise the secondary rate

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	18.6%	7.2
2021	18.6%	7.5
2022	18.6%	7.8*

*increasing at 3.1% p.a.



Statement of the Actuary continued

Some employers are permitted by the Administering Authority to bring forward the payment of employer contributions in exchange for a discount for early payment. The terms of this option were outlined in the Rates and Adjustments Certificate attaching to the actuarial valuation report.

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	
Secure scheduled body employers *	4.40% p.a.
Intermediate funding targets	
Low risk	3.90% p.a.
Medium risk	3.75% p.a.
High risk	3.55% p.a.
Ongoing Orphan employers	3.55% p.a.

Discount rate for periods after leaving service	
Secure scheduled body employers *	4.40% p.a.
Intermediate funding targets	
Low risk	3.90% p.a.
Medium risk	3.75% p.a.
High risk	3.55% p.a.
Ongoing Orphan employers	1.60% p.a.
Rate of pay increases	3.10% p.a.
Rate of increase to pension accounts	2.10% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.10% p.a.

* The appropriate secure scheduled body or intermediate discount rate was also used for employers whose liabilities will be subsumed after exit by an employer subject to that funding target.

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.

The assets were valued at market value.

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

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2N mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018), with a smoothing parameter SK of 7.5%, an A parameter of 0.0% and long term annual rate of improvement in mortality rates of 1.5% p.a.



Statement of the Actuary continued

The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.9	25.4
Current active members aged 45 at the valuation date	24.6	27.1

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Administering Authority, in conjunction with the Actuary, monitors the funding position on a regular basis.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise

permitted or required by the Regulations and reflected in the Funding Strategy Statement where appropriate, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

- **Increases to Guaranteed Minimum Pensions (GMPs):**

The 2019 valuation allows for the extension of the ‘interim solution’ for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer term solution to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case. The response set out its proposed longer term solution, which is to extend the interim solution further to those reaching SPA after 5 April 2021.

The results of the 2019 valuation do not allow for the impact of this proposed longer term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

- **Cost Management Process and McCloud judgement:**

Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation



Statement of the Actuary continued

on changes to the LGPS was issued in July 2020.

On 13 May 2021 Government confirmed the key elements of the expected changes to the LGPS to implement the McCloud judgement in a Written Ministerial Statement, although a response to the consultation is still awaited and final Regulations are not expected to come into force until 2023. After incorporating the potential costs of the McCloud remedy, the 2016 SAB cost management process has concluded, with no benefit improvements or member contribution changes being recommended. However, some uncertainty remains as the inclusion of McCloud costs in the cost management process is the subject of a Judicial Review.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs of the McCloud judgement / cost management process. This was a simplified approach which didn't

take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and 2016 cost management process have been agreed.

- **Goodwin**

An Employment Tribunal ruling relating to the Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

10. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

11. The report on the actuarial valuation as at 31 March 2019 is available on **the Fund's website.**

Aon Solutions UK Limited

May 2022

Section 8

Financial statements



Pension Fund Accounts

Fund account	See note	2020/21 £000	2021/22 £000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	497,238	199,267
Transfers in from other pension funds		13,748	16,178
		510,986	215,445
Benefits	8	(270,665)	(285,525)
Payments to and on account of leavers		(14,630)	(18,758)
		(285,295)	(304,283)
Net additions from dealings with members		225,691	(88,838)
Management expenses	9	(53,871)	(63,956)
Net additions inc. fund management expenses		171,820	(152,794)
Returns on investments			
Investment income	10	102,410	106,521
Taxes on income		(350)	176
Profits and losses on disposal of investments and changes in the market value of investments	11a	1,888,455	600,156
Net return on investments		1,990,515	706,853
Net increase in the net assets available for benefits during the year		2,162,335	554,059
Opening net assets of the scheme		6,910,480	9,072,815
Closing net assets of the scheme		9,072,815	9,626,874



Pension Fund Accounts

Net assets statement for the year ending 31 March 2022	See note	31 March 2021 £000	31 March 2022 £000
Investment assets		8,938,561	9,508,612
Cash deposits		26	27
Investment liabilities		0	(40)
Total net investments	11	8,938,587	9,508,599
Current assets	18	140,155	125,033
Current liabilities	19	(5,927)	(6,758)
Net assets of the Fund available to fund benefits at the period end		9,072,815	9,626,874

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 17.



Notes to 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 2021/22 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.



