

NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Tuesday, 27th July, 2021 at 10.00 am
Place	Mitchell Room, EII Podium, Winchester
Enquiries to	members.services@hants.gov.uk

Carolyn Williamson FCPFA
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION

This meeting may be recorded and broadcast live on the County Council's website. The meeting may also be recorded and broadcast by the press and members of the public – please see the Filming Protocol available on the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. CONFIRMATION OF MINUTES (NON-EXEMPT) (Pages 5 - 10)

To confirm the Minutes of the meeting held on 26 March 2021.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make

6. APPOINTMENTS TO THE RESPONSIBLE INVESTMENT SUB-COMMITTEE (Pages 11 - 14)

To ask the Panel and Board to agree appointments to the Responsible Investment sub-committee.

7. INTERNAL AUDIT ANNUAL OPINION (Pages 15 - 28)

To provide the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of Pension Services' framework of risk management, internal control and governance for the year ending 31 March 2021.

8. PENSION FUND ADMINISTRATION UPDATE (Pages 29 - 54)

The purpose of this report is to update the Panel and Board on administration performance for 2020/21, seek approval for delegated authority to proceed with a re-tender for the actuarial services contract and seek approval for the updated Communication Policy Statement.

9. PENSION FUND COMMUNICATION REVIEW (Pages 55 - 82)

To provide an update on improvements to the Pension Fund's communications with its members

10. RISK REGISTER (Pages 83 - 96)

To reintroduce the Pension Fund's Risk Register, which is published as part of the Annual Report.

11. FIDUCIARY DUTY - ACCESS PAPER (Pages 97 - 102)

To share with this board the legal advice commissioned by the ACCESS pool on the fiduciary duties within the Local Government Pension Scheme (LGPS) and pension committees of LGPS Administering Authorities.

12. CASH OUTTURN REPORT (Pages 103 - 110)

To update the Pension Fund Panel and Board on the policy for managing the Hampshire Pension Fund's cash balance.

13. PENSION FUND ANNUAL REPORT (Pages 111 - 218)

To introduce to the Pension Fund Panel and Board the 2020/21 draft Pension Fund Annual Report to the Panel and Board, as well providing an analysis of costs incurred in managing the Pension Fund during 2020/21.

14. EXCLUSION OF THE PRESS AND PUBLIC

That in relation to the following items the press and public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of proceedings, that if a member of the public were present during the items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exempt information outweighs the public interest in disclosing the information, for the reasons set out in the report.

15. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING
(Pages 219 - 220)

To confirm the exempt minutes of the meeting held on 26 March 2021.

16. ANNUAL REPORT EXEMPT APPENDIX (Pages 221 - 222)

To introduce the annual report on Pension Fund investment management costs for 2020-21

17. FIDUCIARY DUTY EXEMPT APPENDIX (LEGAL ADVICE) (Pages 223 - 230)

An exempt annex to Item 11 on the agenda, providing legal advice regarding the Fiduciary duties of pension Fund Panel and Board members.

18. INVESTMENT - INVESTMENT UPDATE (Pages 231 - 242)

To consider the exempt report of the Director of Corporate Operations updating the Panel and Board on the Pension Fund's investments since the last meeting of the Pension Fund Panel and Board on 26 March 2021.

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact members.services@hants.gov.uk for assistance.

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

Agenda Item 3

AT A MEETING of the Hampshire Pension Fund Panel and Board of
HAMPSHIRE COUNTY COUNCIL held virtually on Friday, 26th March, 2021

Chairman:

*Councillor M. Kemp-Gee

Vice-Chairman:

* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* C. Carter
* A. Dowden
* A. Gibson
* B. Tennent

* A. Joy
* P. Latham
* J. Glen

Employer Representatives (Co-opted members):

* Councillor C. Corkery (Portsmouth City Council)
* Councillor P. Taylor (District Councils - Rushmoor Borough Council)
* Dr L Bartle (University of Portsmouth)
Councillor S. Barnes-Andrews (Southampton City Council, substitute
employer representative)

Scheme Member Representatives (Co-opted members):

* Dr C. Allen (pensioners' representative)
* Mr N. Wood (scheme members representative)
* Ms L. Gowland (deferred members' representative)
* Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

* C. Dobson

*present

BROADCASTING ANNOUNCEMENT

The Chairman asked for the broadcast of the meeting to begin. Those remaining at the meeting were consenting to being filmed and recorded.

316. **APOLOGIES FOR ABSENCE**

Cllr Barnes-Andrews sent his apologies.

Cllrs Carter and Taylor had to leave the meeting after item 13.

317. DECLARATIONS OF INTEREST

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

Carolan Dobson reminded the committee that she is a member of the board of Aberdeen Standard Fund Managers, in relation to Aberdeen Standard's presentation to this meeting, although her role on the Board does not cover the investment manager's institutional products.

318. CONFIRMATION OF MINUTES (NON-EXEMPT)

The minutes of the Pension Fund Panel and Board held on 12 February 2021 were confirmed.

319. DEPUTATIONS

None.

320. CHAIRMAN'S ANNOUNCEMENTS

The Chairman remarked that this was the final meeting of the Pension Fund Panel and Board in the Council's 4 year term, prior to the local elections in May. The Chairman highlighted the following key events in the committee's 4 year term:

- ***The ACCESS pool was only getting going 4 years ago, and now has pooled over half of the combined £55bn of assets under management. It has been a very positive experience working with the other 10 authorities in ACCESS.***
- ***This 4 year term has seen considerable developments in the Pension Fund's approach to Responsible Investment (RI). Whilst the changes may not have yet gone far enough for some, the Chairman was confident that Hampshire was taking a reasonable and professional approach for managing a large pension fund.***
- ***Significantly and for the first time, the Pension Fund has moved into a funding surplus during this period. Whilst there is still much work to be done the Pension Fund's investment strategy places it in a strong position.***

The Chairman thanked the officers of the Pension Fund, led by the Deputy Chief

Executive and Director of Corporate Resources, who have seamlessly continued to manage the Pension Fund, making good decisions and in particular continuing to pay its pensioners, throughout the pandemic.

Finally the Chairman thanked the Panel and Board Members for their participation and continued dedication to training, as well as the Audit Committee for their support and in particular the late Cllr Evans. It was highlighted that this was the final meeting for a number of members who were not re-standing at the forthcoming local elections and individual members reflected positively on their experiences of serving on the Pension Fund Panel and Board.

321. MINUTES OF THE PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE ON 5 MARCH 2021

The minutes of the RI sub-committee meeting held on 5 March 2021 were received.

322. MINUTES OF THE ACCESS JOINT COMMITTEE ON 13 JANUARY 2021

The minutes of the ACCESS Joint Committee meeting held on 13 January 2021 were received.

323. GOVERNANCE: DRAFT POLICY ON EMPLOYER FLEXIBILITY REGULATIONS

The Panel and Board received a report of the Deputy Chief Executive and Director of Corporate Resources (item 8 in the Minute Book) providing the Pension Fund Panel and Board with information about the changes to the LGPS Regulations which allow greater flexibility for employers who are likely to exit the Fund. In September 2020, the LGPS 2013 Regulations were amended to allow for greater flexibilities for employers who were likely to exit from the Fund. These new regulations provide for:

- a review of employer contributions between Fund valuations
- the spreading of exit payments
- allowing employers to continue to pay contributions after their last active member has left, and for those contributions to be revised at future valuations (known as Deferred Debt Agreements).

The regulations state that Funds can only make use of these new flexibilities if the Fund's policy is documented in the Funding Strategy Statement (FSS). Accordingly the FSS has been updated with a draft policy on the three new powers. The policy is deliberately written to allow each case to be considered on its own merits but the process is described to allow for transparency. The overriding principle of the policy is to ensure that the Fund only agrees to the use of these new provisions if it is in the interests of the Fund as a whole.

The policy has been drafted with significant input from the Fund actuary and in accordance with both the statutory guidance from MHCLG and the further guidance from the Scheme Advisory Board on the use of these provisions. In

making these changes to the FSS, the opportunity to update the format of the document has been taken.

It was proposed that, subject to the Panel and Board's approval, scheme employers will be consulted on the draft employer flexibilities policy contained within the FSS, as well as the amended Administration Strategy. It is anticipated that the consultation will run for 8 weeks from 29 March until 21 May. The Panel and Board were asked to delegate authority to the Deputy Chief Executive and Director of Corporate Resources to approve the final versions of the FSS and Administration Strategy following the close of the consultation period. However, if the statements require material changes following the employer feedback, these would instead be brought back to the Panel and Board for approval.

RESOLVED:

The Panel and Board:

- (a) Agreed in principle to allow the use of the employer flexibilities regulations.
- (b) Approved the draft FSS and Administration Strategy for consultation with Scheme Employers
- (c) Agreed to delegate authority to the Deputy Chief Executive and Director of Corporate Resources for approval of the statements following the end of the consultation period.

324. **GOVERNANCE: PENSION FUND PANEL AND BOARD MEETINGS**

The Panel and Board received a report of the Deputy Chief Executive and Director of Corporate Resources (item 9 in the Minute Book) on changes to the calendar of meetings for the Panel and Board, starting from the 2021/22 municipal year. The Deputy Chief Executive and Director of Corporate Resources highlighted that the Pension Fund Panel and Board has met seven times a year but there continues to be a pressure from the number of items on some agendas, including hearing presentations from its investment managers.

Starting for the 2021/22 municipal year it is intended that Panel and Board meetings should specifically focus on reports on the necessary governance and investment issues required for the management of the Pension Fund. The number of Panel and Board meetings will therefore reduce to four per year, once a quarter. To enable the Panel and Board to fulfil their role of scrutinising the Pension Fund's investment managers, specific briefings will be arranged for Members to hear presentations and receive training from investment managers. There will be a programme of six to seven briefings a year for Members to see the Pension Fund's full roster of investment managers. It is intended that Members' briefings with investment managers will continue to be virtual. This will reduce travelling for both Members and the Fund's investment managers, many of whom are not based in the UK.

Following questions and comments from a number of the Members on whether there would be any implications on the level of transparency or the ability for engagement from scheme members following the change in meetings, Cllr Kemp-Gee proposed an additional recommendation, that was seconded, that a

paper is brought back to the Panel and Board reviewing the effectiveness of the new meeting cycle after it has been in operation for a year.

RESOLVED:

(a) That the Panel and Board note the changes to Panel and Board meetings starting for the 2021/22 municipal year.

(b) That a paper is brought back to the Panel and Board reviewing the effectiveness of the new meeting cycle after it has been in operation for a year

(c) That the Panel and Board recommends to County Council that its Terms of Reference are amended as shown in Annex 1, and approves that corresponding changes are made to the Pension Fund's Representation Policy.

325. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraph 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

Following the resolution the Chairman asked for the broadcasting of the meeting to end.

326. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 12 February 2021 were confirmed.

327. EXEMPT MINUTES OF THE PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE ON 5 MARCH 2021

The exempt minutes of the RI sub-committee meeting held on 5 March 2021 were received.

328. INVESTMENTS: HAMPSHIRE PENSION FUND CUSTODIAN PERFORMANCE REPORT

The Panel and Board received an exempt report from the Deputy Chief Executive and Director of Corporate Resources (Item 13 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's custodian. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

329. INVESTMENT: ACADIAN'S MANAGED VOLATILITY PORTFOLIO

The Panel and Board received an exempt report from the Deputy Chief Executive and Director of Corporate Resources (Item 14 in the Minute Book) on Acadian's Managed Volatility portfolio. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

330. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE

The Panel and Board received an exempt report from the Deputy Chief Executive and Director of Corporate Resources (Item 15 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's alternative investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

Chairman,

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	27 July 2021
Title:	Governance: Responsible Investment Sub-Committee Appointments
Report From:	Director of Corporate Operations

Contact name: Andrew Bouflower

Tel: 0370 779 6896

Email: andrew.bouflower@hants.gov.uk

Purpose of this Report

1. To ask the Panel and Board to agree appointments to the Responsible Investment sub-committee.

Recommendation

2. That the committee appoints members and deputies to the Responsible Investment sub-committee, noting that for the four politically proportionate Hampshire County Council members this should currently be on the basis of three Conservatives and one Liberal Democrat.

Responsible Investment sub-committee

3. The terms of reference for a Responsible Investment (RI) sub-committee specify that the sub-committee's membership will be reviewed annually by the Panel and Board 'following the principle that appointments will rotate annually where practical and taking proportionality requirements into account'. Furthermore the terms of reference specify that the committee is to be made up as follows:
 - four County Council members,
 - one scheme member representatives,
 - one employer representative.
4. In its second year of operation the membership of the sub-committee has been as follows:
 - Cllr Kemp-Gee
 - Cllr Joy

- Cllr Thacker
 - Cllr Tennent
 - Cllr Corkery
 - Mr Wood
5. During the last year, it was agreed by the Pension Fund Panel and Board that there should also be deputies appointed to the RI sub-committee, drawn where possible from previous members of the RI sub-committee. The previous deputies were:
- Cllr Dowden
 - Cllr Glen
 - Cllr Latham
 - Cllr Taylor
 - Dr Bartle
 - Dr Allen
6. For 2021/22 the County Council's proportionality requires that the County Councillors appointed should be three Conservative members and one Liberal Democrat member.

Climate Change impact assessments

7. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
8. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf \(hants.gov.uk\)](#). The policy established the RI sub-committee, which is considered in this report. The sub-committee gives the Panel and Board greater capacity to consider the ESG factors associated with the Fund's investments, including climate change.

REQUIRED CORPORATE AND LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Pension Fund Panel and Board
Date:	27 July 2021
Title:	Governance - Annual Internal Audit Report & Opinion 2020-21
Report From:	Director of Corporate Operations

Contact name: Neil Pitman; Chief Internal Auditor

Tel: 01962 845139

Email: Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to provide the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of Pension Services' framework of risk management, internal control and governance for the year ending 31 March 2021.

Recommendation

2. That the Pension Fund Panel and Board note the Chief Internal Auditor's Annual Internal Audit Report and Opinion for 2020-21.

Contextual Information

3. In accordance with 'proper practices' as defined in the Public Sector Internal Audit Standards (updated 2017), the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control.
4. The Annual Report for 2020-21 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of risk management, internal control and governance for the year ending 31 March 2021.

5. The Pension Fund Panel and Board's attention is drawn to the following points:

- Internal audit was compliant with the Public Sector Internal Audit Standards during 2020-21;
- 'Substantial Assurance' can be placed on Pension Services' framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice; and
- Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective action and a timescale for improvement were agreed with the responsible managers.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	No
People in Hampshire enjoy being part of strong, inclusive communities:	No
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: Accounts and Audit (England) Regulations 2015.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by this report.

Annual Internal Audit Report & Opinion

2020-21

Hampshire Pension Services

Hampshire Pension Services

Southern Internal Audit Partnership

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

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The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- Level of assurance required;
- Significance of the objectives under review to the organisation's success;
- Risks inherent in the achievement of objectives; and
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

The impact of COVID-19 during the year has had a significant impact on the way we have worked and interacted. The enforced central government directive *'if you can work from home, you must do so'* has required the Southern Internal Audit Partnership to adopt a revised operating model and innovative approach to virtual auditing.

Work contributing to my 2020-21 annual opinion has all been undertaken virtually, optimising technology and virtual platforms to share, monitor and observe operations to substantiate our findings.

I am confident that the revised operating model has not compromised quality or SIAP's ability to complete assurance work throughout the year or the conclusion drawn. I would wish to extend my appreciation to Council officers with whom we have worked during the year for their support, cooperation, and seamless transition to the virtual audit approach without which the delivery of an annual opinion would not have been possible.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of the Hampshire Pension Services' audit need that has been covered within the period.

Annual Internal Audit Opinion 2020-21

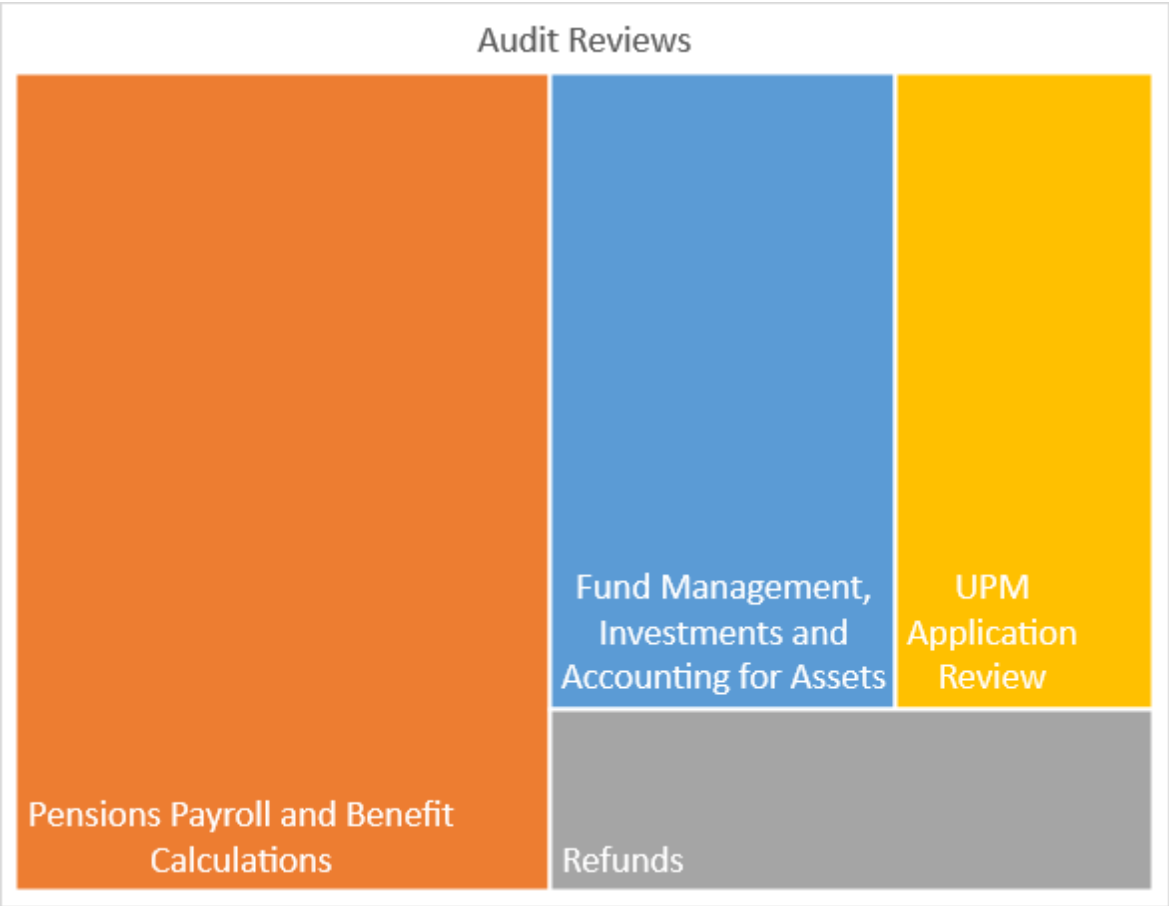
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire Pension Services' internal control environment.