Notes to Pension Fund Accounts continued

There are 350 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2021	31 March 2022
Number of employers with active members	337	350
Number of employees in Scheme		
County Council	27,234	28,049
Other employers	31,766	32,995
Total	59,000	61,044
Number of pensioners		
County Council	19,813	20,949
Other employers	25,763	27,087
Total	45,576	48,036
Deferred pensioners		
County Council	39,019	40,914
Other employers	39,815	41,432
Total	78,834	82,346
Total members in the Pension Fund	183,410	191,426

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 in the Main Section, and 2.75% to 6.25% of pensionable pay in the 50/50 Section, for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2019. Employer contribution rates for most employers were a range from 16.7% to 25.2% of pensionable pay. A small number of employers also pay 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.

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**.

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year end at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.



Notes to Pension Fund Accounts continued

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. The Code only requires items to be mentioned here which will be adopted in 2022/23. However, it is also useful to note that the adoption of IFRS 16 (which is about accounting for leases) has been delayed again and adoption is planned in 2024/25. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present

value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 17.

The vast majority of employers in the pension scheme (91% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions. Following the latest actuarial valuation and schedule of employer contribution prepayments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet its ongoing obligations to pay pensions from its cash balance for at least 12 months from the date of signing the accounts. In the event that investments need to be sold 78% of the Fund's investments can be converted into cash within 3 months.

3. Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate. As set out in the Fund Actuary's Rates and Adjustment certificate, certain employers can pay the primary and/or secondary contributions for the 3 years of the valuation period.

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.



Notes to Pension Fund Accounts continued

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

Transfers in and out relate to members who have either joined or left the Fund.

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

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

c) Investment income

i) 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.

ii) 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 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) Rental income from operating leases on properties owned by the Fund is recognised in the fund account when it is paid by the tenant according to the terms 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) Changes in the 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, providing that the payment has been approved.

e) Management expenses

The Fund discloses its management expenses in line with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs (2016)*, as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows.

Administrative expenses

All staff costs of the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses to the Fund.



Notes to Pension Fund Accounts continued

Oversight and governance costs

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the Fund.

Investment management expenses

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the income receivable.

Investment fees of the external investment managers and custodian are set out 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 the

market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2021/22 £2.3 million of fees is based on such estimates (2020/21 £3.4 million).

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

Net Assets Statement

g) Financial assets

All investment 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. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 11a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

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



Notes to Pension Fund Accounts continued

h) Freehold and leasehold properties

Properties are valued annually as at the year-end date by an independent external valuer, Mark White, BSc MRICS of Colliers International, on a fair value basis in accordance with the *Royal Institute of Chartered Surveyors' Valuation – Current Global Standards*; see Note 13 for more details.

i) Foreign currency transactions

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

j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment

activities. The Fund does not hold derivatives for speculative purposes (see Note 12).

k) Cash and cash equivalents

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

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 17).

n) Additional voluntary contributions

The Fund provides an additional voluntary contribution (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 Utmost, but only by legacy contributors (closed to new members).



Notes to Pension Fund Accounts continued

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 20).

o) Contingent assets and contingent liabilities

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 future events. 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.

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 alternative investments

It is important to recognise the subjective nature of determining the fair value of alternative investments: private equity, infrastructure and private debt. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equity and infrastructure investments are valued by the investment managers using guidelines set out by the *International Private Equity and Venture Capital Valuation Guidelines*. The value of unquoted private equity investments was £598 million and infrastructure investments was £470 million at 31 March 2022 (£443 million and £269 million respectively at 31 March 2021). There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as Duff & Phelps. The value of unquoted private debt investments at 31 March 2022 was £340 million (£220 million at 31 March 2021).

Pension fund liability

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

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



Notes to Pension Fund Accounts continued

Directly held property

The Fund's property portfolio includes a number of directly owned properties, which are leased commercially to various tenants with rental periods from less than a month to 116 years (based on current leases).

The Fund has determined that these contracts all constitute operating lease arrangements under the classification permitted by IAS7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account when it is paid by the tenant according to the terms of the lease.

Wholly owned companies

The Pension Fund's investments include two companies that it owns that have been specifically created to hold the Pension Fund's investments. These companies have no other purpose and therefore the value of the companies is equal to value of the investments.

The Pension Fund accounts for these investments according to the types of investments held by the companies, in line with the rest of the Pension Fund's accounting and reporting.

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.