In my opinion, Hampshire Pension Services' framework of governance, risk management and control is 'Substantial' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

4. Internal Audit Coverage, Output and Key Observations

The annual internal audit plan was prepared to take account of the characteristics and relative risks of Hampshire Pension Services’ activities and to support the preparation of Hampshire County Council’s Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2020-21 Internal audit plan was informed by internal audit’s own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

In delivering the internal audit opinion internal audit have undertaken 4* reviews during the year ending 31 March 2021.

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Due to the significant impact and subsequent challenges posed by the COVID-19 pandemic, there has been an inevitable impact on the delivery of the 2020-21 internal audit plan. Work has been substantially completed for the UPM Application review however, the audit has not progressed sufficiently in order to form an opinion and issue a draft report.

The opinion assigned to each internal audit review is:-

- Pensions Payroll and Benefit Calculations – [Substantial Assurance](#)
- Fund Management, Investments and Accounting for Assets - [Substantial Assurance](#)
- Refunds - [Substantial Assurance](#)

Internal Audit work found there to be sound control environments in place across all review areas which were found to be working effectively to support the delivery of corporate objectives. We are pleased to report that there were no audits that concluded with a 'Limited Assurance' or 'No Assurance' opinion, and no significant issues were identified arising from the work completed during 2020-21.

The assurance opinions are categorised as follows:

Substantial –A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

5. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An ‘External Quality Assessment’ of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020.

In considering all sources of evidence the external assessment team concluded:

‘The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.’

6. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through endorsement from the Institute of Internal Auditors that:

‘the Southern Internal Audit Partnership conforms to the ‘Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

7. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2020-21 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- An independent external quality assessment against the IPPF, PSIAS & LGAN.

8. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	2020-21 Actual
Percentage of internal audit plan delivered (to draft report)	95%	75%
Positive customer survey response		
<ul style="list-style-type: none"> Hampshire County Council 	90%	98%
<ul style="list-style-type: none"> SIAP – all Partners 	90%	98%
Public Sector Internal Audit Standards	Compliant	Compliant

Customer satisfaction was collated for SIAPs EQA and is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date May 2020).

9. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the Council with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Antony Harvey
Deputy Head of Southern Internal Audit Partnership
July 2021

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	27 July 2021
Title:	Governance: Administration performance update
Report From:	Director of Corporate Operations

Contact name: Lois Downer, Deputy Head of Pension Services

Tel: 0370 779 4396 **Email:** lois.downer@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to:
 - update the Panel and Board on administration performance for 2020/21,
 - seek approval for delegated authority to proceed with a re-tender for the actuarial services contract,
 - seek approval for the updated Communication Policy Statement,

Recommendation(s)

2. It is recommended that the Panel and Board:
 - note the strong performance of Pension Services in 2020/21
 - delegate authority to the Director of Corporate Operations to use the National LGPS Frameworks framework for Actuarial, Benefits and Governance Consultancy Services to procure actuarial services for the Fund
 - approve the updated Communication Policy statement for publication.

Executive Summary

3. Pension Services have performed well against the four key measures of good administration in 2020/21. The team has been able to maintain its service despite the continuing Covid-19 situation.
4. Employers have provided their annual returns to Pensions which provides information on active members and is used to produce annual benefit

statements. All these returns have been uploaded onto the pension administration system.

5. The work to trace the current addresses for around 6,000 members has resulted in over 4,300 addresses being updated on the system. A further full manual trace is being carried out on x members.
6. Employers were consulted on the Employer Flexibility policy which was approved in draft by the Pension Fund Panel and Board. Following the consultation period, no changes were made to the policy and it was published on 2 June 2021.
7. The National LGPS Frameworks framework for Actuarial, Benefits and Governance Consultancy Services is now live and the Panel and Board are asked to delegate authority to the Director of Corporate Operations to run a mini competition to re-procure actuarial services for the Fund from this framework.
8. The McCloud remedy project is underway with employers requested to provide data for their active members affected by the legislation.
9. The Pensions team has self-certified against the Pension Regulator's Pledge on Scams, committing to regularly warn members about pension scams and take appropriate actions to prevent scams taking place.
10. Work has started on a cyber security statement which sets out the controls in place to prevent an incident and the plans to respond should one occur. This will be presented to the Panel and Board in December 2021.
11. The Communication Policy Statement has been updated and the Panel and Board are asked to approve it for publication.

Administration performance

12. As at 31 March 2021, there were 337 active employers paying into the Hampshire Pension Fund, and a total of 183,410 members. The table below provides a detailed breakdown of the membership by employer type:

Employer Type	Employers	Member type		
		Active members	Deferred members	Pensioner members
Scheduled	184	57,459	76,596	42,840
Resolution	59	291	207	223
Admitted	62	1,107	1,113	1,128
Community admitted	13	64	307	377
Transferee admitted	19	79	279	240
Active employers total	337	59,000	78,502	44,808
Councillors (no active members)	10	0	89	132
Ceased (no active members)	52	0	243	636
Grand total	399	58,913	78,834	45,576

13. Pensions Services administer the Hampshire LGPS and have performed well against the four key measures of good administration in 2020/21:

- Cost per member
- Internal and external audit
- Customer Service Excellence
- Performance against service standards

These are covered in more detail in the following sections of this report.

Cost per member

14. One of the key external measures of administration performance is cost per member. The 2020/21 administration cost per member was £12.60 (the comparative cost per member for 2019/20 was £12.30).

15. Comparative costs for all LGPS Funds are reported annually in the Sf3 return, and Hampshire is always reasonable for the size of the Fund. The latest available Sf3 data is for 2019/20 on which Hampshire was the 4h largest Fund by membership and, at £16.34, had the second lowest combined administration and governance cost per member out of the 89 English and Welsh Funds. The average cost per member across all Funds was £35.70.

Audit reports

16. The annual internal audit opinion for Pensions has been presented to the Panel and Board in a separate report. Pensions have received good reports for the reviews completed during the year with substantial assurance given for the annual pensions payroll review and the triennial review of pension refunds. A new audit of UPM, the pensions system, is due to conclude shortly. This audit was requested as part of Pension Service's response to

the growing focus on cyber security which is discussed in paragraphs 45 and 46 below. At the close of audit meeting there were a number of areas raised which will require follow up actions, some of which have already been completed such as increasing the frequency of mandatory completion of the data protection training for all staff from every 2 years to every year.

Customer Service Excellence

17. Pensions Services comply with the requirements for the national standard for excellence in customer service (CSE), which considers how the service delivers against over 50 criteria in five key areas:

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

18. Pensions Services have held the Customer Service Excellence (CSE) standard since 2009, and retained the award following a full triennial assessment in April 2021, with compliance plus passes in five areas:

- We can demonstrate how customer facing staff insights, and experiences are incorporated into internal processes, policy development and service planning.
- We make our services easily accessible to all 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.

Performance against service standards (KPIs)

19. The KPIs for Pensions evidence the good performance in 2020/21 with 100% achievement against service standards for all key processes.

20. The tables below show the performance for the second two quarters of 2020/21. All casework was measured against a 15 day standard, apart from

re-joiners which have a 20 day standard, and deferred benefits which have a 30 day standard.

Q3

Type of Case	Time to Complete (days)						Total	% completed on time
	0 – 5	6 – 10	11 - 15	16 – 20	21 – 30	31 - 40		
Active Retirement	84	79	65	0	0	0	228	100.00%
Deferred Retirement	93	178	181	0	0	0	452	100.00%
Estimates	120	187	357	0	0	0	664	100.00%
Deferred Benefits	59	25	89	147	1948	0	2,268	100.00%
Transfers In & Out	79	10	61	0	0	0	150	100.00%
Divorce	40	47	37	0	0	0	124	100.00%
Refunds	314	102	0	0	0	0	416	100.00%
Rejoiners	18	41	76	33	0	0	168	100.00%
Interfunds	31	15	89	0	4	6	145	93.10%
Death Benefits	174	30	45	0	0	0	249	100.00%
Grand Total	1,012	714	1,000	180	1,952	6	4,864	99.31%

Q4

Type of Case	Time to Complete (days)						Total	% completed on time
	0 – 5	6 – 10	11 - 15	16 – 20	21 – 30	31 - 40		
Active Retirement	102	69	48	0	0	0	219	100.00%
Deferred Retirement	75	84	146	0	0	0	305	100.00%
Estimates	198	308	209	0	0	0	715	100.00%
Deferred Benefits	50	17	78	209	1171	0	1,525	100.00%
Transfers In & Out	51	24	29	0	0	0	104	100.00%
Divorce	44	36	15	0	0	0	95	100.00%
Refunds	248	27	8	0	0	0	283	100.00%
Rejoiners	47	54	34	8	0	0	143	100.00%
Interfunds	73	52	35	0	0	0	160	100.00%
Death Benefits	195	35	59	0	0	0	289	100.00%
Grand Total	1,083	706	661	217	1,171	0	3,838	100.00%

21. The performance for 2020/21 is summarised in the table below.

Area of work	Service standard	Number of cases	% cases completed against service standard			
			Q1 - 20/21	Q2 - 20/21	Q3 - 20/21	Q4 - 20/21
			%	%	%	%
Retirement	15 days	1,001	100	100	100	100
Deferred Retirement	15 days	1,494	100	100	100	100
Estimate	15 days	1,660	100	100	100	100
Deferred	30 days	6,140	100	100	100	100
Transfers In and Out	15 days	281	100	100	100	100
Divorce	15 days	315	100	100	100	100
Refund	15 days	1,037	100	100	100	100
Rejoiners	20 days	562	100	100	100	100
Interfunds	15 days	490	100	100	100	100
Death benefits	15 days	946	100	100	100	100

22. A total of 2,514 Scheme members retired during 2020/21, with an average retirement age of 62 years. Of this number, 1,689 (or 67.2%) took some form of early retirement including 123 ill health retirements and 933 members choosing to take a reduced pension.
23. The average annual pension paid in 2019/20 was £5,042 (£5,038 in 2020/21).
24. The annual exercise to apply the statutory pensions increase to pensions in payment and deferred payments was completed as planned. Deferred annual benefit statements were produced for 100% of members by the end of June, ahead of the statutory deadline of 31 August.

Impact of Covid-19

25. All pensions staff have continued working remotely from home during 2020/21, and there has been no impact on performance against service standards.
26. Whilst a full service has been maintained, in terms of making contact with Pension Services, Members and Employers were asked to email where possible to leave lines clear for those without internet access. Consequently call volumes were below normal levels, however email volumes rose correspondingly meaning that total queries in 2020/21 equalled those in 2019/20 at around 85,000.
27. Processes have been changed to make use of electronic communications where possible (see paragraphs 47 and 48) and a new contract has been awarded to Xerox for any remaining external printing that is required. Incoming post is now opened and scanned by Hampshire Printing Services which has removed the need for any additional pension staff to attend the office. It is anticipated that all pensions staff will return to the office one day a week from September, in order to build on team relationships and more easily facilitate ongoing joint projects.

Timeliness of contributions

28. All employer contributions due for 2020/21 have been received. The last contribution payment was received on 10 May 2021.
29. A total of £0.591m was paid late (£3.845m in 2019/20) which was 0.12% of the total contributions received. The average delay on all late payments received during 2020/21 was 9 days (11 days in 2019/20). Receipt of

contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2020/21.

National Fraud Initiative

30. Pension Services 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	50	£9,935.77
Dependant Pension	224	£94,096.81
Invoice	357	£142,252.80
Write Off	99	£2,953.99
Total	730	£249,239.37

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

Annual returns

32. Employers are required to provide an annual return by 30 April containing details of all employees who contributed during the year. The full detail of employer performance against the annual return process is reported to the Panel and Board as part of the December administration update, after the exercise has been completed.
33. 297/336 returns were received by the deadline, with the remaining 39 received by the end of May 2021. All returns have been uploaded and 1,648 queries have been raised with employers, of which 368 are still outstanding. Employers are given a fortnight to respond and the team keeps in close contact to ensure that replies to all queries are received.

Member Portal and address tracing

34. Work has continued in the year to improve the Member Portal, with the aim of this being the primary way in which members can engage with their pension

information. There were 54,216 members registered on the Member Portal by 30 June 2021 (48,805 by June 2020).

35. Work has continued to trace the 6,273 deferred members with no current address held on their record. Over 4,300 addresses have now been confirmed and uploaded onto UPM. Around 690 of the remaining lost contacts will now be moved onto a full trace, at a cost of £20 per successful trace. This work will have a positive impact on the Fund's data quality scores which will be reported to the Pensions Regulator in November.

Update on the Employer Flexibilities policy

36. At the meeting on 26 March 2021, the Panel and Board agreed a draft policy on the employer flexibility regulations for consultation with employers. The consultation ran from 29 March to 21 May 2021 and two employers provided feedback. Both employers commented that the policy appeared to discourage the use of a Deferred Debt Agreement (DDA) for smaller employers. The wording of the policy was reviewed by officers for this feedback but was left unchanged. Whilst the policy states that the Fund is unlikely to consider that the costs of a DDA are appropriate for employers with small exit deficits, the overriding message in the policy is that each case will be considered on its own merits.
37. The Panel and Board delegated authority to the Director of Corporate Resources to approve the final version of the new policy, subject to their being no material changes required as part of the employer consultation. Therefore the revised Funding Strategy Statement and Administration Strategy were published on the Fund's website on 2 June 2021.

Re-tender for actuarial services

38. In 2014 the Pension Fund let a contract for Actuarial Services to Aon via the LGPS National Framework. The original contract ran to 31 December 2018 and the option to extend for a further 2 years was exercised. The intention was that in advance of the expiry of the current contract in December 2020 a new contract would be let through the next iteration of the LGPS National Framework for Actuarial Services, which was due to be let in June 2020. Unfortunately due to the pandemic, the new framework was delayed by a year and the existing contract was extended for a further year to 31 December 2021.
39. The new LGPS National Framework for Actuarial, Benefits and Governance Consultancy Services is now live and the Panel and Board are asked to delegate authority to the Director of Corporate Operations to use this framework to procure actuarial services for the Fund by way of a mini competition between the four providers for Lot 1 on the framework.

McCloud

40. In May 2021, the Local Government Minister made a Written Ministerial Statement on McCloud and the LGPS. The statement confirms the key changes to scheme regulations that will be made to remove age discrimination from the LGPS. The statement confirms that:

- The age requirement for underpin protection will be removed
- A member will not need to leave with an immediate entitlement to benefits to qualify for underpin protection
- The remedy period will end on 31 March 2022
- The underpin calculation will be based on final pay at the underpin date, even if this is after 31 March 2022
- There will be two stages to the underpin calculation: the first on the underpin date which is the date of leaving or age 65, if earlier, the second when the benefits are paid
- The regulations will be retrospective to 1 April 2014.

MHCLG are expected to issue a full response to the consultation and to publish draft regulations later this year, with final regulations published by 1 April 2023.

41. In the meantime, the focus of the internal project team has been on gathering the required service data from all employers in the Fund. Employers were requested to provide service data for the period 1 April 2014 to 31 March 2020 by 31 March 2021, but with the normal end of year return remaining the priority. A number of employers have requested extensions to providing the McCloud data and revised dates have been mutually agreed. Where data has not been received and no extension requested, the team has been in contact to discuss the issues on an individual basis with the employer.

42. The table below shows the status of the LGPS bulk service data collection to the end of June 2021.

Number of employers requested to provide data		340
Number of completed Data Collection templates received		288
Number of initial checks completed on templates received	122	
Number of employers ready for upload	41	
Number of Data Collection templates outstanding		52

43. Initial checks are being performed on the data collection templates from employers with around 90% so far being returned to employers to make

changes to their data. This is mostly a formatting issue and no significant issues have been identified at this stage. The team is currently testing a revised bulk loading tool which will allow the data to be imported into UPM.

44. The costs of the McCloud project team are being split across the LGPS funds administered by Hampshire Pension Services. The current estimate for this work in 2021/22 is £75,000, and this will be recharged separately to the Fund in addition to the approved administration charge. This will be reviewed on an ongoing basis.