Notes to Pension Fund Accounts continued

The items in the Net Assets Statement at 31 March 2022 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 17)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £1,023 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £47 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £372 million.
Alternative investments – Private equity (Note 13)	Private equity investments are valued at fair value in accordance with the <i>International Private Equity Venture Capital Valuation Guidelines</i> . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £598 million. The investment manager recommends a tolerance of 10% around the net asset value (+/-£60m).
Alternative investments - Infrastructure (Note 13)	Infrastructure investments are valued at fair value in accordance with the <i>International Private Equity Venture Capital Valuation Guidelines</i> . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure investments in the financial statements are £470 million. The investment managers recommends a tolerance of 10% around the net asset value (+/-£47m)
Alternative investments - Private debt (Note 13)	There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as <i>Duff & Phelps</i> . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private debt investments in the financial statements are £340 million. The investment managers recommends a tolerance of 5% around the net asset value (+/-£17m)



Notes to Pension Fund Accounts continued

6. Events after the reporting date

Following the Pension Fund's reporting date the war in Ukraine following Russia's invasion has continued. Whilst this has tragic humanitarian and significant political consequences, the financial impact on the Pension Fund has been negligible. Prior to the war the Pension Fund had £9m of investments in Russian companies. Following the outbreak of war and the suspension of trading on the Russian stock market it was not possible to sell any of these investments and they have been written down to zero in the Pension Fund's accounts.

7. Contributions receivable

By category	2020/21 £000	2021/22 £000
Employees' contributions	73,431	77,554
Employers' contributions		
Normal contributions	413,577	116,347
Deficit recovery contributions	10,230	5,366
Total employers' contributions	423,807	121,713
Total contributions receivable	497,238	199,267

By type of employer	2020/21 £000	2021/22 £000
Administering authority	262,158	38,812
Scheduled bodies	222,631	146,326
Admitted bodies	12,449	14,129
Total	497,238	199,267

Employers contributions reduced in 2021/22 as a number of employers in the Fund choose to pre-pay their contributions for the 2020/21 to 2022/23 actuarial period in 2020/21, as set out in the Fund Actuary's Rates and Adjustments Certificate in the **2019 Actuarial Valuation report**.

8. Benefits payable

By category	2020/21 £000	2021/22 £000
Pensions	229,754	236,663
Commutation and lump sum retirement benefits	35,498	42,862
Lump sum death benefits	5,413	6,000
Total	270,665	285,525

By type of employer	2020/21 £000	2021/22 £000
Administering authority	103,091	107,681
Scheduled bodies	154,467	162,994
Admitted bodies	13,107	14,850
Total	270,665	285,525

9. Management expenses

	2020/21 £000	2021/22 £000
Administrative costs	2,306	2,455
Investment management expenses	50,799	60,722
Oversight and governance costs	766	779
Total	53,871	63,956

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



Notes to Pension Fund Accounts continued

9a) Investment Management Expenses

2021/22	Management fees £000	Transaction costs £000	Total £000
Equities	0	0	0
Pooled investments*	17,796	1,744	19,540
Pooled property investments	0	0	0
Property	1,263	4,251	5,514
Alternatives	26,927	8,522	35,449
Cash	0	9	9
	45,986	14,526	60,512
Custody and other investment costs			210
Total			60,722

*includes the following amounts paid as part of the ACCESS pool:
Link: £11,622,000 | UBS: £1,525,000

2020/21	Management fees £000	Transaction costs £000	Total £000
Equities	1,598	1,716	3,314
Pooled investments*	9,757	940	10,697
Pooled property investments	52	112	164
Property	964	6,833	7,797
Alternatives	24,970	3,742	28,712
Cash	0	11	11
	37,341	13,354	50,695
Custody and other investment costs			104
Total			50,799

*includes the following amounts paid as part of the ACCESS pool:
Link: £3,925,000 | UBS: £1,186,000



Notes to Pension Fund Accounts continued

10) Investment income

	2020/21 £000	2021/22 £000
Income from equities	17,464	0
Pooled property investments	261	2,496
Pooled investments – unit trusts and other managed funds	26,334	39,382
Rents from property	27,985	27,092
Interest on cash deposits	188	42
Alternative investment income	29,207	37,379
Stock lending	60	0
Other	911	130
Total before taxes	102,410	106,521

11) Investments

	Market value 31 Mar 2021 £000	Market value 31 Mar 2022 £000
Investment assets		
Equities	762,741	0
Pooled funds		
- Fixed income unit trusts	2,518,963	3,051,668
- Unit trusts	2,310,748	4,383,052
	4,829,711	7,434,720
Other investments		
Pooled property investments	54,268	87,697
Alternative investments	645,310	1,408,541
Property	455,280	577,600
Derivative contracts:		
- Forward currency contracts	4	14
	1,154,862	2,073,852
Cash deposits	105	27
Total investment assets	6,747,419	9,508,599