Pension scams

45. In March 2021, the self certification process was completed for the Pension Regulator's Pledge on Scams. This means that staff have completed the scams module in the TPR's toolkit and certified that the required actions have been taken such as committing to:

- regularly warn members about pension scams
- encourage members asking for cash drawdown to get impartial guidance from one of the services offered by the Money and Pensions Service
- get to know the warning signs of a scam and best practice for transfers by completing the scams module in the Trustee Toolkit and encouraging all relevant staff or trustees to do so; studying and using the resources on the Financial Conduct Authority (FCA) ScamSmart website, our scams information and the PSIG code; considering becoming a member of the Pension Scams Industry Forum by contacting PSIG
- take appropriate due diligence measures by carrying out checks on pension transfers and documenting pension transfer procedures
- clearly warning members if they insist on high-risk transfers being paid
- report concerns about a scam to the authorities and communicate this to the scheme member

Transfer letters now show the Pledge logo to provide members with assurance about the security of their benefit held within the Fund. Work is ongoing to ensure that processes are updated as further guidance is published, to ensure the ongoing security of benefits.

Cyber security

46. With all member records held on an electronic database, and online access becoming the main route for communicating with members and employers, cyber security is vital for the Fund. The administration system is hosted by Hampshire IT Services and is therefore subject to all the controls which are in place to protect the County Council's systems from a cyber incident. However the Pensions Regulator (tPR) requires Funds to take a more pro-

active approach to cyber security than just a reliance on the host council's processes. A cyber statement is therefore being drafted which will document the ways in which the Fund protects its IT systems and online presence. This will be brought to the Panel and Board for approval at their December meeting.

47. The statement will cover each of the elements of the tPR recommended risk assessment cycle, namely:

- an assessment and understanding of the risks
- the controls in place
- monitoring and reporting

The statement will highlight where additional work is needed and link to the Fund's Business Plan as necessary.

Communication Policy Statement

48. Following several years of promoting the Member Portal to pensioners, they have now given a year's notice that pensioners will no longer be automatically sent a paper payslip and P60 in March/April each year. This change is part of the overall move towards increasing online communications – there has been really good take up for those parts of the membership where an opt out rather than opt in approach is already in place.

49. Our response to Covid has meant that we have accelerated our move to electronic communication where possible to minimise staff having to go into offices and to ensure that we continue to deliver our excellent service standards whilst we work remotely. As part of this we have continued to invest in our Member Portal to improve the user experience and promote this as the main route into our service.

50. Although it was clear in the newsletter that pensioners can continue to receive paper copies of their annual payslip and P60s by opting out of electronic communication, the announcement understandably has generated some concern. These concerns have been responded to on an individual basis, either through supporting the pensioner to access the Portal or accepting a request to opt out of electronic communications. A quarter of pensioners have made a choice with 11,099 pensioners registered for the Portal by 30 June and a further 459 pensioners choosing to opt out. An exercise to write to any pensioner who has not either registered or opted out is planned to start in January 2022, to ensure that all pensioners will be able to access their end of year payslips and P60s in 2022 either electronically or by receiving a paper copy.

51. In view of these changes, and other work which has been ongoing to improve our communications (see agenda Item 9), the Communication Policy Statement has been updated to more accurately reflect the ways in which Pension Services communicate with stakeholders. The draft document is shown as Appendix 1 to this report.

The key changes in the Statement are:

- to place more emphasis on the Member Portal and Employer Hub while acknowledging the alternatives provided in terms of accessibility issues.
- a new section about the Pension Fund Panel and Board (page 3)
- updated information about the way in which the helpdesk works (page 3)
- reference to increased information on the website regarding Fund Governance (page 4)
- a clearer statement about using the Member Portal and the ability of members to opt out of electronic communications (page 5)
- expanded sections on employer communications and communications with external bodies (pages 8 and 11).

The Pension Fund Panel and Board are asked to approve the amended Communication Policy Statement for publication on the Fund's website.

Climate Change Impact Assessments

52. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

53. The climate change and carbon control mitigation tools were not applicable for this report because the decisions in this report relate to the in-house management of the administration of the pension scheme and therefore have a neutral impact on climate change.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board need to approve a statutory document and delegate authority to the Director of Corporate Operations to carry out a mini competition to re-procure actuarial services for the Fund.	

Section 100 D - Local Government Act 1972 - background documents	
The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.

Hampshire Pension Fund (HPF)

Communication Policy Statement

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Introduction

We are committed to engaging with our stakeholders in a clear and concise manner. This policy sets out how we will do that effectively, using the most appropriate method taking into account the needs of the target audience.

The five key stakeholders we have are:

- scheme members ,
- prospective scheme members,
- employing authorities,
- Pension Services' staff and
- other bodies, for example, the Pensions Fund Panel and Board, Scheme Advisory Board, prospective employing authorities.

We aim to provide a high-quality service to all our stakeholders. Our statement of service standards for scheme members and employers can be found on our website.

Method of communication

Our aim is to provide all communications electronically where possible.

We use the following for electronic communications:

- Member Portal – which provides members with secure access to their specific details, allows them to complete various forms and upload certain documents.
- Employer Hub – which allows employers to access records for their employees and notify us of changes.
- Pension Services website – which provides information about the scheme, details of how members can manage their pension choices, a news feed and other resources.

Although electronic communications provide rapid access and a secure means of sharing personal information, we recognise that it is not always the most suitable method of contact for stakeholders. Where appropriate, we will also share information by other means such as:

- in writing or
- in an alternative format such as large print or Braille.

Joint Pension Fund Panel and Board

Hampshire has a Joint Pension Fund Panel and Board which is responsible for ensuring:

- that we comply with the LGPS (Local Government Pension Scheme) regulations and any other legislation relating to the governance and administration of the LGPS,
- that we satisfy the requirements of The Pensions Regulator and
- effective and efficient governance and administration of the scheme.

Members may find further information and contact this committee on our website, including meeting agendas and minutes plus contact details.

Our communication with all stakeholders

Helpline

Our helpline service offers telephone support during office hours. We aim to answer 90% of incoming queries without the need to refer to our operational teams. If a query is referred to an operational team then we ensure that a call back is made within 1 working day.

If a scheme member telephones us then a summary of the conversation is noted on the member's record.

Email

We have a general email address for all queries. We include a link to our customer satisfaction survey at the end of every email we send. The survey feedback is reviewed on a weekly basis and used to make improvements to our service where appropriate.

Our communication with scheme members

We communicate with our members in a variety of different ways.

Our Member Portal

We encourage members to access their pension account through our Member Portal <https://upmliveportal.hants.gov.uk>

This is a secure area which allows members to see the personal details that we hold for them. We actively encourage all members to register for the Portal which offers a wide range of facilities. We regularly upgrade the Portal and add more facilities for members to use.

We email members who are registered for our Portal to advise when key documents such as annual benefit statements or advice of regulation changes become available.

All members can use the Portal to:

- send us a secure message,
- update personal details such as name, address and marital status,
- add or amend an 'expression of wish' for payment of a death grant,
- complete a membership option form on joining the LGPS.

In addition, pensioner members can:

- update their bank details,
- securely view or download their P60 and payslips,
- view tax code changes.

Active and deferred members can also use the Portal to:

- view their annual benefit statements,
- complete a retirement declaration form,
- obtain a retirement estimate.

Our website

Our website <https://www.hants.gov.uk/hampshire-services/pensions> offers extensive information about membership of the LGPS and scheme regulations, as well as forms and guides for members and links to other relevant organisations. It is regularly updated and offers a news feed for topical information.

Our annual report and the most recent Hampshire Pension Fund valuation report are all available on our website. The website also provides members with information on all aspects of our scheme governance including details of our Pension Fund Panel and Board, our Fund investment strategy including our Responsible Investment Policy and all our policies relating to administration of the scheme.

We regularly update the website in order to comply with the accessibility regulations but welcome feedback from any member who is experiencing problems with accessing information on this site. We will then work to improve the site or provide information in a different format.

The website provides access to a customer satisfaction survey where members can leave feedback or register complaints or compliments about our service.

Correspondence

Most of our communication with members is undertaken electronically, either through our Member Portal or by secure email. If we hold a member's email address then we will email to advise when a letter or document is made available for them to view.

However, if we are unable to communicate electronically then we send the information in writing to the member's home address.

If a member wishes to opt out of electronic communications and to receive paper copies, then we ask that they put their request to us in writing.

We can also communicate with members in a specific way on request, for example in large print or Braille.

All emails sent contain a link to our satisfaction survey to encourage feedback from members.

Benefit statements

We make our annual benefit statements available to all members through our Member Portal. If we hold an email address for a member then we email to advise that the statement is available to view on the Portal.

Members can choose to opt out of this online service and instead receive paper statements.

All statements include some explanatory notes and members are advised where to find a more detailed explanation of their statement on our website.

Pension saving statements

By 6 October each year, we send a pension saving statement to any member who may be affected by the annual allowance tax limit. These are also available to view on the Member Portal.

Pensioner payslips, P60s and annual newsletter

All payslips are available to our pensioners through the Member Portal. If a member has paid income tax during the preceding year, then a P60 will also be available through the Portal by the end of May. The member can either view or download copies of the payslip and P60.

A pensioner newsletter is added to the Member Portal every year in March or April. An expanded version of the newsletter can be viewed on our website.

Pensioner members can opt out of electronic communications and choose always to receive paper copies, by putting their request to us in writing.

Declaration of pension entitlement

We send forms to verify a member's continuing entitlement to receive pension payments:

- every year, to pensioners that live overseas and
- whenever a pensioner payment or mail is returned to us.

Our communication with prospective scheme members

Website

Our website contains extensive information about the LGPS in a dedicated 'About the Scheme' section. This explains the scheme benefits and regulations and also provides information about the governance of the Hampshire Pension Fund.

Via employers

We provide relevant information about the scheme to employers and ask them to ensure that eligible staff are made aware of their pension details and options.

We also ask employers to signpost all new members to our Member Portal where they will find personal pension information and a membership option form to make choices regarding previous LGPS membership. If they have previous pension benefits which are not in the LGPS, they are directed to the pension transfer booklet on our website.

Our communication with our employers

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

Website

Our website has a dedicated section for employers. It includes technical information, details of training courses, the latest employer news and an Employer Manual which contains details of procedures and employer responsibilities.

The website offers access to our Employer Hub. Employers are asked to register for this service which enables them to view or amend details of their own employee's records, submit forms to us or to provide member estimates, depending on their level of access.

Correspondence

We send a regular electronic newsletter, "Pensions Matters", to employing authorities to keep them up to date with the latest regulation changes and proposals, as well as any changes in administrative processes.

We also send ad hoc email communications, under the heading "Stop Press" to advise employers of any changes or information they should be aware of or would find useful.

Copies of "Pensions Matters" and "Stop Press" emails are also added to the employer section of the website.

Employer training

We offer employer training workshops on a variety of topics, in addition to dealing with queries via email or phone.

In addition, Pension Services will work with employers who have individual training needs offering targeted training on request or when a need is identified.

Administration strategy

Our administration strategy is an agreement between the Hampshire Pension Fund (HPF) and the scheme employers and can be accessed through our website. It sets out the roles and responsibilities of both our employers and the HPF and indicates the level of service that HPF and the employers will provide each other.

Pension Fund Annual Employers' Meeting (AEM)

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

Employer meetings

We hold employer liaison meetings throughout the year with key employers or those where additional support is required. All employers may request a meeting with us. We also hold six-monthly meetings with employer focus groups and we attend established employer forums such as the Payroll Officers' Group.

Reports and accounts

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

Valuation report

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

Our communication with Pension Services staff

We ensure that our staff are kept up to date with regulatory changes to the scheme and updates in our software and our processes so that they can continue to administer the scheme effectively and offer a high-quality service to all stakeholders. Our staff communications include:

- Staff webpages - providing a range of information about regulations, topical pensions news, administrative details, our charity events team and access to our suggestion box.
- “Pensworld” - a weekly email bulletin to staff which provides updates on regulation changes, internal processes, software updates and other news.
- Suggestion box – available online to allow staff to submit suggestions which may improve our processing and customer service.
- Employer contact information database – to ensure that staff are aware of the names of authorised employer contacts that they can share information with.
- Meetings – regular meeting are held across the whole section and within individual teams to share information on changes in regulations and processes and other news.
- Staff training – this includes a structured development programme for new staff, regular training and staff workshops and the support of staff studying for professional qualifications.

Our communication with other bodies

Members’ representatives

We provide information to members’ representatives where they provide appropriate authorisation for us to share the member’s information.

Joint Pension Fund Panel and Board

The Joint Pension Fund Panel and Board receive reports from the Director of Corporate Operations which cover the administration, governance and investments of the Pension Fund, such as reports:

- from internal audit,
- regarding the performance of the Fund’s investment managers and
- on changes to scheme rules.

In addition, the Panel and Board has created a Responsible Investment sub-committee, specifically to consider how Environmental, Social and Governance issues are considered for the Fund’s investments, and to make recommendations to the Panel and Board.

Prospective employing authorities

We provide new employers with information about the responsibilities and costs of joining the scheme and invite them to employer training sessions.

Local Government Association (LGA)

The LGA provide support for LGPS pension funds and employers in England and Wales and represents their interests to central government and other bodies.

We access many resources on the LGA website and take an active role in both their Communications working group and their Technical group, which allow us to discuss regulation changes and communication issues with other LGPS Funds.

Investment managers and Fund actuaries

We have regular meetings with the Fund’s investment managers, including meetings facilitated by ACCESS for the investment managers of the ACCESS pools’ sub-funds, who invest the monies belonging to Hampshire Pension Fund (HPF). We also meet the HPF actuaries who measure and value the assets and liabilities of the Fund and set employer contribution rates to keep the Fund in a good position.

Hampshire Pension Fund publications

Publications matrix										
	Format Available			Available to:					Published	Reviewed
	Portal	Website	Paper	Prospective members	Current members	Deferred members	Pensioners	Employers		
Scheme information	No	Yes	On request	Yes	Yes	Yes	No	Yes	Always available	As regulations change
Employer manual	No	Yes	No	No	No	No	No	Yes	Always available	As regulations change
Reports and accounts	No	Yes	On request	Yes	Yes	Yes	Yes	Yes	Annually	Annually
Benefit statements	Yes	No	On request	No	Yes	Yes	No	No	Annually	Annually
Pension Saving Statements	Yes	No	Yes	No	Yes	No	No	No	Annually	Annually
Pensioner newsletters	No	Yes	On request	No	No	No	Yes	No	Always available	Annually
Service Standards	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Always available	Annually
Complaints and appeals process	No	Yes	On request	Yes	Yes	Yes	Yes	Yes	Always available	Annually

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	27 July 2020
Title:	Governance – Responsible Investment Communications Review
Report From:	Director of Corporate Operations

Contact name: Andrew Bouflower

Tel: 0370 779 6896

Email: andrew.bouflower@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to provide an update on improvements to the Pension Fund's communications with its members.

Recommendations

2. That the Panel and Board notes the changes that have been made to the Pension Fund's website for scheme members and improvements to communications on the Fund's Responsible Investment (RI) activities.

Executive Summary

3. The Pension Fund Panel and Board and RI Sub-Committee have previously identified the potential for the Pension Fund to improve its communication on RI, and in December 2020 the Panel and Board agreed an additional budget of £20,000 to fund any necessary improvements.

Communication Developments

RI Annual update

4. Following the feedback and reflection on the Pension Fund's first RI update leaflet, published in April 2020 the following improvements were made for 2021:
 - expanding the leaflet from one to two sides of A4 to increase the content and enable more detail to be provided,

- printing in colour,
 - review by the County Council's Communication team to ensure the leaflet met Plain English standards and was easily readable by scheme members, and
 - engagement of the County Council's Marketing team in the design and layout of the leaflet
5. Full details of the feedback on the RI update and other communication received on RI will be reported to the RI sub-committee, but a number of positive comments were received on this year's RI update following the changes that were made.
 6. As reported in an earlier item on this agenda, when the Pension Fund moves to publishing pensioners' annual payslips on their Portal accounts the 2022 RI update will also be published on the Portal, and will be available to all scheme members, including pensioners logging on to access their payslips. Members are emailed annually to draw attention to the latest P60 or annual benefit statement and this email can be used to draw additional attention to the RI update.

RI website

7. The Pension Fund's main communication channel for its RI activities is its RI website, which was launched in April 2019 with the then draft updated RI policy, and has been updated and expanded since then. The website includes links to the Pension Fund's RI policy and latest annual update, plus the details of the reporting standards that the Fund has committed to, such as the UK Stewardship Code and Taskforce on Climate Change Related Financial Disclosure (TCFD) and the shareholder voting reports of its investment managers. The RI webpage also includes contact details for the Pension Fund for any scheme member that has a question or wants to share a comment on RI.
8. A larger review of the Hampshire Pension Fund and Pension Services' webpages is underway, which includes the RI webpage. As part of this review the County Council's Communication team have been engaged and provided recommendations for making the RI webpage more readable and user friendly. As a result of the review the structure of the website is being changed which will make RI webpage more prominent, elevating it to be a tile on the landing-page for the Hampshire Pension Fund, rather than being a further two clicks from the current landing page. The current draft design of the Hampshire Pension Fund's new landing page is shown below.

Hampshire Pension Services

Administering the Local Government Pension Scheme,
Police and Fire schemes



Local Government Pension Scheme



Firefighters' Pension Scheme



Police Pension Scheme



Hampshire Pension Fund Panel and
Board - Updates and governance



Hampshire Pension Fund -
Responsible investment



View your pension details and annual
benefit statements

Responsible Investment Standards

9. At its meeting in September 2019 the Panel and Board agreed that the Pension Fund should become a signatory of the Principles of Responsible Investment (PRI) and UK Stewardship Code. As a signatory of PRI the Pension Fund is required to report annually on its investments and responsible investment activity, and its first year's report was submitted as required in April 2020. In the last year an updated Stewardship Code 2020 was published, and investors wishing to remain signatories were required to resubmit their statements confirming how they met a longer and more ambitious set of principles. Hampshire Pension Fund's new statement was submitted by the deadline of 30 April 2021, is published on the Pension Fund's RI website and included in Annex 1 to this report for information.

All Party Parliamentary Inquiry Consultation

10. At the meeting of the RI sub-committee March 2021 the Chairman announced to Members that an All-Party Parliamentary Group for Local Authority Pensions was carrying out an inquiry into Responsible Investment for a *Just Transition* from fossil fuels and had published a consultation on the topic. The Pension Fund's officers discussed the inquiry with the Fund's investments managers and a response to the consultation was agreed by the Director of Corporate Resources in consultation with the Chairman of the Panel and Board. The Pension Fund's response is included in Annex 2 to this report for information.

Climate Change Impact Assessments

11. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
12. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf](#) (hants.gov.uk).
13. This report explains how the Pension Funds communicates its RI policy and activities, including the carbon footprint of its investments and the actions taken to reduce this figure.

REQUIRED CORPORATE AND LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Hampshire Pension Fund Statement of compliance with the UK Stewardship Code 2020

Purpose and Governance

Principle 1 – Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment and society.

Context

The Hampshire Pension Fund is part of the Local Government Pension Scheme (LGPS) and 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 LGPS. There were approximately 178,000 members from over 340 employer bodies in the scheme at 31 March 2020.

The Pension Fund has defined the following investment beliefs:

Investment belief	Reasons why important
Clear and well-defined objectives are essential to achieve future success	To provide focus in achieving the aims of generating sufficient returns, understanding potential risks and ensuring sufficient liquidity to pay benefits to members
Strategic asset allocation is a key determinant of risk and return	An appropriate strategy is a key driver to future success and typically even more important than manager or stock selection
Funding and investment strategy are linked	Funding feeds into investment strategy decisions, including assessing what returns are required and by when
Long term investing provides opportunities for enhancing returns	The Pension Fund is less constrained by liquidity requirements and can better withstand short term price volatility, with the ability to tolerate periods of active manager underperformance when the manager’s style is out of favour with the market.
The Panel and Board will take an appropriate level of risk ¹	There is a need to take risk to ensure the sustainability of the Fund whilst also continuing to be affordable to employers and members. However the level and type of risk must be aligned with long term objectives.
Equities are expected to generate superior long-term returns	The Pension Fund will maintain a significant allocation to equities in order to support the affordability of contributions.

¹ The Panel and Board is responsible for the governance of the Pension Fund and its investments

Government bonds provide liquidity and a degree of liability matching	These assets reduce the Pension Fund's funding risks and also reduce liquidity risk in time of market stress.
Alternative investments provide diversification	Diversification across asset classes can help to reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics.
Fees and costs matter	This is about recognising the need to get value for money through minimising the negative impact of fees and costs whilst being willing to pay higher fees to access strategic opportunities or to achieve better or more consistent returns.
Market inefficiencies will provide opportunities to add value over time	Allowing specialist external investment managers the flexibility to take allocation decisions to take advantage of market opportunities.
Active management can add value	The selective use of active managers to target higher returns net of fees, using careful selection and monitoring of managers to minimise the additional risk.
Passive management has a role to play in the Fund's structure	Combining low cost passively managed investments alongside active management can have cost benefits and reduce relative volatility
Responsible Investment (RI) is important to the Panel and Board and can have a material impact on the long-term performance of its investments	Environmental Social and Governance (ESG) issues can impact returns meaning the Panel and Board needs to be aware of and monitor financially material ESG-related risks.

These beliefs are fundamental to the Pension Fund's investment strategy, as set out in its Investment Strategy Statement.

Activity

The Pension Fund Panel and Board holds four formal meetings per year in addition to receiving briefings from each of its appointed investment managers at least once per year. The Panel and Board has also constituted an RI sub-committee, which meets twice per year to provide greater capacity for the consideration of ESG issues and to enable additional scrutiny of investment managers.

Outcome

The Pension Fund's investment beliefs were key to the basis of the Fund's RI policy which was significantly revised in 2019. Since the redrafting of the policy the Pension Fund has seen an increase in the level of interest in several aspects of RI, in particular Climate Change. The revised policy has enabled the Pension Fund to articulate its position on RI more clearly and thoroughly when responding to its scheme members.

Whilst some of its interactions with a small number of scheme members have highlighted that the Pension Fund's RI activities have not gone as far as these members would like, particularly in relation to disinvesting from companies involved with producing fossil fuels, the implementation of the new policy has enabled the Fund to make significant progress in this area. The Pension Fund has now published 2 years of carbon footprint data for its investments, which shows a reduction since the original benchmark. Secondly the Pension Fund Panel and Board has made three separate decisions to change the investment strategies or guidelines to reduce and limit the carbon output of three of its active and passive global equity portfolios.

Principle 2 – Signatories' governance, resources and incentives support stewardship

Activity

The Hampshire Pension Fund is a part of the Local Government Pension Scheme (LGPS). The governance and management of the Fund is the responsibility of the Pension Fund Panel and Board. The Panel and Board oversees the appointment and ongoing scrutiny of external investment managers, to whom the day-to-day responsibility for implementing stewardship is delegated. This includes investment managers appointed through the ACCESS pool. The ACCESS pool comprises 11 LGPS local government administering authorities and was established in response to the UK government issuing its LGPS: Investment Reform Criteria and Guidance (2015). Through the Panel and Board, its RI sub-committee and the Deputy Chief Executive/Director of Corporate Resources and her officers, there is sufficient resource and capacity to monitor and support stewardship activities.

To ensure that the members of the Pension Fund Panel and Board have the required knowledge and skills to fulfil their role, they undertake an annual training programme based on requirements identified from CIPFA's Knowledge and Skills framework. This includes training on RI; the Panel and Board have recently received training from the UN PRI and specialist RI consultants from MJ Hudson Spring.

Outcome

Routine written reports from investment managers on voting and engagement activity are received by the Pension Fund's officers on a regular basis. In addition, each appointed investment manager reports annually to the Pension Fund Panel and Board including on their activity in these areas. At each of their meetings the RI sub-committee receive a report on the investment managers' engagement and voting

activity, highlighting where the investment managers have voted against company management or how they have voted on shareholder motions.

To supplement its internal resources the Pension Fund has commissioned external support from the specialist RI consultants MJ Hudson Spring to report on the Fund's external investment managers' RI capabilities and the ESG risk and exposure of each of the Pension Fund's investment portfolios. This report has assisted in the monitoring and scrutiny of the Fund's investment managers stewardship activities on behalf of the Pension Fund.

Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Activity

The Pension Fund's approach to conflicts of interest in relation to stewardship is part of its RI policy and is as follows.

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers. Third party advisors and investment managers may perform roles other than which they are employed for and to that extent conflicts may arise. The Pension Fund expects the investment managers and advisors it employs to have effective policies addressing potential conflicts of interest, and for these to be publicly available on their respective websites. These are discussed prior to the appointment of a manager/advisor and reviewed as part of the standard monitoring process.

Pension Fund Panel and Board members may have other roles within or outside of the Administering Authority that may provide for conflicts unless they are identified and managed. An example may be the potential stewardship of any investment made by the Pension Fund that could be a direct benefit to wider Council policy. To manage and mitigate these potential conflicts Pension Fund Panel and Board members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the Council's website at www.hants.gov.uk. Hampshire County Council, as the Administering Authority of the Hampshire Pension Fund, requires all members of the Panel and Board and officers to declare any pecuniary or other registerable interests, including any that may affect the stewardship of the Fund's investments. Details of the declared interests of Council members are maintained and monitored on a Register of Member Interests. These are published on the Council's website under each member's name and updated on a regular basis.

Outcome

The Pension Fund's approach to managing conflicts of interest has operated as intended. For example, when appropriate the Pension Fund has noted before considering the following relevant issues that its independent advisor is a member of the board of Aberdeen Standard Fund Managers and one of the co-opted members of the Panel and Board is a member of the Trade Union UNISON.

Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

The Pension Fund conducts a full risk assessment of its activities which is reviewed annually by the Pension Fund Panel and Board and published as part of the Fund's Annual Report. The risk register includes the risk to the Fund's investments from market fluctuations, interest rates, currency, credit and failure by its investment managers or custodian. In addition, the Pension Fund recognises the risk to investments from ESG factors including the impact of Climate Change that could materially impact long-term investment returns.

The Pension Fund's foremost mitigation against market-wide and systemic risk is a well diversified investment strategy. Therefore, it is important the Pension Fund Panel and Board receives the appropriate training and commissions advice to be able to select from and monitor a wide variety of investments. The Pension Fund commissions investment consultancy advice for its strategic asset allocation and as a point of escalation if it has any concern over the performance of an asset class or one of its investment managers.

Outcome

The identification and management of risk is a key part of the discussions and monitoring that the Pension Fund undertakes with its investment managers. Where the Pension Fund Panel and Board is not satisfied that one of its investment managers has sufficiently identified or responded to a particular risk this has been cause for it to decide to disinvest from a particular strategy, having taken the appropriate advice.

In recognition of the importance of RI and the risk of ESG factors impacting long term value for investors, as outlined in the Fund's RI policy, the Pension Fund is a signatory of the UN PRI and has completed its annual reporting.

The Pension Fund will further develop its risk assessment of the impact of Climate Change on its investments and plans to undertake an assessment with its investment managers of the impact of Climate Change on its investments under the scenario of *An Inevitable Policy Response*.

Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

The Pension Fund began a significant review of its RI policy in 2018 forming a working group of the Panel and Board that took advice from Dr Rupert Younger - Chair of Oxford University's SRI Committee. Following the agreement of the updated policy in 2019 and further external review was carried out in 2020 as part of the commissioning of the specialist external RI consultant MJ Hudson.

Recommendations from MJ Hudson were accepted to make the RI policy more comprehensive and readable.

As already reported the Pension Fund's RI sub-committee receive a report to each meeting on the investment manager's engagement and voting activity, highlighting where the investment managers have voted against company management or how they have voted on shareholder motions. This report is part of the sub-committee's published agenda and demonstrates the assurance that the Pension Fund is seeking for the stewardship activities undertaken on its behalf by the Fund's investment managers.

Outcome

The 2019 review of the Pension Fund's RI policy began an emphasis from the Fund on engaging with scheme members and employers on RI. The RI sub-committee created in 2019 has specific actions in its Terms of Reference:

- to regularly review the Pension Fund's Responsible Investment Policy (contained in its Investment Strategy Statement), and practices relating to it, to ensure that ESG issues are adequately reflected;
- to provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it;
- to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate.
- to report annually on the Pension Fund's Responsible Investment to demonstrate progress to the Pension Fund's stakeholders.

The RI sub-committee's first Annual Report on RI was published in April 2020. Following feedback received, for the following year's report the Pension Fund commissioned the Council's Communication and Marketing team to assist with the publication and improve the format and clarity of the report to make it more accessible to the Pension Fund's scheme members.

Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

The Hampshire Pension Fund is a part of the Local Government Pension Scheme (LGPS). It is a defined benefit scheme responsible for the pensions of over 178,000 scheme members across over 340 scheme employer bodies. Of the members, over 43,000 are currently in receipt of their pensions and the average pension paid in the 2019/20 year was £5,038. Of the members not yet in receipt of their pension, over 58,000 are active members with a further 75,000 deferred members. The average age of all scheme members as at the last triennial actuarial valuation was 51.8 years.

The majority of the employer bodies whose staff are members of the Pension Fund have strong covenants due to their status as public sector bodies. This means that the Pension Fund is able to take a long-term view when making investment

decisions, helping the Pension Fund to achieve its investment aims. These aims include managing employers' liabilities to achieve long-term solvency by ensuring that 100% of liabilities can be met over the long term, but without creating volatility in primary contribution rates for employers (and therefore taxpayers) or taking excessive investment risk outside of reasonable risk parameters.

Activity

Following a re-drafting of the RI policy in 2019 the Pension Fund then undertook extensive consultation on the new draft policy by:

- creating a specific Responsible Investment section on the Pension Fund's website where the new draft policy was published, with an explanatory note;
- including details of the consultation in the employers' newsletter requesting that employers publicise this to their members;
- sending an email to a sample of 500 deferred scheme members;
- inclusion details of the consultation in the newsletter that accompanies the pensioners' annual payslip;
- writing to Hampshire's Director of Public Health;
- writing to the Pension Fund's investment managers to ask for their views on the draft policy;
- sharing the draft policy with the other members of the ACCESS pool;

Following the agreement of the revised RI policy in 2019 the Pension Fund has maintained a greater focus on engagement with its scheme members on RI issues. The Pension Fund has maintained a specific RI webpage that it keeps up to date with relevant information to explain the Pension Fund's approach to RI and provide details for stakeholders, including publishing the full voting records of the Fund's equity investment managers. The Pension Fund is invested in many companies through its investment managers meaning that voting records may not feel sufficiently accessible to some scheme members and voting and stewardship examples are therefore highlighted in the regular reports to the RI sub-committee. The Fund also has a specific RI email address for scheme members to use to share their views on any aspect of RI. These contact details are published on the Fund's website and are also shared with scheme members at other opportunities, such as in the publication of the annual RI update report.

The Pension Fund's RI policy clearly states that the Panel and Board may also consider disinvestment from a particular stock, the exclusion of a particular type of stock or investment in specific 'social' investments where, based on an evaluation of ESG factors, it believes that the decision would be supported by a significant majority of scheme members and employers; the Panel and Board may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

Outcome

The Pension Fund records the engagement it receives from scheme members on RI matters. In meeting the RI sub-committee's action 'to engage directly and indirectly

with scheme members and employers to hear representations concerning ESG as appropriate' the communication that has been received is reported to the RI sub-committee. The evaluation of the effectiveness of engagement with scheme members is through the volume of correspondence received and the topics covered.

The Pension Fund Panel and Board has agreed that it wants to increase the level of engagement that it has with scheme members further still and has agreed an additional budget of £20,000 for additional communications and is in the process of developing its communications strategy. This is likely to include enhancements like further development of the Pension Fund's website, better use of Plain English and accessible content, and the consideration of how member views can be sought. The Fund will also be expanding the coverage of Responsible Investment in its Annual Report for 2021 and will use this document as another means to seek feedback and input from scheme members.

Since the Pension Fund's updated RI policy in 2019 the Pension Fund Panel and Board and RI sub-committee has received several deputations, prior to which it had not received any, all about disinvesting from fossil fuels. Although the Pension Fund has not gone as far as the suggestions put forward in these deputations, the Fund has taken several actions that address the issues expressed:

- The Pension Fund Panel and Board has made three separate decisions to change or set limits for three of its investment portfolios to reduce the carbon footprint of these portfolios.
- The Pension Fund publicly reports on the carbon footprint of its investments which show a reduction between the first and second year of reporting (and is aiming to benchmark itself in this regard against other LGPS funds where this data is available)
- The Fund has publicly reported against the Taskforce for Climate-related Financial Disclosure (TCFD) criteria.

Investment Approach

Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

As set out in its RI policy the Pension Fund's approach to RI, includes consideration of the Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing as it relates to ESG. The 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 (including health inequalities), employee relations and diversity.
- Governance - executive pay, bribery and corruption, political or religious lobbying and donations, board diversity and structure, unjustifiable tax strategy.

Activity

The Pension Fund's RI policy sets out by asset class how it expects its investment managers to integrate RI and stewardship into their investment decisions as follows:

Passive investment managers

The Pension Fund accepts that in making investments through an index, passive managers are unable to actively take ESG factors into account in deciding to hold an investment. However, the Pension Fund does expect its passive investment managers to act in its best interests to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the Pension Fund expects its passive investment managers to engage with companies within the index on areas of concern related to ESG issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments.

Quantitative investment managers

The Pension Fund will only utilise a quantitative investment manager if having taken advice it was appropriate for implementing the Fund's investment strategy and following a thorough assessment of the investment manager and their quantitative model, including the extent to which it can account for ESG factors. Similarly, to passive investment management the Pension Fund accepts that a quantitative investment manager cannot make stock specific judgements on ESG issues and therefore may not be able to take all ESG factors into account in their investment decisions. However, the Fund still requires the same level of engagement and exercise of voting rights (as described above) as with all other investment managers.

Active investment managers

The Pension Fund delegates responsibility for making individual investment decisions (non passive) to its active investment managers. In delivering their service to the Pension Fund, the Fund requires its active investment managers to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment. To ensure that ESG factors are considered in investment decisions, the Pension Fund uses the following framework of questions, which it requires its investment managers to be able to answer and uses these as a basis to scrutinise them.

For each investment has the investment manager assessed and concluded that the overall expected long-term financial return is mitigated from the risk of:

- Detrimental social impacts or increasing health inequalities from the company's products/services, such as armaments or tobacco.
- Negatively contributing to Climate Change or other environmental issues, such as pollution and the use of plastic.
- The impacts of Climate Change.
- Poor corporate governance, systems of control and a lack of transparency.
- A senior management pay structure that is biased towards managers making short-term decisions that aren't in the company's and investors long-term interests.
- The detrimental treatment of the company's workforce or workers in the company's supply chain on issues such as health and safety, gender equality and pay.
- Dangerous business strategies, such as the creation of monopolies, that may expose the company or wider economy to unacceptable risk.
- Any outcome damaging to human rights.
- Reputational damage to the company, the Pension Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code; as a result of its approach to any ESG issue.
- If the PFPB do not receive satisfactory responses to these questions they may undertake further engagement with investment managers (and possibly directly with investments) and/or consider directing the investment manager to not invest in the company/sector in question.

Closed-ended limited partnerships

The Pension Fund requires that its investment managers to integrate ESG considerations into their selection of these investments, which it believes will improve the long-term risk adjusted returns. Whilst the Pension Fund expects its investment managers to be able to influence the investment decisions of these partnerships, it accepts that once it has committed its investment it cannot control the investments that are made.