Notes to Pension Fund Accounts continued

11a) Reconciliation of movements in investments and derivatives

Period 2021/22	Market value 1 April 2021 £000	Purchases and derivative payments £000	Sales and derivative receipts £000	Change in value during the year £000	Market value 31 Mar 2022 £000
Pooled investments	7,463,982	884,759	(1,186,157)	272,136	7,434,720
Pooled property investments	72,435	12,841	(94)	2,515	87,697
Alternative investments	932,407	381,802	(161,548)	255,881	1,408,542
Property	471,250	54,705	(31,657)	83,302	577,600
	8,940,074	1,334,107	(1,379,456)	613,834	9,508,559
Derivative contracts:					
- Forward foreign exchange	(1,513)	23,500	(6,546)	(15,428)	13
	(1,513)	23,500	(6,546)	(15,428)	13
Other investment balances:					
- Cash deposits	26			1,750	27
Net investment assets	8,938,587			600,156	9,508,599



Notes to Pension Fund Accounts continued

11a) Reconciliation of movements in investments and derivatives

Period 2020/21	Market value 1 April 2020 £000	Purchases and derivative payments £000	Sales and derivative receipts £000	Change in value during the year £000	Market value 31 Mar 2021 £000
Equities	721,741	31,970	(996,537)	242,826	0
Pooled investments	4,870,711	2,185,617	(1,057,932)	1,465,586	7,463,982
Pooled property investments	54,268	20,712	(593)	(1,952)	72,435
Alternative investments	645,310	228,392	(120,298)	179,003	932,407
Property	455,280	32,323	(8,222)	(8,131)	471,250
	6,747,310	2,499,014	(2,183,582)	1,877,332	8,940,074
Derivative contracts:					
- Forward foreign exchange	(7,338)	11,029	(22,661)	17,457	(1,513)
	(7,338)	11,029	(22,661)	17,457	(1,513)
Other investment balances:					
- Cash deposits	105			(6,335)	26
Net investment assets	6,740,077			1,888,454	8,938,587

Purchases and sales of derivatives are recognised in Note 11a. Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.



Notes to Pension Fund Accounts continued

11b) Investments analysed by fund manager

	31 March 2021 Market Value		31 March 2022 Market Value	
	£000	%	£000	%
Investments part of the ACCESS pool				
ACCESS Pooled investments managed by Link				
Acadian	536,778	5.9	618,750	6.4
Baillie Gifford	1,599,468	17.7	1,423,598	14.8
Dodge & Cox	657,457	7.2	759,890	7.9
ACCESS Pooled investments managed by UBS	3,254,406	35.9	3,228,343	33.5
	6,048,109	66.7	6,030,581	62.6
Investments held outside of the ACCESS pool				
abr dn	447,385	4.9	602,678	6.3
Alcentra	463,141	5.1	476,204	4.9
Barings	388,622	4.3	386,687	4.0
CBRE Investment Management	543,487	6.0	665,297	6.9
GCM Grosvenor	269,609	3.0	474,273	4.9
Insight	284,849	3.1	272,305	2.8
JP Morgan Alternative Asset Management	218,876	2.4	342,050	3.6
Twenty-four Asset Management	279,261	3.1	268,942	2.8
	2,895,229	31.9	3,488,436	36.2
Other investments	225	0.0	24	0.0
Other net assets	129,252	1.4	107,833	1.2
Total	9,072,815	100.0	9,626,874	100.0

All the companies named above are registered in the United Kingdom. The Pension Fund has no investment in a single company/asset that exceeds 5% of the net assets available for benefits.



Notes to Pension Fund Accounts continued

11c) Property holdings

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

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

	Year ending 31 Mar 2021 £000	Year ending 31 Mar 2022 £000
Within one year	18,816	22,525
Between one and five years	61,038	62,749
Later than five years	157,336	183,942
Total future lease payments due under existing contacts	237,190	269,216

The above disclosures have been reduced by a credit loss allowance of 4.5% per annum, reflecting the Fund’s expected loss from late or non-recovery of rents from tenants. This has been based on the Fund’s own historic experience but also information on similar properties received from the Fund’s property investment manager. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

12. Analysis of derivatives

Objectives and policies for holding derivatives

Investments in forward currency contracts were to hedge exposures to reduce risk in the Fund by removing the exposure to foreign (non-Sterling) currency. The forward foreign currency contracts are all OTC (over the counter) contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.



Pension Fund Accounts continued

Open forward currency contracts

At 31 March 2022, the Fund had open forward currency contracts in place with a net unrealised gain of £0.014 million.