Direct property

The Pension Fund has made a strategic allocation to invest in UK commercial property, and therefore recognises that as a landlord it has an opportunity to affect to quality of the buildings that it owns. As part of the investment management contract that the Pension Fund has let for the discretionary management of its property portfolio, the Pension Fund expects its investment manager to consider improving the environmental impact of each of the properties it owns as part of the investment case for owning each property.

The Pension Fund tendered for a number of its investment managers from 2015 to 2019. These tenders considered various aspects of prospective investment managers capacity and ability to integrate ESG factors into their investment decisions and the commitment to RI through adherence to standards such as the UK Stewardship Code and UNPRI. The Pension Fund has only tendered for one new investment manager in the last 2 years. This procurement was for an investment manager for the Pension Fund's UK commercial property portfolio and external consultant advice was used to integrate the assessment of the management of ESG into the criteria for the selection of the investment manager and the appointed manager is now required to report against the GRESB benchmarking factors. This is particularly important given the relatively long term and illiquid nature of directly held property assets and reflects the need to consider ESG issues not just over the shorter term.

Outcome

As explained above and in the Pension Fund's RI policy, all investment management activity is delegated to external investment managers. Focus on how the Fund's investment managers have incorporated ESG factors gathered through their stewardship activities, into investment decisions, is a significant part of the monitoring and discussion with the Fund's investment managers. Examples include:

- Suncor Energy (Dodge and Cox) - is an integrated oil company with operations in the Canadian oil sands, offshore Canada/North Sea, and refining. Dodge and Cox purchased Suncor Energy because of its attractive valuation; best-in-class management team; large, low cost, low decline resource base with strong free cash flow generation; conservative leverage; and potential to benefit from a rebound in the oil price. As with many energy companies, Suncor has exposure to ESG risks, including high greenhouse gas emissions and the potential for global or local regulation change that could result in restrictions on oil sands production. Dodge & Cox's analyst conducted extensive due diligence on Suncor, including meetings with management and on-site due diligence to see first-hand how the company operates. They became comfortable with how Suncor is managing its ESG risks due to its strong management team, detailed tracking of environmental metrics that show a reduction in emissions over time, and its involvement with local policy initiatives to reduce carbon emissions across the industry. Suncor has taken steps to reduce its greenhouse gas intensity and has developed several technologies aimed at further reducing their environmental impact. In

addition, Suncor has developed strong community relationships and partnerships, including spending C\$2.7billion with Indigenous businesses since 2014.

- Merlin (Alcentra) - Merlin owns 48 aquariums under the SEA LIFE brand as well as a zoo attached to its Chessington Park. Following the release of the documentary 'Blackfish', there has been a heavy emphasis on ESG related issues regarding the use of animals for entertainment purposes, and this was a prevalent focus in Alcentra's due diligence and engagement over several years. Merlin supports numerous wildlife conservation trusts and is considered the market lead when it comes to animal welfare and ESG related issues. By way of an example, in conjunction with the global marine wildlife charity, Merlin created the SEA LIFE TRUST Beluga Whale Sanctuary. It is one of the biggest developments in captive whale and dolphin care and protection and is located in Iceland. In 2012, Merlin Entertainments acquired Changfeng Ocean World, which, at the time, owned two beluga whales. Alcentra had significant concerns around ESG risks and did a lot of analysis on these points, including conversations with management and sponsors. Ultimately, they decided they were comfortable that the actions the company had undertaken went some way to mitigate these risks.
- Carnival (Baillie Gifford) - This cruise ship operator has been a very successful investment for Baillie Gifford's clients. However the industry is having to cope with increasingly stringent emissions regulation. Cruise ships burn heavy fuel oil ('bunker fuel') that is loaded with sulphur. The United Nations International Maritime Organisation has decided to address air quality by capping open sea sulphur emissions at 0.5% by 2020, down from 3.5%. With tightening environmental legislation and growing public awareness about the importance of air quality, the decision by Royal Caribbean (and indeed other cruise lines) to prolong for as long as possible the use of bunker fuel, at the expense of lower sulphur lighter fuel oil, has led Baillie Gifford to question the long-term sustainability of returns. This was one of the factors behind a sale of the holding.

Principle 8 – Signatories monitor and hold to account managers and/or service providers.

Activity

The Pension Fund requires its investment managers to report to them on a quarterly basis and meet with them regularly including presenting to the Pension Fund Panel and Board at least once a year. In addition, the creation of the RI sub-committee gives the elected members responsible for managing the Pension Fund additional capacity for engaging with its investment managers and holding them to account, specifically on RI issues. Should the Pension Fund Panel and Board or the RI sub-committee feel that they have not received satisfactory responses from any of its investment managers, the Committees can invite the investment managers back to allow them the opportunity to present again and answer further questions until acceptable responses are received.

Outcome

As set out in the Pension Fund's RI policy and as above for Principle 7, the Fund sets out specific expectations for how its investment managers manage ESG factors according to the asset class that they manage. To date the Pension Fund has received satisfactory responses from its investment managers to demonstrate they have acted in accordance with the Fund's policy.

In addition, the Pension Fund has commissioned specific RI consultancy advice from MJ Hudson Spring on the capabilities of its investment managers in managing ESG issues and the ESG risks and exposures in each of the Fund's portfolios. This has given the Pension Fund better insight of which investment managers and portfolios they should give additional focus on to support their investment managers and ensure their policy is being adhered to.

As already reported the Pension Fund's RI sub-committee receive a report on the investment managers' engagement and voting activity, highlighting where the investment managers have voted against company management or how they have voted on shareholder motions. This report demonstrates that the Pension Fund's investment managers have met the Fund's requirement to vote as a shareholder on its behalf and tests that can provide a reasonable rationale for how their votes have been cast if they have not followed the Fund's policy.

Engagement

Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.

Activity

The Pension Fund's RI policy includes the instruction to its investment managers that they work in a consistent and transparent manner with companies they are invested in to ensure they achieve the best possible outcomes for the Pension Fund, including forward-looking ESG standards.

Outcome

As explained above and in the Pension Fund's RI policy, all investment management activity is delegated to external investment managers. Engagement activities are a regular feature of the monitoring of the Fund's investment managers by the Pension Fund Panel and Board, RI sub-committee and the Pension Fund's officers.

Examples of stewardship activities that have been published and reported to the RI sub-committee are:

- Acadian engaged with gold miners, Evolution Mining, Centerra Gold, Royal Gold and Materion, on both issues of climate as well as safety. While existing disclosure was lacking, most companies were able to provide details of the required information and commented that efforts were being taken to build a sustainability team and/or more detailed sustainability reporting. Management commented that Acadian's requests for information were useful to help determine their future reporting frameworks.
- A conversation with the founder and CEO, Susumu Fujita, of CyberAgent reassured Baillie Gifford that this Japanese digital platform business is improving its governance. Baillie Gifford had previously written to the company with their concerns at the lack of board independence. On the call Baillie Gifford were told that steps are being taken to address this, with the former CEO of Nestle Japan appointed to the board and further independent hires in the pipeline. Baillie Gifford are encouraged that CyberAgent has been receptive to their advice.
- In 2019/20, Dodge & Cox spoke extensively with the HP Inc. (HPQ) board and management about the potential merger with Xerox. Dodge & Cox talked at length with the company about capital allocation, shareholder value, and strategy. The proposal from Xerox along with HPQ's engagement with their shareholders led HPQ to adopt a new Shareholder Return Program which focused on increasing value to their shareholders. This was something Dodge & Cox were very pleased with as they had many focused conversations on this topic. Additionally, when HPQ adopted a Poison Pill, Dodge & Cox spoke with them about the reasons behind the decision. Dodge & Cox expressed their dissatisfaction around the adopted Poison Pill and communicated their expectations around messaging and removal of this Pill. HPQ removed the Poison Pill from their by-laws well before the Pill expired.

Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity

As explained above and in the Pension Fund's RI policy, all investment management activity is delegated to external investment managers. As part of this delegation the Fund's investment managers are able to decide if collaboration with other investors will benefit the engagement activities they carry out of the Pension Fund's behalf.

Furthermore Hampshire is a member of the ACCESS pool, which it uses to access more than two thirds of its investments. The 11 partner funds in ACCESS have collectively pooled £32m. ACCESS are collaborating on RI activities through unified RI guidelines which set the framework for the investment managers and enable them to utilise the combined weight of capital of the ACCESS authorities to positively engage with the companies they invest with.

In addition the Hampshire Pension Fund is open to discussing any other forms of collective action with other investors and where appropriate will discuss with our investment managers how they can co-ordinate their voting activity with other shareholders.

Outcome

The Pension Fund monitors its investment managers engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors. Examples include:

- UBS has reported that it has led dialogue with Equinor in collaboration with HSBC Asset Management and Storebrand Asset Management within the Climate Action 100+ umbrella. As a result of the initial positive engagement, the company has agreed to a joint statement to strengthen its commitments on climate change in pursuit of a business strategy consistent with the Paris Agreement. Future actions to which the company has committed include: an assessment of its portfolio, including new material capital expenditure investments towards a well below 2 degree scenario, a review of existing climate-related targets up to 2030 and the setting of new ambitions beyond that date, strengthening of the link between updated climate related targets and remuneration for executives and employees and reporting in line with financial recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD).
- Collaborative action co-ordinated by Climate Action that has led to communications between investors and the companies with specific focus on climate risks. Progress has been made in terms of Qantas' efforts for initially setting emissions reduction targets and subsequently their strategies to meet these targets. They remain committed to continue the discussion on these issues as they evolve, encouraging increasing transparency and identification of climate related risks as well as considering actions to manage these risks.
- UBS took the lead in engaging with Takeda Pharmaceutical on their Access to Medicine (AtM) Strategy, as part of the Access to Medicine Foundation's

collaborative engagement initiative. UBS identified the following issues for engagement: the expansion of their equitable pricing strategies, enhancing transparency in relation to filling for market approvals and impact measurement. UBS have had a positive dialogue with the company and Takeda has progressed on all engagement areas. It covers a large number of innovative medicines with its equity pricing strategies, and has announced a collaboration with Duke University to create an Access to Health Impact Measurement Framework.

Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity

The Pension Fund expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

Outcome

The Pension Fund monitors its investment managers engagement activities through regular reports and discussions and expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate. Examples include:

- In 2019, Baillie Gifford visited a local fulfilment centre to help them understand the environment in which warehouse workers operate, and Baillie Gifford spoke with Amazon’s senior independent director to encourage greater disclosure and better practices. During a further meeting in 2020, Amazon’s new head of ESG engagement acknowledged shortcomings in the company’s disclosures on social issues (specifically employee health and safety) and signalled that they wish to engage with Baillie Gifford on this topic. This will remain an ongoing focus for engagement activities which Baillie Gifford hopes will result in further tangible improvements in transparency and practice.
- At the 2018 Ryanair AGM, the chair received a 29% oppose vote and the Senior Independent Director (SID) had a 33% oppose vote from shareholders. Baillie Gifford opposed the re-election of both due to concerns over tenure, and reservations on the oversight of operational events which had occurred. Baillie Gifford subsequently met both the chair and SID to discuss board succession, the difficulty they experienced when engaging on voting shares attached to American Depositary Receipts, and the impact of Brexit on voting rights. Subsequently the company announced that the chair and SID would step aside in 2020, the CEO has extended his contract in a new position as group CEO, and there is a new share option programme for executives and non-executives. Baillie Gifford wrote to the chair and chair-elect to request a follow up engagement to discuss recent announcements.
- The Pension Fund’s passive investment strategies hold Korea Electric Power Corp. The investment manager UBS has been engaging with the company within the collaboration Climate Action 100+ since 2018. The engagement has

focused on the company's strategy to transition to a low carbon economy. More specifically, UBS has been asking management to enhance GHG emissions reduction targets, increase ambitions on renewable energy, define a coal phase-out plan and align disclosure with the TCFD framework. As the company has planned further investments in new coal plants in Vietnam (Vung Ang 2), Indonesia (Jawa 9 and 10) and other emerging markets and given the limited progress in other respects, UBS co-signed a private letter to the board of the company, a public letter to the South Korean Ministry of Economy and Finance (a major shareholder in the company) and a media article to express their concerns. As a way of reiterating their expectations, UBS has also voted against the appointment of three board members at the extraordinary general meeting (EGM) in September 2020. In 2020, the company approved the overseas coal fired power plants in Indonesia and Vietnam. However, it also confirmed soon afterwards that it will not pursue investments in new coal plants overseas, including two projects in the Philippines and South Africa. Additionally, the South Korean government has committed to achieve net-zero emissions by 2050, in combination with pledging to a national plan to close 30 coal-fired power plants by 2034 and ten of those by 2022.

- The Pension Fund's has exposure to Vale through its passive equity portfolio. The Pension Fund's passive investment manager UBS escalated its engagement with Vale following the catastrophic Brumadinho tailings dam failure in January 2019. UBS engaged directly with the company and joined a collaborative engagement coordinated by the PRI. The engagement objectives were to see Vale put a robust remediation plan in place that includes the consultation of all affected stakeholders, changes to procedures to prevent occurrence at its other sites, and better disclosure and lifecycle management of the company's tailings storage facilities. A number of these changes have taken place and UBS' focus is now on the effective implementation of these measures.

Exercising rights and responsibilities

Principle 12 – Signatories actively exercise their rights and responsibilities.

Context

The Pension Fund's RI policy includes its approach for exercising of rights attached to investments. This include the Fund's belief that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of stakeholders including shareholders, company employees and consumers, and that the principles accepted as best practice in the UK may differ globally. The Fund's investment managers should cast their votes with this in mind.

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

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

The Pension Fund's investment managers (both active and passive) are required to report to the Pension Fund on their engagement with company management and voting recording, highlighting any instances that they voted against company management or did not follow its policy.

Where investment managers were appointed directly by the Pension Fund to segregated mandates, the Pension Fund expected these managers to vote in line with its own voting policy or explain the rationale for doing otherwise. Similarly, for investments held through the ACCESS pool in a segregated sub-fund the expectation is that investment managers will vote in line with the pool's RI policy, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy, however there is still a requirement for the investment manager to explain the rationale for its decisions and ultimately the Panel and Board has the option to disinvest if it is dissatisfied with the manager's decisions.

The Pension Fund allows its investment managers to conduct stock lending and has actively recalled lent stock for voting reasons on multiple occasions when advised by its investment managers.

Activity

The Pension Fund's policy includes requiring investment managers to exercise the Fund's responsibility to vote on company resolutions wherever possible. The full voting record of all of the Fund's investment managers are published on its website [Responsible investment | Hampshire County Council \(hants.gov.uk\)](#).

The voting and engagement report to the RI sub-committee includes rationales provided by the Fund's investment managers for where they have voted against company management or how they have voted on shareholder resolutions. This report is published with the committees agenda, the latest example is published here: [2021-03-05 PFRIS Shareholder voting.pdf \(hants.gov.uk\)](#).

The Pension Fund needs to develop its approach to exercise the rights for its fixed income investments.

Outcome

The RI sub-committee has identified the need to develop the reports that they received on the investment managers' voting and engagement to include the outcome of the resolutions that have been voted on.

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Response to the All-Party Parliamentary Group for Local Authority Pension Funds' Inquiry into Responsible investment for a Just Transition

The Hampshire Pension Fund recognises that Responsible Investment (RI) is important to the Pension Fund in fulfilling its role to pay scheme members benefits and for its reputation with scheme members, employers and the wider Hampshire community. The Pension Fund's approach to RI, includes consideration of the Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing as it relates to Environment, Social and Governance (ESG) factors in investment decisions.

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. As a long-term investor, the Pension Fund welcomes the inquiry highlighting the importance of not just reducing carbon emissions, but the way economies and societies go about reducing carbon emissions. Whilst the Pension Fund welcomes this focus, on the potential unintended risks of otherwise positive adaptations to Climate Change, it would want to stress that it feels the primary responsibility for delivering a Just Transition should be with companies themselves, working within suitable controls, regulations and incentives set by Central Government.

The Pension Fund believes that investors, such as itself, still have an important role to play, albeit through a continuation of their roles as responsible investors maintaining a strong stewardship role. This extends to engagement with companies to test that they are not only actively tackling Climate Change, but doing so in a way that does not unfairly disadvantage any group or groups or stakeholders. In this respect it highlights the importance that investors maintain a broad focus on the full spectrum of ESG factors, and the potential interlinkages between them, whilst naturally wanting to focus of Climate Change.

Whilst the potential long-term focus of the inquiry is welcomed, it is important to highlight that there are important short-term actions that investors would benefit from. Hampshire has welcomed and embraced the availability of carbon data by public companies, which it reports on. But it is therefore frustrating that this information isn't equally available for private companies. Central Government could do more to assist investors in this area, as being able to fully monitor the carbon footprint of its investments is a prerequisite to being able to consider if managing a reduction in carbon output is being managed in a considered way.

Like the majority of the LGPS, the Hampshire Pension Fund contracts with specialist external investment managers who manage portfolios for the Pension Fund within certain guidelines that it sets; this includes managing in accordance with the Pension Fund's Responsible Investment policy. The policy sets out how the Fund expects its investment managers to consider ESG factors in their investment decisions and ongoing stewardship on behalf of the Pension Fund. The Pension Fund Panel and Board (responsible for the management of the Hampshire Pension Fund), its RI sub-committee and the Fund's officers continually test that the Fund's investment managers operate in accordance with the RI policy through their monitoring and

ongoing engagement with the investment managers and as such have raised the issue of a Just Transition and the focus of the APPG's inquiry.

Hampshire Pension Fund

April 2021

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	27 July 2020
Title:	Governance – Risk Register
Report From:	Director of Corporate Operations

Contact name: Andrew Boutflower

Tel: 0370 779 6896

Email: andrew.boutflower@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to reintroduce the Pension Fund's Risk Register, which is published as part of the Annual Report.