Settlements	Currency bought	Local value £000	Currency sold*	Local value £000	Asset value £000	Liability value £000
1 to 6 months	GBP	305,095	USD	(401,518)	54	0
1 to 6 months	USD	4,354	GBP	(3,334)	0	(25)
1 to 6 months	GBP	3,340	EUR	(3,958)	0	(15)
Open forward currency contracts at 31 March 2022					54	(40)
Net forward currency contracts at 31 March 2022						14

Prior year comparative

Settlements	Currency bought	Local value £000	Currency sold*	Local value £000	Asset value £000	Liability value £000
Less than 1 month	EUR	473	GBP	(405)	0	(3)
1 to 6 months	GBP	215,684	USD	(299,742)	60	(1,579)
1 to 6 months	USD	956	GBP	(696)	0	(4)
1 to 6 months	GBP	2,831	EUR	(3,303)	13	0
Open forward currency contracts at 31 March 2021					73	(1,586)
Net forward currency contracts at 31 March 2021						(1,513)

* List of currencies

EUR = Euro | GBP = British Pound | USD = United States Dollar



Notes to Pension Fund Accounts continued

13. Fair value – basis of valuation

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

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Market quoted investments	1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Spot foreign exchange contracts	1	Market exchange rates at the year end	Not required	Not required
Exchange traded pooled investments	1	<i>Closing bid value on published exchanges</i>	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
Pooled investments – fixed income	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	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
Freehold and leasehold properties	2	Valued at fair value at the year end using the investment method of Mark White, BSc MRICS of Colliers International in accordance with the <i>RICS Valuation – Current Global Standards</i>	Comparable recent market transactions on arm's-length terms	Not required



Notes to Pension Fund Accounts continued

13. Fair value – basis of valuation continued

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
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, infrastructure and private debt	3	Comparable valuation of similar companies in accordance with International Private Equity Venture Capital Valuation Guidelines where appropriate or use of third-party valuers such as Duff & Phelps.	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium Loan to value multiple	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 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 2022.

	Assessed valuation range (+/-)	Value at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Alternative investments – Hedge funds	5%	24	26	23
Alternative investments – Private debt	5%	340,468	357,491	323,445
Alternative investments – Infrastructure	10%	470,486	517,536	423,438
Alternative investments – Private equity	10%	597,563	657,319	537,806

13a) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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



Notes to Pension Fund Accounts continued

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 2022	Quoted market price	Using observable inputs	With significant unobservable inputs	
Financial assets	Level 1 £000	Level 1 £000	Level 1 £000	Total £000
Financial assets at fair value through profit and loss	6,571,829	950,642	1,408,541	8,931,012
Non-financial assets at fair value through profit and loss	0	577,600	0	577,600
Financial liabilities at fair value through profit and loss	0	(40)	0	(40)
Net investment assets	6,571,829	1,528,202	1,408,541	9,508,572

Values at 31 March 2021	Quoted market price	Using observable inputs	With significant unobservable inputs	
Financial assets	Level 1 £000	Level 1 £000	Level 1 £000	Total £000
Financial assets at fair value through profit and loss	6,612,218	924,271	932,407	8,468,896
Non-financial assets at fair value through profit and loss	0	471,250	0	471,250
Financial liabilities at fair value through profit and loss	(2)	(1,583)	0	(1,585)
Net investment assets	6,612,216	1,393,938	932,407	8,938,561

The table includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included.



Notes to Pension Fund Accounts continued

13b) Reconciliations of fair value measurements within level 3

Period 2021/22	Market value 31 March 2021 £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 2022 £000
Alternative investments	932,407	381,802	(161,548)	255,881	1,408,542

Period 2020/21	Market value 31 March 2020 £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 2021 £000
Alternative investments	645,310	228,392	(120,298)	179,003	932,407



Notes to Pension Fund Accounts continued

14) Financial instruments

14a) Classification of financial instruments

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

31 March 2021				31 March 2022		
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
			Financial assets			
7,463,982			Pooled investments	7,434,720		
72,435			Pooled property investments	87,697		
932,407			Alternatives	1,408,541		
73			Derivative contracts	54		
12,590	90,477		Cash	56,640	28,536	
	12,142		Debtors		11,039	
8,481,487	102,619	0		8,987,652	39,575	0
			Financial liabilities			
(1,586)			Derivative contracts	(40)		
		(4,570)	Creditors			(5,353)
(1,586)	0	(4,570)		(40)	0	(5,353)
8,479,901	102,619	(4,570)		8,987,612	39,575	(5,353)



Notes to Pension Fund Accounts continued

14b) Net gains and losses on financial instruments

31 March 2021 £000		31 March 2022 £000
	Financial assets	
1,879,128	Fair value through profit and loss	532,283
	Financial liabilities	
17,457	Fair value through profit and loss	(15,428)
1,896,585	Total	516,855

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

15) Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members).

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

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

15a) Market risk

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

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

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



Notes to Pension Fund Accounts continued

The Fund manages these risks in two ways:

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

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

Other price risk

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

or its issuer or factors affecting all such instruments in the market.

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2021/22

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 (+/-)
Overseas equities	15.56%
UK bonds	13.12%
Overseas bonds	8.81%
Property	5.09%
Alternative investments	6.20%
Cash	0.11%

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



Notes to Pension Fund Accounts continued

Had the market price of the Fund investments increased/ decreased in line with the previous table, 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):

Asset type	Value at 31 March £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Total assets 2022	9,508,599	1,143,058	10,651,657	8,365,541
Total assets 2021	8,938,587	1,076,231	10,014,818	7,862,356

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2022 and 31 March 2021 is set out on the following page. 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 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.



Notes to Pension Fund Accounts continued

Assets exposed to interest rate risk	Value as at 31 March 2022 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash & cash equivalents	85,149	0	85,149	85,149
Cash deposits	27	0	27	27
Total	85,176	0	85,176	85,176

Assets exposed to interest rate risk	Value as at 31 March 2021 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash & cash equivalents	103,042	0	103,042	103,042
Cash deposits	26	0	26	26
Total	103,068	0	103,068	103,068

Income exposed to interest rate risk	Amount receivable as at 31 March 2022 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits/ cash & cash equivalents	42	941	983	(899)
Total	42	941	983	(899)

Income exposed to interest rate risk	Amount receivable as at 31 March 2021 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits/ cash & cash equivalents	194	1,242	1,436	(1,048)
Total	194	1,242	1,436	(1,048)

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.



Notes to Pension Fund Accounts continued

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 7.1% (as measured by one standard deviation).

A 7.1% 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 7.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset type	Value at 31 March £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Total assets 2022	4,807,023	341,288	5,148,311	4,465,735
Total assets 2021	4,333,409	254,950	4,588,359	4,078,459

15b) Credit risk

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

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

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



Notes to Pension Fund Accounts continued

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

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

The Pension Fund has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years. The Fund's cash holding under its treasury management arrangements at 31 March 2022 was £73.95 million (31 March 2021 £97.75 million). This was held with the following institutions:

	Rating as at 31 March 2022	Balance as at 31 March 2021 £000	Balance as at 31 March 2022 £000
Money market funds			
abrdn (formerly Aberdeen Standard)	AAAm	5,200	9,920
Blackrock	AAAm	0	8,840
DWS	AAAm	2,590	7,960
Federated Investors UK	AAAm	4,800	8,680
Insight	AAAm	0	9,610
JP Morgan	AAAm	0	11,630
Bank Deposits			
Lloyds	A+	8,670	2,810
NatWest	A	3,490	6,410
Landesbank Baden-Wuerttemberg	A	12,000	0
Handelsbanken	AA-	0	8,090
Treasury bills			
UK Government	AA-	5,000	0
Local Authority deposits			
Local Authority deposits	n/a	56,000	0
Total		97,750	73,950



Notes to Pension Fund Accounts continued

15c) Liquidity risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2022 the value of illiquid assets was £2,037 million, which represented 21.8% of the total fund assets (31 March 2021: £1,436 million, which represented 16.1% 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 2022 are due within one year.

Refinancing risk

The key risk is that the Pension Fund will be bound to replace on maturity a significant proportion of its financial

instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

16. Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2019 and the results are published on the **Pension Fund's website**. The next valuation will take place at 31 March 2022.

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 16 years from 1 April 2020 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.



Notes to Pension Fund Accounts continued

At the 2019 actuarial valuation, the Fund was assessed as 99% funded (81% at the March 2016 valuation). This corresponded to a deficit of £78 million (2016 valuation: £1,240 million) at that time.

The aggregate employer contributions were certified as 18.6% of Pensionable Pay, plus an additional total contribution amount of £7.2 million over 2020/21, £7.5 million over 2021/22 and £7.8 million over 2022/23.

The Fund operates three funding groups (or pools) in which participating employers share risks and pay a common primary contribution rate. All academies participate in the Academy Pool; all Town and Parish Councils participate in the Town and Parish Council Pool, and many of the charitable community admission bodies continue to participate in the Admission Body Group. Further information on these funding arrangements is contained within the Funding Strategy Statement. All other employers' liabilities and contribution rates are assessed individually.

Contribution schedules for the period to 31 March 2023 have been agreed

for all employers. The contributions for employers reflect the profiles of their membership (or profile of the group in which they participate); 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. Where annual contribution amounts have been certified to an employer to remove a deficit these are expected to increase by approximately 3.1% p.a. until 31 March 2036 (or an earlier date in some cases depending on the employer's circumstances).

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

Financial assumptions

Full details of the assumptions used by the Fund's actuary are set out in the 2019 actuarial valuation report and summarised in the Statement of the Actuary.