Recommendations

2. That the Panel and Board approves the amendments to the Risk Register.

Executive Summary

3. The Risk Register is a key document for the management of the Pension Fund. It is important that all of the risks that the Fund is exposed to are considered, evaluated and that the appropriate response is put in place.

Risk Register

4. The Annual Report contains the Pension Fund's Risk Register. An assessment of each risk is conducted by officers with the assistance of the Fund Actuary and updates since it was last reported to the Panel and Board are highlighted below, with the full risk register included in Appendix 1.

Table 1 – Updates to the Risk Register		
Risk	Description	Change
Employer risk	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.	The impact has been reduced to <i>medium</i> to reflect the overall size of the Pension Fund. That changes by one, or even a group of employers could be significant individually its impact on the overall Fund would be more limited.
Administration risk	Member communication	Expanded to include the risk that members cannot obtain the information they want about the Pension Fund, and the mitigation that the Fund's communication is being reviewed and improved.
Regulatory and compliance risk	The risk of changes that affect the Pension Fund as a result of changes in regulation	The likelihood has been increased from <i>low</i> to <i>medium</i> to reflect the greater significance of potential changes to LGPS regulations, in particular because of the McCloud Judgement.
Pooling risk	The ACCESS pool that Hampshire is a member of does not function effectively delivering the high-performing investments that Hampshire requires	The description has been widened and the likelihood has been increased from <i>low</i> to <i>medium</i> to reflect the important role that suppliers appointed by the pool play in its functioning, in particular the Operator of the Authorised Contractual Scheme sub-funds.

Climate Change Impact Assessments

- Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

6. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf \(hants.gov.uk\)](#).

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents	
The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Appendix 1 – Risk Register

Changes are highlighted in yellow.

Risk	Description	Likelihood	Impact	Mitigation
Employer risk	<p>These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.</p> <p>These events could cause the risk of unexpected structural changes in the Fund’s membership and the related risk of an employer failing to notify the administering authority promptly.</p>	M	M	<p>The Administering Authority requires the other participating employers to communicate regularly with it on such matters. The Pension Fund Panel and Board have approved a Funding Strategy Statement that details how funding risk is mitigated for different employer types. The Administering Authority maintains a knowledge base on scheme employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the Funding Strategy Statement. The Fund’s Employer Policy outlines how the Administering Authority will deal with any situation resulting from a change in any Fund employer’s circumstances or new employers entering the Fund. The Administering Authority monitors the status of the employers in the Fund and discusses any changes, including any necessary changes to the Funding Strategy Statement, with the Fund’s Actuary.</p>
	<p>That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.</p>			<p>The Pension Fund’s Funding Strategy Statement reflects that most of the employers in the Fund have a degree of Central Government support. Where this is not the case the Funding Strategy Statement sets out how this will be taken into account to manage</p>

Risk	Description	Likelihood	Impact	Mitigation
				<p>the risk. The Employer Policy requires new employers to have a guarantor who would be called on in the event of an insolvency, and all charitable admission bodies now have a subsumption commitment from their associated local authority which helps to reduce any exit debt. The Administering Authority has a written policy on how it would exercise its discretion to defer pension contributions in exceptional circumstances.</p>
Operational risk	<p>That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyberattack or pandemic disease), either affecting the Pension Fund directly or one of its key suppliers.</p>	H	M	<p>Pension Services follow the Administering Authority's Disaster Recovery policy that ensures that processes are in place to manage in the event of the loss of key resources. This includes the ability continue to deliver key services remotely, should this be necessary. Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.</p>
Administration risk	<p>The Pensions Regulator identifies the risks being around:</p> <p>- Employer contribution monitoring: are employers paying the right amount of contributions on time?</p> <p>- Record-keeping: how comfortable are</p>	M	M	<p>Employer contributions are set out in the triennial valuation and the deadline for payment is set by Regulation as 22nd of the month. Contributions are monitored and any late payments are reported to the Pension Fund Panel and Board. Any issues of 'material significance' will be reported to the Regulator</p> <p>The Administration Strategy is the agreement</p>

Risk	Description	Likelihood	Impact	Mitigation
Administration risk (continued)	you that your records are complete and accurate?			<p>between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to certain principles, including:</p> <ul style="list-style-type: none"> - to provide a high quality pension service to members - to take responsibility to provide accurate and timely information - that the results are reported to the Panel & Board twice a year. <p>The annual returns exercise is completed each year and employer performance is monitored with processes in place to help improve this where necessary.</p> <p>The Compliance and Delivery Manager is responsible for ensuring that data is complete and accurate in line with TPR requirements and that any actions on the data improvement plan are implemented. The Administering Authority has implemented a data analysis tool which provides daily management information on potential data issues.</p>
	- Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated?			Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.
	- Member communication: are these always accurate, timely, clear and provide the information members are interested in?			There is a Communications Policy and Customer Charter on the Pensions Services website, which details the service our scheme members can expect. The Fund's website and Member Portal are being reviewed to increase the information available to members, including on Responsible Investment

Risk	Description	Likelihood	Impact	Mitigation
				and the activities of the Panel and Board.
	- Internal disputes: do these indicate wider problems in the Fund?			The full complaint process, going all the way through to the Pensions Ombudsman, is detailed on the Pension Services website. All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.
	- Resourcing: conflicting priorities with servicing other partners.			Resourcing plans are in place to ensure services can be delivered to each partner. Project plans are in place that identify the requirements of each partner, including the on-boarding of new partners.
Investment risk	Investment management underperformance – from the Fund’s investment managers failing to outperform their benchmark returns for prolonged periods of time	M	H	The Fund’s investment managers’ performance is reviewed regularly by the Fund’s officers and reported regularly to the Panel and Board. All of the Fund’s contracts for investment management contain the provision that the Fund can cancel the contract with 1 month’s notice in the event of poor investment performance.
Investment risk (continued)	Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities			The Panel and Board have set a diversified asset allocation which limits exposure to any one particular market. The Fund contracts with specialist external investment managers and as a general principle aims to invest globally and set mandates for investment managers that give them as much freedom as possible, in order to manage market conditions as they see fit.
	Interest rate risk – which can affect the prices of investments			The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	that pay a fixed interest rate			investment managers that give them as much freedom as possible, in order to manage risks such as changes in interest rates.
	Currency risk – the risk of fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			As a UK Pension Fund the Panel and Board consider that the Pension Fund should have a significant proportion of its assets denominated in Sterling, thereby removing the currency risk. The Panel and Board keep their view of the long term nature of currency movements under review and will seek specialist advice if they believe that this might change or there is likely to be an event that might crystallise the effect of particular currency movements. Where investment returns in particular asset classes are at risk of disproportionate currency effects (such as Multi-asset Credit and Private Debt) the investments are hedged back to Sterling. In addition having taken advice to mitigate the overall currency impact on the Pension Fund, the passive global equity investments is hedged back to Sterling.
	Credit risk – the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.			The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment, with further limits set in the Investment Strategy Statement to limit the Fund's exposure to particular vehicles or assets. The Pension Fund's stock lending programme is protected

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)				by collateral managed by the Fund's custodian.
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates.			The Fund contracts with specialist external investment managers and as a general principle aims to make their portfolios 'ever-green' so that income and maturing investments can be reinvested, allowing investment managers to build portfolios that do not have a concentration of investments with a particular maturity date.
	Custody risk – losing economic rights to Fund assets, when held in custody or being traded.			The Panel and Board and the Fund's officers regularly monitor the performance of the Fund's custodian and have the power to replace the provider should serious concerns exist.
	Liability risk – that the Fund's liabilities are not accurately calculated resulting in the return target being too low and employers' contributions having to rise.			The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions.
	Environmental, social and governance (ESG) factors, including the impact of climate change – that these factors materially reduce long-term returns.			As set out in the Fund's Responsible Investment Policy, the Fund's external investment managers are required to consider ESG factors in their investment decisions, including any negative contribution to climate change and the overall risk from the impact of climate change, and to exercise the Fund's responsibility to vote on company resolutions wherever possible. They

Risk	Description	Likelihood	Impact	Mitigation
				<p>have also been instructed to intervene in companies that are failing, thus jeopardising the Fund's interests, by voting or by contacting company management directly.</p>
	<p>Regulatory risk – that inhibits the Pension Fund Panel and Board's fiduciary duty.</p>			<p>The Fund will be proactive in engaging with the Government, including responding to consultation, on any issues affecting the management and investment of Pension Fund monies.</p>
	<p>Illiquidity – that the Fund is unable to meet its immediate liabilities</p>			<p>The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available.</p> <p>The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments.</p>
<p>Liability risk</p>	<p>The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.</p>	<p>M</p>	<p>M</p>	<p>The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics.</p> <p>The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.</p>
<p>Funding risk</p>	<p>The Government Actuary's Department (GAD) has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of</p>	<p>M</p>	<p>H</p>	<p>Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2019 valuation. The Section 13 report will be reviewed and amber or red flags will be reviewed with the Fund's actuary and</p>

Risk	Description	Likelihood	Impact	Mitigation
Funding risk (continued)	<p>the LGPS has been carried out. Their report must cover:</p> <ul style="list-style-type: none"> - whether the fund's valuation is in accordance with the scheme regulations - whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS - whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund. <p>These requirements will have statutory force with effect from the 2016 valuations in England and Wales. Funds will be assessed against a number of measures and scored as:</p> <p>Red – potentially a material issue that might contribute to a recommendation for remedial action to ensure solvency</p> <p>Amber – highlights a possible risk</p> <p>Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency.</p> <p>GAD will then engage with Funds with any amber or red flags.</p>			reported to the Pension Fund Panel and Board with proposed mitigations.
Regulatory and compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	M	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice

Risk	Description	Likelihood	Impact	Mitigation
				necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.	M	L	The Pension Fund Panel and Board has documented Terms of Reference and Operating Procedures. The Panel and Board will consider all items that are material to the management of Hampshire Pension Fund and are supported by suitably qualified officers. Members of the Pension Fund Panel and Board complete a Training Needs Analysis based on CIPFA's Knowledge and Skills Framework and undertake identified training activities as necessary.
Pooling risk	That the investment pool which Hampshire has joined does not function effectively, including due to underperformance by a supplier appointed by the pool, such as the Authorised Contractual Scheme Operator, and provide the investments that Hampshire requires in order to implement its Investment Strategy	M	M	The Chairman of the Panel and Board supported by the Pension Fund's officers take an active part in the operation of the ACCESS pool to ensure its continued effectiveness. The Panel and Board and officers will continue to monitor the suitability of the Pension Fund's investments and where necessary consider appropriate alternatives available via ACCESS.
Contractual risk	The contractual arrangements between the County Council (on behalf of the Pension Fund) and its suppliers are challenged as unlawful	L	H	The Pension Fund receives advice from the County Council's Legal and Procurement staff about the most appropriate contractual arrangements to put in place to meet its legal obligations.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	27 July 2021
Title:	Governance – Fiduciary duties
Report From:	Director of Corporate Operations

Contact name: Andrew Bouflower

Tel: 0370 779 6896

Email: andrew.bouflower@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to share legal advice commissioned by the ACCESS pool on the fiduciary duties within the Local Government Pension Scheme (LGPS) and pension committees of LGPS Administering Authorities.

Recommendation

2. That the Panel and Board note the contents of the report and use it to assist them in discharging their fiduciary duties in respect of the Hampshire Pension Fund.

Fiduciary duty legal advice

3. The last two years have seen initiatives including the Ministry for Housing Community & Local Government's (MHCLG) informal pooling consultation and the Scheme Advisory Board's (SAB) consultation on draft Responsible Investment Guidance. From the perspective of the ACCESS Authorities, these initiatives were viewed as raising issues and concerns around the Government's and SAB's interpretation of fiduciary duties.
4. To assist ACCESS Authorities in considering initiatives of this type, led by the Norfolk Pension Fund, the services of Paul Newman QC have been sought, and his opinion has been used to inform responses to MHCLG and the SAB's consultations. On the basis of this engagement, on behalf of the Norfolk Pension Fund, colleagues at Squire Patton Boggs have drafted a series of questions and answers around the issue of fiduciary duties. This document has been shared with Paul Newman, who made a small number of presentational amendments, and is included at Exempt Annex 1. The advice

was obtained on behalf of the ACCESS Authorities and is being shared with individual pension committees on the understanding that it is only shared further on a confidential basis. The document has also been shared with officers from the Local Government Association, who support the SAB, along with Nigel Giffen - the QC generally used by the SAB, as a precursor for a future meeting to discuss these issues.

5. Members are asked to note the contents of the report included in the Exempt Annex 1 and use it to assist them in discharging their fiduciary duties in respect of the Hampshire Pension Fund. In particular, attention is drawn to paragraph 2.7 of the advice and the following summary of factors committee members should take into account when making investment decisions.

Climate Change Impact Assessments

6. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
7. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf](#) (hants.gov.uk).
8. For the investment portfolios that can report carbon footprint data, the Pension Fund collates and reports this to the RI sub-committee, and reports at the Fund level in the Fund's RI annual update and Task Force on Climate Change Financial Disclosure (TCFD) report <https://documents.hants.gov.uk/pensions/TCFD-report.pdf>. By reviewing the Pension Fund's investment portfolios' carbon footprints, the Fund can identify those that are very low already, such as the Baillie Gifford Long-term Global Growth (LTGG) portfolio, or where it can work with its investment managers to reduce the carbon footprint whilst maintaining the investment returns required to pay pensions. The balance of the Pension Fund's priorities to make the necessary financial returns to pay pensions whilst considering

environmental, social and governance factors is addressed in this report on the Fund's fiduciary duty.

REQUIRED CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because of the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

EQUALITIES IMPACT ASSESSMENTS:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	27 July 2021
Title:	Investments: Pension Fund Cash – Annual Report 2020/21
Report From:	Director of Corporate Operations

Contact name: Mike Chilcott

Tel: 0370 779 2620

Email: mike.chilcott@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to update the Pension Fund Panel and Board on the policy for managing the Hampshire Pension Fund's cash balance.

Recommendation

2. That the outturn report on the Pension Fund's cash management in 2020/21 be approved.

Executive Summary

3. This report provides an annual review of the policy for managing the Hampshire Pension Fund's cash balance. The Pension Fund adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes producing an annual report on the treasury management strategy after the end of each financial year.

Background

4. The Pension Fund receives cash each month from contributions made by employees and employers, and from investment income. The Pension Fund requires a cash balance to be able to pay pensions and other costs. Cash is also required for the following investment reasons:
 - if the UK property manager CBRE Global Investors purchases additional properties;

- to finance drawdowns of private equity and private debt limited partnerships and co-investments; and
 - to finance drawdowns of infrastructure investments.
5. Dividends from shares and interest receipts from bonds are retained by the external investment managers for reinvestment but rent income from the Pension Fund's direct property portfolio is credited to the Fund's cash balance. Distributions from the Fund's private equity, private debt and infrastructure investments are also paid out into the Fund's cash balance.
 6. The Pension Fund's investment managers aim to be fully invested, and generally do not plan to hold cash as a matter of investment policy. All of the Fund's active investment managers will have some cash balances as a result of trading between stocks and from dividend and interest income pending investment, and these balances are held within the pooled funds and with the multi-asset credit investment managers.
 7. There are rigorous procedures in place to ensure the security of all cash deposits which are managed by the County Council in separate investment accounts for the Pension Fund. These include criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty as set out in the Pension Fund's Annual Investment Strategy for 2021/22 for cash, which was approved by the Pension Fund Panel and Board on 4 December 2020. In addition, the County Council's treasury advisers, Arlingclose, provide advice to the Director of Corporate Operations in undertaking treasury management activities.

Investment activity

8. Security of capital remains the Fund's main investment objective for the management of the cash balance. This was maintained during 2020/21 by following the Fund's counterparty policy as set out in its Annual Investment Strategy, which was approved by the Pension Fund Panel and Board on 13 December 2019 and updated on 25 September 2020 and 04 December 2020. Investments during the year included:
 - Investments in AAA-rated Money Market Funds
 - Investments in UK Government Treasury Bills
 - Call accounts, notice accounts and certificates of deposit with banks and building societies with a minimum credit rating of A-, or equivalent
9. In addition to credit ratings counterparty credit quality was assessed and monitored with reference to:
 - credit default swap prices
 - any potential support mechanisms

- share prices
 - other economic or financial data.
10. Based on these factors and advice from the Treasury Management advisers, Arlingclose, the Director of Corporate Resources on behalf of the Pension Fund has varied investment duration limits for new investments according to the assessment of credit risk and has suspended investing with individual counterparties when it is felt to be necessary to protect the Pension Fund's capital. The placement of actual investments is likely to be below these limits and will depend on both the Fund's requirements, such as the need to maintain a high degree of liquidity, and the availability of counterparties in the market.
 11. In a change to the approach to cash, as agreed by the Pension Fund Panel and Board on 12 February 2021, the Director of Corporate Operations reviews the Pension Fund's asset allocation to *Protection* assets on a quarterly basis, which is made up of Index-linked Gilts and cash. If the value of Index-linked Gilts is outside of the long-term strategic allocation of 22% by 5% (above 27% or below 17% of the total value of the Fund), the Pension Fund rebalances but only by adding or reducing 2.5% of the Fund at a time to maintain the asset allocation to *Protection* assets. In addition, the Fund continues to sell equities where necessary to raise cash in rebalancing to hold as a *Protection* asset, up to the total cash balance being no more than 4% of the total value of the Fund. No rebalancing action has been required since the agreement of this new policy.
 12. As detailed in paragraph 4, the Pension Fund holds invested cash, representing income received in advance of expenditure plus investment income. During the year, the Pension Fund's cash balances ranged between £95.27m and £379.85m due to timing differences between income and expenditure, with the largest swings due to the receipt of prepayment of 3 years' worth of contributions from some employers prior to its investment within the Fund's investment portfolios. The year-end cash position and the year-on year change are shown in Table 1.