Generally, a common set of assumptions is 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, will have regard to 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 March 2019 actuarial valuation were as follows:

Financial assumptions	
Discount rate	4.4% a year
Rate of general pay increases	3.1% a year
Rate of increase to pension accounts and deferred pension increases	2.1% a year
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.1% a year

The assets were valued at market value.



Notes to Pension Fund Accounts continued

Demographic assumptions

A 65 year old male pensioner retiring in normal health in 2019 was assumed on average to live to 87.9 (rather than 89.1 under the assumptions adopted at the previous valuation). A 65 year old female pensioner retiring in normal health in 2019 was assumed on average to live to 90.4 (rather than 92.3).

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 were in at the valuation date.

17. Actuarial present value of promised retirement benefits

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

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

The actuarial present value of promised retirement benefits at 31 March 2019 was £10,141million (31 March 2016: £7,595 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 2019 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

The principal financial assumptions used by the Fund's actuary for the March 2019 IAS 19 calculation were:

Discount rate	2.5%
CPI inflation / pension increase rate assumption	2.1%
Salary increase rate	3.1%



Notes to Pension Fund Accounts continued

18. Current assets

	31 March 2021 £000	31 March 2022 £000
Debtors:		
- Contributions due – employees	369	317
- Contributions due – employers	19,894	24,848
- Transfer values receivable (joiners)	1,521	0
- Tax	3,187	3,680
- Sundry debtors	12,142	11,039
Cash balances	103,042	85,149
Total	140,155	125,033

Analysis of debtors	31 March 2021 £000	31 March 2022 £000
Central government bodies	6,176	12,885
Other local authorities	14,634	19,358
Other entities and individuals	16,303	7,641
Total	37,113	39,884

19. Current liabilities

	31 March 2021 £000	31 March 2022 £000
Sundry creditors	4,570	5,353
Benefits payable	495	465
Tax	862	940
Total	5,927	6,758

Analysis of creditors	31 March 2021 £000	31 March 2022 £000
Central government bodies	862	940
Other local authorities	745	2,049
Other entities and individuals	4,320	3,769
Total	5,927	6,758

20. Additional voluntary contributions

	Market value 31 March 2021 £000	Market value 31 March 2022 £000
Prudential	18,527	17,648
Zurich	5,800	5,525
Utmost	852	812
Total	25,179	23,983

During the year, AVCs of £2.300 million were paid directly to Prudential (2020/21: £2.309 million), £0.194 million to Zurich (2020/21: £0.263 million), and £0.003 million to Utmost (2020/21: £0.006 million).

21. 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 £8.475 million to the Fund in 2021/22 (2020/21 £233.465 million).



Notes to Pension Fund Accounts continued

The contributions paid in 2021/22 decreased significantly as a result of the County Council choosing to pre-pay its contributions for the 2020/21 to 2022/23 actuarial period in 2020/21, as set out in the Fund Actuary's Rates and Adjustments Certificate.

During the reporting period, the County Council incurred costs of £3.081 million (2020/21: £2.983 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 Operations of Hampshire County Council, acting as Chief Finance Officer (CFO) 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 the salary of the Director of Corporate Operations can be found in the main accounts of Hampshire County Council.

Part of the Pension Fund's cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2022, the Fund had an average cash balance of £79,187 million (year to 31 March 2021: £158.602 million), earning interest of £0.042 million (2020/21 £0.194 million) on these funds.

22. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2022 totalled £745.049 million (31 March 2021: £539.490 million). These commitments relate to outstanding call payments due on unquoted alternative investment and property limited partnership funds held in the alternative investments and property parts of the Fund. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

In December 2018 the Court of Appeal ruled against the Government in the McCloud and Sargeant cases, that the underpin protections for those within 10 years of retirement is age discrimination. The underpin was a protection that was put in place when the scheme changed on 1 April 2014 and applied to members who were an active member on 31 March 2012 and were within 10 years of their normal retirement age (usually 65). The Public Service Pensions and Judicial Offices Act 2022, the main purpose of which is to support implementation of the McCloud remedy, gained Royal Assent in March 2022. Draft regulations to implement the underpin element of the remedy are expected in 2022/23. The financial impact of the remedy remains difficult to determine, but it is a potential future liability for the Fund.

Section 9

Other useful resources



Useful websites and document links

ACCESS pool website:
accesspool.org

Hampshire County Council

Constitution:

democracy.hants.gov.uk/ieListDocuments.aspx?CId=620&MId=3642&Ver=4&Info=1.

Hampshire Pension Fund useful information:

- Business Plan: hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies
- Responsible Investment Policy: hants.gov.uk/hampshire-services/pensions/responsible-investment
- Task Force on Climate-related Financial Disclosures Report: documents.hants.gov.uk/pensions/TCFD-report.pdf?_gl=1*1e35uhj*_ga*MT-cyOTUwNzE0LjE1OTc2NjgzMjQ.*_ga_8Z-VSPZWL5T*MTY1NjQ0MzA1OS4xLjAuM-TY1NjQ0MzA1OS4w

- All policies: hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies
- Contributing employers to the Hampshire Pension Fund: hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/annual-report
- The report on the actuarial valuation at 31 March 2019: hants.gov.uk/hampshire-services/pensions/local-government/employers/technical-information/finance/actuarial-valuation
- Meetings of the Pension Fund Panel and Board: democracy.hants.gov.uk/ieListMeetings.aspx?CId=189&Year=0

LGPS Scheme Advisory Board website:

LGPS Scheme Advisory Board – Home (lgpsboard.org)

Principles for Responsible Investment (PRI) website:

PRI | Home (unpri.org)

Task Force on Climate-related Disclosures website:

Task Force on Climate-Related Financial Disclosures (fsb-tcfd.org)

UK Stewardship Code (FRC) website:

Investors | UK Stewardship Code | Financial Reporting Council (frc.org.uk)



Glossary

ACCESS pool

The Pension Fund is one of 11 LGPS members of ACCESS (A Collaboration of Central, Eastern and Southern Shires). The pool was established in response to the 2015 DCLG (now MHCLG) guidance on LGPS investment reform criteria. The aim was to deliver benefits of scale; strong governance and decision making; reduced costs and excellent value for money; and an improved capacity and capability to invest in infrastructure.

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.

Asset Backed Securities

An investment such as a bond that is backed by another financial asset that provides security in the event of default.

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 Utmost).

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.



Glossary continued

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.

DCLG

Department for Communities and Local Government which was succeeded

by MHCLG, the Ministry for Housing, Communities and Local Government, and later by DLUHC, the Department for Levelling Up, Housing and Communities.

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.

DLUHC

The Department for Levelling Up, Housing and Communities.

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.



Glossary continued

ESG

Environmental, Social and Governance factors.

Full Funding

100% of the Funding Target chosen.

Funding Principle

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

Funding Success

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

Funding Target

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

FT

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

Gilt-edged securities (or Gilts)

Fixed-interest stocks issued by the UK Government.

Global custodian

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

GMP

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

Gross of fees

The percentage investment return delivered by an investment manager before the deduction of fees and expenses.

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.



Glossary continued

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.

LIBOR

The benchmark London Interbank Offered Rate interest rate at which large banks lend to one another. This has now been replaced by SONIA.

LGPS

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

MSCI ACWI

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

MHCLG

The Ministry for Housing, Communities and Local Government, which has been superseded by DLUHC, the Department for Levelling Up, Housing and Communities.

Myners

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

Multi-Asset Credit

A flexible and diversified approach to investing in credit (debt) across different asset classes such as loans and bonds. The diversification allows the targeting of higher returns than a traditional fixed income strategy focused on government debt and investment grade credit.

Net of Fees

The percentage investment return delivered by an investment manager after the deduction of fees and expenses.



Glossary continued

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 (i.e., not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

Private debt

Specialist pooled partnerships that invest in debt (also referred to as credit) of companies that is not publicly traded. These investments are often described as illiquid as it is more difficult to sell the debt instruments and turn the investment back into cash. Expected returns are therefore often higher than for the equivalent publicly traded debt instruments due to this illiquidity risk.

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.

Responsible Investment

The PRI (Principles for Responsible Investment) defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.



Glossary continued

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.

Scheme Advisory Board (SAB)

The Local Government Pension Scheme Advisory Board is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. It seeks to encourage best practice, increase transparency and coordinate technical and standards issues

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.

SONIA

Sterling Overnight Index Average is an interest rate benchmark that replaces LIBOR.

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.



Glossary continued

TCFD

Task Force on Climate-related Disclosures (TCFD). The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information:

Task Force on Climate-Related Financial Disclosures ([fsb-tcfd.org](https://www.fsb-tcfd.org))

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.

UN Principles for Responsible Investment

The PRI is an organisation that works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Six principles for responsible investment have been developed: [unpri.org/pri/about-the-pri](https://www.unpri.org/pri/about-the-pri)

UK Stewardship Code

The UK Stewardship Code sets expectations of those investing money on behalf of UK savers and pensioners and establishes a benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society: [frc.org.uk/investors/uk-stewardship-code](https://www.frc.org.uk/investors/uk-stewardship-code)

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.



HAMPSHIRE
PENSION FUND