Table 1 – Cash investment position	31/03/20 Balance	Net movement	31/03/21 Balance	31/03/21 Income return
	£m	£m	£m	%
Banks and building societies:				
- Unsecured	65.20	(41.04)	24.16	0.01
Money market funds	88.06	(75.47)	12.59	0.02
Local authorities	-	56.00	56.00	0.09
Treasury bills	33.05	(28.05)	5.00	0.00
Total	186.31	(88.56)	97.75	0.07

13. As at 31 March 2021 the Pension Fund's cash balance was £97.75m compared to £186.31m as at 31 March 2020. The higher balance in 2019/20 was due to the Pension Fund's decision in September 2019 to rebalance the portfolio as the Fund worked towards implementing its revised investment strategy, resulting in a temporary increase in cash to re-invest.
14. The Fund's average cash investment balance was £158.6m during 2020/21 (2.0% of the total Pension Fund based on the average value during the financial year), and interest earned was £0.192m, leading to an average yield of 0.12%.
15. In delivering cash investment returns, the Fund has operated against a backdrop in which the UK Bank Rate was cut to 0.10% in March 2020 in response to the coronavirus pandemic. It has remained at this rate throughout the year, having an impact on rates across the market. Returns have been at or around 0% for liquid investment options such as Money Market Funds (MMFs), and bank call accounts and have not been significantly higher for other short-term options like fixed duration loans to other local authorities. Rates had been historically low even prior to these cuts, impacting the Pension Fund's ability to generate income on cash investments.

Pension Fund cashflow

16. The Pension Fund monitors its surplus or deficit from dealings with members; the extent to which income from employer and employee contributions are greater or less than the outgoings on pensions and other costs. It has been reported that a number of LGPS funds are experiencing annual cash deficits

from their dealings with members, which will result in them having to liquidate some of their investments to continue to meet their obligations for payments to scheme members.

17. In recent years the Fund has generated a surplus from dealing with members. However, from 2020/21 this will be impacted as a result of employers being able to choose to pay 3 years' worth of pension contributions in advance on 1 April 2020. The Pension Fund's draft statement of accounts for 2020/21 show that it made a surplus of £225.7m from its dealings with members, which is an increase from a £72.1m surplus in 2019/20 and shows the impact of these prepayments being received.
18. As a consequence of receiving 3 years' worth of employer contributions from some employers in 2020/21, employer contributions will be lower on an ongoing monthly basis, from the employers that remain paying their contributions each month. The estimated impact of this is that the Pension Fund will have £12m cash shortfall each month. However, this is significantly complicated as a result of the Pension Fund's illiquid investments (Private Equity, Infrastructure, Private Debt and Property), which have irregular cashflows. If the new investments made by the Fund's investment managers outstrip income being returned by existing investments this will further deplete the Pension Fund's cash. This was not the case in 2020/21 but has been to date in 2021/22 and the Pension Fund has been disinvesting from investments where they are above the strategic allocation set by the Panel and Board, starting with passive UK equities as agreed.

Climate Change Impact Assessments

19. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
20. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore, the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained

further in the Pension Fund's RI policy:

[InvestmentStrategyStatementincludingRIpolicy.pdf \(hants.gov.uk\)](#).

21. This report deals with the outturn position for the Pension Fund's internally managed cash portfolio. In line with the CIPFA code, the Pension Fund's cash balances are invested prioritising security, liquidity and then yield. The cash portfolio is only required to pay pensions, other costs and new investments. There are no further climate change impacts as part of this report which are concerned with financial reporting.

REQUIRED CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because of the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents	
<p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p>	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENTS:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	27 July 2021
Title:	Governance – Annual Report and Pension Fund Costs 2020/21
Report From:	Director of Corporate Operations

Contact name: Gemma Farley

Tel: 0370 779 4704

Email: gemma.farley@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to introduce the 2020/21 draft Pension Fund Annual Report to the Panel and Board.
2. The report also provides an analysis of costs incurred in managing the Pension Fund during 2020/21.

Recommendations

3. That the Panel and Board notes the contents of the draft Annual Report for 2020/21, and approves its publication.
4. That the Director of Corporate Operations is authorised to make any necessary minor amendments to the Annual Report prior to publication as detailed in paragraphs 13-15.
5. That the Panel and Board notes the total cost of managing the Fund.

Executive Summary

6. The requirement to publish an annual report was introduced into the Local Government Pension Scheme (LGPS) Regulations in 2013, with the aim of promoting awareness of the scheme and providing members and stakeholders with relevant information in an accessible and consistent manner.

7. The draft Annual Report for 2020/21 has been prepared and is presented to the Panel and Board for review and approval for publication, with further information provided in paragraphs 11 to 14.
8. There are a variety of costs that are incurred in the management of the Pension Fund, which are disclosed in the Pension Fund's annual report and accounts under the following three categories:
 - Investment management costs – the cost of managing the Fund's assets, which includes fees paid to the Fund's investment managers and its custodian. This includes fees that are incurred by the Pension Fund directly but also indirect fees that are not paid directly but that reduce investment returns, such as those for investments held through ACCESS and other pooled funds.
 - Administration expenses – all activities the Administering Authority must perform to administer entitlements and provide members with scheme and benefit entitlement information.
 - Oversight and governance – the costs of accounting for and monitoring the Pension Fund, plus the additional professional advice and support that is required by the Fund.
9. The Fund is required to report on the costs and savings achieved through pooling; paragraphs 15 to 25 provide further detail on this as well as the three elements of the Pension Fund's management costs described above.

Annual Report

10. The Pension Fund publishes an annual report each year to promote awareness of the scheme and provide members and stakeholders with relevant information in an accessible and consistent manner.
11. The Annual Report includes details of the Fund's governance, administration, and investments, as well as the Fund's accounts. The annual report now also includes additional information on pooling, including:
 - details of the ACCESS pool's annual report
 - an update on progress with investment pooling
 - updates to sections of the report including investment performance and the risk register to reflect the impact of pooling.
12. The Annual Report contains the Pension Fund's Risk Register. An assessment of each risk is conducted by officers with the assistance of the Fund Actuary and updates since it was last reported to the Panel and

Board are included in a report elsewhere on this agenda along with the full risk register.

13. The current draft Annual Report is attached and has been reviewed by officers and the Director of Corporate Resources. Amendments to the Annual Report following this review by officers will be made prior to the report being finalised, however it was not possible to make these amendments ahead of the publication of papers for the Panel and Board meeting. Amendments due to be made include inclusion of Table 2 of this report into the 'Progress on investment pooling' section.
14. The Pension Fund's accounts are included in the Annual Report. The accounts are subject to audit and it may therefore be necessary to make minor changes to the Annual Report at the conclusion of the audit, which is scheduled to be by the end of September. It is recommended that the Panel and Board authorise the Director of Operations to make any necessary minor amendments to the final Annual Report prior to publication on the Pension Fund's website. Any significant changes will be reported back to the Panel and Board at a future meeting.

Pension Fund costs 2020-21

15. The total cost of managing the Pension Fund is shown in Table 1 and also as a percentage of the average value of the Pension Fund in 2020/21 (2019/20 and 2018/19 costs are shown as a comparison):

Table 1 – Pension Fund management costs

	2020/21		2019/20		2018/19	
	£'000	%	£'000	%	£'000	%
Investment management	50,799	0.60	47,780	0.64	37,576	0.54
Administration	2,306	0.03	2,196	0.03	2,417	0.04
Oversight and governance	766	0.01	722	0.01	632	0.01
Total	53,871	0.63	50,698	0.68	40,625	0.59

Investment management costs

16. As part of the updated statutory CIPFA guidance on preparing the Pension Fund Annual Report additional data is provided, most notably about investment pooling. Investment management costs are separated between

costs incurred from investments held through the pool and those that continue to be held directly.

17. Table 2 shows the actual cost of investment management for 2020/21, as well as providing a meaningful comparison by presenting the costs in terms of basis points.

18. The data in Table 2 is based on data provided by the Pension Fund's investment managers who have all completed the Cost Transparency Initiative template produced by the LGPS Scheme Advisory Board (SAB). The Fund's investment management costs shown in Table 2 are broken down into the following categories:

- Management fees – this includes direct fees that are invoiced to the Pension Fund by its investment managers, as well as indirect fees charged by investment managers which are charged directly against the Fund's investments within investment vehicles such as pooled funds within the ACCESS pool and held outside.
- Transaction costs – such as broker commission paid in the purchase and sale of investments, in addition to costs associated with property transactions for the Fund's directly held property portfolio, and third party management fees for the alternative investment portfolios.
- 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 on tax and legal where they specifically relate to investments.

Table 2 – Investment management costs 2020/21

	Pooled		Non-pooled		Total	
	£'000	%	£'000	%	£'000	%
Management fees	771	0.02	36,573	0.96	37,344	0.44
Transaction costs	2,544	0.05	10,809	0.28	13,352	0.16
Custody and other costs	-	-	103	0.00	103	0.00
Total	3,315	0.07	47,485	1.24	50,799	0.60

19. The investment management costs of investments in the ACCESS pool are disproportionately lower than the non-pooled investments 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 Panel and

Board in considering investment returns on a net of costs basis when evaluating investment performance and options.

20. Investment management fees in 2020/21 increased in monetary terms in comparison to the previous year, from £47.78m to £50.80m however the cost as a percentage of the asset value of Fund reduced from 0.64% to 0.60%. During 2020/21 the total asset value of the Fund rose from £6,910m to £9,073m and as the investment managers are paid as a proportion of the asset portfolios they manage, then naturally the cost of investment management in monetary terms rose. The cost of the percentage of the asset value of the Fund reduced as a result of the Fund's remaining active global equities portfolios transferring to the ACCESS pool during 2020/21, meaning that the Fund took advantage of reduced investment costs as a percentage of the asset value transferred. The growth of assets in the ACCESS pool Authorised Contractual Scheme (ACS) which is managed by Link Fund Solutions, has meant the overall operator costs charged by Link have reduced due to the tiered fee structure.
21. Table 1 in the exempt appendix provides a breakdown of the investment management costs for 2020/21 by investment manager. Total fees include management fees and transactions fees.
22. The Annual Report also includes analysis of the pool's ongoing costs and savings achieved to date both at the pool level and for Hampshire specifically. Hampshire's costs and savings as a result of being invested in the ACCESS pool are shown in Table 3.

Table 3 – Pool costs and savings

	Hampshire	
	2020/21	Cumulative
	£'000	£'000
Pool setup and on-going costs	(63)	(459)
Transition costs	(136)	(539)
Investment management fee savings	943	2,421
Total net savings / (costs)	744	1,423

23. During 2020/21, Hampshire's continued to save costs through its involvement in ACCESS. This saving was achieved through the following activity in the year:

- The pool setup and on-going cost during 2020/21 is Hampshire's proportion of the total ACCESS budget which is split 11 equal ways. This includes the cost of the ACCESS Support Unit including technical support provided by lead officers, any procurement carried out in year, the cost of any advice received from consultants or lawyers, as well as the Member Support service provided by Kent County Council;
- During 2020/21 Hampshire's two remaining active global equities portfolios transitioned into the ACCESS pool for Hampshire, therefore there were one off costs of £136,000 to enable Hampshire to benefit from future savings on the costs of these investment portfolios.
- Other than the two portfolios that transitioned into the ACCESS pool during 2020/21, Hampshire has benefited from a full year of savings on investment management fees on its ACCESS investments. In addition benefits were gained from part year savings on the two recently transitioned investment portfolios.

Administration costs

24. Administration costs during 2020/21 were in line in percentage terms at 0.03% in comparison to 2019/20 (0.03%). Staff costs make up the majority of the administrative costs though investment in technology has produced more efficient processes and a reduction in budgeted printing and postage costs.

Oversight and governance costs

25. Oversight and governance costs during 2020/21 were in line with both 2019/20 and 2018/20 in percentage terms at 0.01%.

Climate Change Impact Assessments

26. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

27. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf \(hants.gov.uk\)](#).
28. For the investment portfolios that can report carbon footprint data, the Pension Fund collates and reports this to the RI sub-committee, and reports at the Fund level in the Fund's RI annual update and Task Force on Climate Change Financial Disclosure (TCFD) report <https://documents.hants.gov.uk/pensions/TCFD-report.pdf>. As summary of the Pension Fund's TCFD report and its RI activities are included in the Pension Fund's Annual Report, which is the subject of this report.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents	
The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

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HAMPSHIRE PENSION FUND
ANNUAL REPORT AND ACCOUNTS

2020/2021

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We hope you find this annual report informative and useful. There is a glossary of terms at page 93.

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 Services
Hampshire County Council
The Castle
Winchester SO23 8UB

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

Foreword

Welcome to the Hampshire Pension Fund annual report for 2020/21.



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When writing to you in July of last year, I reflected on the terrible impact of the coronavirus pandemic and expressed hope that we would have returned to some form of normality when I wrote to you next. A year later and the pandemic continues to take its toll across the globe, the lives of an almost unimaginable number of people lost as a consequence. My thoughts continue to be with everyone affected and I sincerely hope that the incredible efforts to develop and deploy multiple vaccines mean we will soon be able to move past this very difficult time in our history.

Of course, the pandemic is not the only challenge 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 responsible investment activity can be found on page 44 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 have submitted reports as signatories to the UN Principles for Responsible Investment (PRI) and UK Stewardship Code 2020 this year as well as reporting based on the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). We have also taken further steps to actively limit the carbon emissions from our investments by making changes to two more of our global equities portfolios. I have been pleased to see the way that our investment managers have been willing and able to help us to set this up whilst also providing assurance that investment returns will not be negatively affected.

This is an important balance to strike when delivering long term returns for the benefit of our scheme members, who now number over 183,000.

These scheme members have been served exceptionally well again this 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 Local Government Pension Scheme funds.

Investment pooling has continued to be a focus for the Fund and we have made further good progress this year, transferring two global equities portfolios to the pool. This means that 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. I have been honoured to continue to serve as the Chairman of the ACCESS pool's Joint Committee and look forward to providing you with a further update on our progress next year, when I hope to be able to report that further assets have been successfully pooled. A full update on investment pooling is provided on page 24.

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 in response

to the pandemic, we have seen a significant positive recovery and I am pleased to say the Pension Fund is now worth over £9bn. Our investment managers delivered returns of over 25% in 2020/21 and, while we cannot expect similar returns every year, this is a fantastic achievement and puts the Pension Fund in a strong position.

The Pension Fund continues to invest in a diversified range of assets to mitigate investment risks, including those related to Environmental, Social and Governance issues (ESG). 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 has also meant that many more external training sessions and conferences have been delivered online, which has significantly increased the range of training to which individual members have had access. Training continues to be given high priority and more details can be found on page 16.

Finally, I would like to thank the members of the Pension Fund Panel and Board for their valuable input and dedication during 2020/21 and the role they play in the robust governance of the Fund. We will bid farewell to several members this year due to the end of the Administration's term following the local elections and I would also therefore like to take this opportunity to thank those members for their service to the Pension Fund. I am looking forward to working with the remaining and new members over the coming year. Full details of the membership of the Panel and Board during the year covered by our Annual Report can be found on page 9.

I hope you find the following report helpful.

Councillor Mark Kemp-Gee
Chairman, Pension Fund Panel and Board, July 2021

Summary Report

The Hampshire Pension Fund is part of the Local Government Pension Scheme (LGPS) and has over 183,000 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. The only change to the membership during the year was Cllr Cal Corkery becoming the Unitary Authority (Southampton and Portsmouth City Councils) employer representative, replacing Cllr Stephen Barnes-Andrews as part of the regular annual rotation of unitary members.

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 2020/21 the Panel and Board oversaw its normal schedule of business, albeit meetings were held virtually due to the coronavirus pandemic. 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 actions to reduce the Fund's carbon emissions without impacting investment performance. This activity was supplemented by a comprehensive programme to meet training needs identified by members. Further details can be found in the Board Report on page 12.

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 2021 has pooled £6.0bn (66.7%) of its investments. This is an increase in comparison to the position reported at 31 March 2020, due to the transfer of the Pension Fund's remaining Global Equities investment portfolios to the pool.

During 2020/21 the Pension Fund's investment management has cost the Fund £50.8m, which as a proportion of the value of the total investment assets is 0.60%. The pooled investments cost 0.14% as a proportion of the total value of pooled investments, and by comparison, the non-pooled investments cost 1.15% 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 already saved the Pension Fund £1.4m 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 24 of this annual report.

An annual report is also produced by the ACCESS pool, which can be found on its website:

<https://www.accesspool.org>

Summary Report (continued)

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 58.

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. 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.

Many economic commentators have noted that financial markets and national economies have in some ways reacted in opposite ways to the coronavirus pandemic. National economies have been negatively affected by lockdowns and restrictions, but financial markets have performed strongly in aggregate, even though there have been winners and losers amongst individual companies.

In 2020/21 the value of the Pension Fund grew by over £2bn (about 30%). It is now valued at just over £9bn. This was mostly because of the performance of the Pension Fund's investments, although some employers paid their pension contributions in advance which also increased the value of the Fund.

Each of the Pension Fund's investments is measured against a benchmark. The average benchmark return in 2020/21 (weighted to reflect the relative sizes of the Pension Fund's different investments) was 18.3%. The Pension Fund's investments achieved returns of 25.1% and so performed better than the benchmarks on average. More details can be found in the Investment Performance Report on page 30.

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 is a signatory to both the UK Stewardship Code and 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 2020/21 and the RI Policy was updated to include recommendations made by specialist consultants MJ Hudson Spring. Where data is available, the carbon footprint of the Pension Fund's investments is lower than for companies on average. The Fund has also changed the objectives for two of its active global equities (shares) portfolios during the year so they will target lower carbon emissions without sacrificing returns. This follows making a similar change to its passive global equities portfolio last year. The Pension Fund is also now using specialist RI benchmarking (GRESB) for its property portfolio. More details on the Pension Fund's approach to RI and its activity during 2020/21 can be found in the section starting on page 44 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. Other scheduled bodies include the Office of the Police and Crime Commissioner and the Chief Constable for Hampshire, Hampshire Fire and Rescue Authority, the University of Portsmouth, Southampton Solent University and other colleges that were part of the County Council. Town and parish councils that have opted to join the Fund are known as resolution bodies.

Summary Report (continued)

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 Pension Services, part of the Corporate Resources 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. Pension Services perform these aspects to an extremely high standard, complying with the requirements for the national standard for excellence in customer service (CSE) and have held and retained the CSE standard since 2009, with compliance plus passes in five areas.

Pension Services monitor their administration performance against service standards for key case work and achieved 100% against service standards for all key processes during 2020/21. 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 49 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. Net additions from dealings with members was £28.3m greater than forecast, which was a result of a combination of higher than forecast employer and employee contributions received and lower than forecast benefits paid.

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 on page 56 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 62 of this annual report.

Who's Who

Administering authority and scheme manager

Hampshire County Council

Treasurer

Carolyn Williamson, Deputy Chief Executive and Director of Corporate Resources

Independent adviser

Carolan Dobson

Investment managers



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

Governance of the Hampshire Pension Fund

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DRAFT

Pension Fund Panel and Board

Membership as at 31 March 2021

County Council members



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



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



Cllr Christopher Carter
12 years' membership



Cllr Alan Dowden
4 years' membership

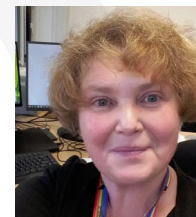
Employer representatives



Cllr Cal Corkery
Unitary Council
representative
2 years' membership



Cllr Paul Taylor
District Council
representative
2 years' membership



Liz Bartle
Other employer
representative
2 years' membership



Cllr Stephen Barnes-Andrews
Substitute employer
representative
2 years' membership

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Cllr Jonathan Glen
4 years' membership



Cllr Andrew Gibson
9 years' membership



Cllr Andrew Joy
8 years' membership



Cllr Peter Latham
7 years' membership

Member representatives



Neil Wood
Active scheme
member representative
5 years' membership



Lindsay Gowland
Deferred
scheme member
representative
2 years' membership



Cliff Allen
Pensioner
scheme member
representative
8 years' membership



Sarah Manchester
Substitute scheme
member representative
3 years' membership

County Council deputies



Cllr Bruce Tennent
12 years' membership

Cllr Derek Mellor
Cllr Keith House
Cllr Michael White
Cllr Roger Price

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 Ministry of Housing, Communities and Local Government (MHCLG).

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. 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.

The unitary employer representative position alternates on an annual basis between representatives from Southampton City Council and Portsmouth City Council. As a result, Cllr Cal Corkery moved from the substitute role to take over from Cllr Stephen Barnes-Andrews as a full member of the Panel and Board, with Cllr Barnes-Andrews fulfilling the substitute role. There were no other changes to the composition of the Panel and Board during 2020/21.

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 2020/21 Cllr Thacker, Cllr Corkery, Cllr Joy and Neil Wood replaced Cllr Glen, Cllr Latham, Cllr Barnes-Andrews and Dr Allen on the Responsible Investment (RI) Sub-Committee as part of the annual review and rotation of membership.

There were 6 meetings of the Panel and Board during 2020/21 and 2 of the RI sub-committee. 1 further meeting of the Panel and Board was cancelled in June 2020 due to the coronavirus pandemic.

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 16.

Pension Fund Panel and Board (continued)

Attendance at Panel and Board meetings, RI Sub-Committee meetings, internally organised training events, and other external training opportunities in 2020/21 is shown in the table below. 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.

Panel and Board member	Pension Fund Panel and Board	Responsible Investment Sub Committee	Internal training sessions	External training sessions
Cllr Kemp-Gee	5/6	2/2	11	1
Cllr Thacker	6/6	2/2	3	0
Cllr Carter	6/6		2	0
Cllr Dowden	5/6		4	1
Cllr Gibson	6/6		5	3
Cllr Glen	6/6		6	48
Cllr Joy	5/6	1/2	5	0
Cllr Latham	6/6		2	0
Cllr Tennent	6/6	2/2	5	3
Cllr Corkery	6/6	2/2	1	1
Cllr Taylor	4/6		1	0
Dr Liz Bartle	6/6		3	9
Dr Cliff Allen	6/6		6	0
Lindsay Gowland	6/6		4	8
Neil Wood	6/6	1/2	6	2
Sarah Manchester (Substitute)	6/6		6	15
Cllr Barnes-Andrews (Substitute)	2/6		1	0
Cllr Mellor (Substitute)	3/6		4	2

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:

<http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=620&Mid=3642&Ver=4&Info=1>

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 Ministry of Housing, Communities and Local Government (MHCLG) 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 2020/21 are as follows:

Meeting	Agenda
19 June 2020	Meeting cancelled due to Covid-19
24 July 2020	<ul style="list-style-type: none"> • Annual internal audit report and opinion • Internal audit plan • Responsible Investment Sub-Committee appointments • Administration performance update • Exit credits • Funding Strategy Statement • Employer Policy • Administration Strategy • Pension Fund Annual Report • Risk Register review • Pension Fund investment management costs • Cash management • Investment update
25 September 2020	<ul style="list-style-type: none"> • ACCESS Joint Committee minutes • Training in 20/21 • Actuary contract extension • Investment update • Alternative investments portfolio update • Environmental, Social and Governance (ESG) assessment by MJ Hudson Spring

Meeting	Agenda
20 November 2020	<ul style="list-style-type: none"> • Responsible Investment (RI) Sub-Committee minutes • Exit payment reforms • Baillie Gifford Global Alpha portfolio change • Investment update
4 December 2020	<ul style="list-style-type: none"> • ACCESS Joint Committee minutes • Administration performance update • Communication Policy Statement • Pension Fund budget • Good Governance in the LGPS update report • Review of the Statutory Statements • Governance Policy Statement • Governance Compliance Statement • Representation Policy • Training Policy • Business Plan • Investment Strategy Statement including RI Policy • Administration Strategy • Funding Strategy Statement • Employer Policy • Risk Register • Cash monitoring report and annual cash investment strategy

Meeting	Agenda
12 February 2021	<ul style="list-style-type: none"> • ACCESS Joint Committee minutes • Internal audit progress report • Internal audit plan • ACCESS business plan • RI Sub-Committee Terms of Reference • Trade Union representation • Custodian update • Fiduciary duty • Investment update
26 March 2021	<ul style="list-style-type: none"> • RI Sub-Committee minutes • ACCESS Joint Committee minutes • Draft Policy on Employer Flexibility Regulations • Calendar of Panel and Board meetings • Custodian performance report • Acadian Managed Volatility portfolio changes • Alternative investments portfolio update

Panel and Board Report (continued)

In addition, during these meetings the Panel and Board received 6 virtual presentations from its investment managers providing the opportunity to scrutinise the performance and approach adopted by these managers. It also received 3 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 2020/21 and considered the following items:

- Scheme member communication
- Shareholder voting and engagement
- MJ Hudson Spring ESG assessment
- Changes to Baillie Gifford's Global Alpha portfolio
- Annual Responsible Investment update for scheme members
- Task Force on Climate-related Financial Disclosures
- Changes to Acadian's Managed Volatility portfolio

The RI Sub-Committee also received 1 deputation from a scheme member 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 20 of this annual report.

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

<https://www.accesspool.org/>

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. The Panel and Board's membership includes 3 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 4 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



The past 15 months under COVID-19 rules have been interesting from a Pension Fund Panel and Board viewpoint. The coronavirus pandemic has seen many changes in all our lives but for the Panel and Board we have joined in with meetings taking place virtually meaning members having to get to grips with voting buttons, unmuting laptops and raising electronic hands.

In spite of the global pandemic the Fund has grown from strength to strength with valuations reaching just over £9bn and continuing to grow. In line with the ACCESS pool more assets are being transferred to the pooled funds meaning the ACCESS pool will continue to grow.

The Fund has seen a big movement on the Environmental, Social and Governance (ESG) front in the last couple of years and the Responsible Investment (RI) policy plays a big part in our funding decisions. In line with the Fund's annual review and rotation policy I have spent the last year on the RI Sub-Committee whose role is to shape future investment policies that incorporate the wider issues of climate change as well as other areas covered by the ESG umbrella.

The next year will see the return of face to face meetings as well as a change to how the meetings are run, as meetings with investment managers will continue to be held virtually to assist with reducing the Fund's carbon footprint.

If you have any queries regarding the fund or LGPS, please do not hesitate to contact me.

Lindsay Gowland
(Deferred scheme member representative)

clerklindsay@yahoo.co.uk



This year has continued to be busy and the Hampshire Pension Fund Panel & Board has continued to meet and carry out its functions fully in these unprecedented times, albeit virtually. Whilst this has not been without its challenges, it has also had benefits. We have been able to attend a wide number of virtual training events – far more than we would have been able to if they had been face to face. Good training ensures that we are able to challenge the officers and investment managers appropriately, which is a key part of our role. Meetings have also continued with ample scope for debate and discussion, despite not being in the same room. We have paid particular attention to Environmental, Social and Governance issues this year and have received a number of deputations pertaining to these issues especially in light of the Climate Emergency declared by Hampshire County Council.

The number of deferred members of the Pension Fund as at 31 March 2021 was 78,834 which is an increase on last year's total of 75,920. Regardless of how small your deferred pension is with Hampshire, its stewardship is secure and the Administration team achieved a 100% success rate of dealing with deferred pension issues and answering queries within the set key service standards. I would encourage everyone to register with the Member Portal and ensure that their details are up to date.

The Hampshire Pension Fund Panel and Board currently meet 7 times a year but moving forward, we will be trialling a reduction in face to face meetings to 4 per year.

Scheme Member Reports (continued)

Presentations by investment managers (which are not open to the public) will take place virtually 6 to 7 times a year in addition, instead of forming part of the main meetings. The Members do not believe this will lead to any drop in effectiveness but will review the situation next year. If you have any concerns about these changes, please do not hesitate to contact me.

Dr Cliff Allen
(Pensioner scheme member
representative)

cliffallen203@aim.com



It is remarkable that despite the recent prolonged Covid 19 pandemic the Pension Fund has performed exceptionally well. Other parts of this annual report will give details of our financial position and show how well placed the Investment Portfolio is for the future. There are a number of factors contributing to the Pension Fund success. Contributing factors include the hard work of leadership and management, administration, the investment strategy group and the Panel and Board. During a period of high CoVid19 infection rates and intermittent lockdown episodes Pension Services have worked tirelessly to process and pay pensions, collect contributions and deal with pensioner enquiries. Pension Services has dealt with many thousands of transactions doing an excellent job in a period when illness and death rates among the elderly have been devastatingly high.

Leadership and management through introducing technology have enabled the work of the Panel and Board to continue uninterrupted. Progress with policy development, financial strategy, monitoring performance, working with eleven County Councils on the ACCESS pool and all the professional work of the Panel and Board have been maintained and developed to the highest standards.

A full programme of personal development and training has enabled progress in decision making, professional investment, skills and knowledge to continue. Training and development are essential activities because the world of investment and, environmental, social and governance factors continually increases in complexity. The Pension Fund has developed its Responsible Investment (RI) policy, has set up an RI Sub-Committee, has asked a specialist RI consultant to review the Fund's investment portfolios, has become a signatory to the United Nations Principles for Responsible Investment, and is now also a signatory to the UK Stewardship code.

During a very difficult time a tremendous amount of work has produced many successful achievements for the benefit of all our pensioners. It's not easy to communicate comprehensively with all our members and the public we serve. We are putting more effort into improving our communications and have set up a project that will report in the coming year.

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

Further details of the Panel and Board's Training Policy are available on the Pension Fund's website:

Training received in 2020/21

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 index linked gilts and the link to the Retail Prices Index (RPI) following the Government's confirmation that RPI will be expected to be calculated in line with CPIH, another methodology, from 2030.

Date	Topic	Provider
December 2020	Index linked gilts	Royal London Asset Management
February 2021	The role of audit and assurance, and auditing standards	Southern Internal Audit Partnership
March 2021	LGPS pooling update	ACCESS / Hampshire Pension Fund officers
March 2021	Growth investing	Baillie Gifford

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, however virtually. 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.

In addition, Panel and Board members and officers attended training sessions arranged by ACCESS. The topics covered by these sessions were as follows:

Date	Topic	Provider
July 2020	Communications	Engine MHP
November 2020	Business as usual (BAU) evaluation	Hymans Robertson
December 2020	ACCESS Investor Day	LINK Asset Services
January 2021	Communications	Engine MHP

Training and Development Report (continued)

Individual Panel and Board members and officers virtually attended a range of training events in 2020/21 provided by the Pension Fund's investment managers and other external organisations, as follows:

Training Provider	Events
Baillie Gifford	<ul style="list-style-type: none"> • Costs disclosure and transparency • Global Alpha: the importance of looking forward • Global Alpha strategy webinar • LGPS growth investing: future proofing for a new world order • Reflecting on an extraordinary year • Responsible investment breakfast briefing
Barclays	<ul style="list-style-type: none"> • LGPS webinar
DG Publishing	<ul style="list-style-type: none"> • DB strategic investment forum • Investing for pensions live • Private and public pensions summit
European Pension Fund Investment Forum	<ul style="list-style-type: none"> • EPFIF UK open forum • Pension Trustees Circle • PFIF and private markets investment forum • The pension trustees circle virtual seminar • With government bonds probably crossed off your Christmas list, what alternatives are you hoping to find in your stocking?
Hymans Robertson	<ul style="list-style-type: none"> • LGPS administration: tackling the LGPS administrative challenge • Responsible investment in the LGPS – making progress and demanding accountability

Training Provider	Events
Informa	<ul style="list-style-type: none"> • Local government pension investment forum
Insight Investment	<ul style="list-style-type: none"> • Addressing the funding challenge
JP Morgan	<ul style="list-style-type: none"> • Asia growth and income investment • Emerging markets investment • European smaller companies investment • Global growth and income • US smaller companies investment • US election
LAPF	<ul style="list-style-type: none"> • LAPF strategic investment forum
Local Government Association	<ul style="list-style-type: none"> • Applying behavioural change techniques to the COVID-19 and climate emergency responses • Fundamentals
LGC Investment	<ul style="list-style-type: none"> • Investing for the climate emergency and managing climate risk
Mallowstreet	<ul style="list-style-type: none"> • Mallowstreet digital summit
Mercer	<ul style="list-style-type: none"> • Fit for the future
Old Mutual Wealth and Quilter Cheviot	<ul style="list-style-type: none"> • ESG and sustainable investing
Pension Fund Investment Forum	<ul style="list-style-type: none"> • Climate change scenarios – implications for public and private markets and your investment strategy • Covid-19 impact on fund managers – challenges for pension funds in selecting and monitoring managers
Pension and Lifetime Savings Association	<ul style="list-style-type: none"> • Covid-19's impact on the LGPS and the regulator's response

Training Provider	Events
River and Mercantile	<ul style="list-style-type: none"> • UK micro cap investment • Infrastructure • UK equity income
Scheme Advisory Board / DG Publishing	<ul style="list-style-type: none"> • LGPS Live
Schroders	<ul style="list-style-type: none"> • Trustee training
SPS Virtual	<ul style="list-style-type: none"> • Adding value through credit and high yield investing for pension funds • Current investment issues for pension funds • Fiduciary management and investment governance for pension funds • Investment strategies for pension funds – addressing today's challenges and finding opportunities in 2021 • LGPS investors – focus on ESG, responsible and sustainable investing
T. RowePrice	<ul style="list-style-type: none"> • What will a new era bring for Japan
UBS	<ul style="list-style-type: none"> • The green finance revolution – in conversation with Mark Carney and Axel A Weber
UCITS and AIFMD and European sustainable investment summit London 2020	

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 Resources Directorate are required by the accountancy bodies to maintain their levels of Continuing Professional Development.

Training in 2021/22

During the early part of 2021/22, 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 2021/22 is due to be approved by the Pension Fund Panel and Board in September 2021 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 2021/22 and 2022/23 based on the Training Needs Analysis.

Risk Management Report

The management of risk is part of the control framework managed by the Deputy Chief Executive and Director of Corporate Resources 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 the Deputy Chief Executive and Director of Corporate Resources with assistance from the Fund Actuary. This involves assessing the likelihood and impact of each risk, then identifying appropriate mitigation to manage these risks.

Risks are categorised as follows:

Categorisation	Description
Employer risks	These risks arise because of the large number of employer bodies within the scheme, 337 of which had active members at 31 March 2021.
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

Categorisation	Description
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.

Categorisation	Description
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.

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.

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.
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

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Ref.	Principles	Compliance	Comments
B	Representation		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure These include: <ul style="list-style-type: none"> • 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.
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.	

Governance Compliance Statement (continued)



Ref.	Principles	Compliance	Comments
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.
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.
F	Meetings (frequency/quorum)		
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance.	

Ref.	Principles	Compliance	Comments
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.
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
- Funding Strategy Statement
- Investment Strategy Statement including Responsible Investment Policy
- Governance Policy Statement
- Governance Compliance Statement
- Communication Policy Statement
- Administration Strategy
- Employer Policy

These statements were last reviewed and approved at meetings of the Pension Fund Panel and Board during 2020/21:

<http://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.

<https://www.hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies>

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

- Training Policy
- Representation Policy
- Risk Register
- Panel and Board Terms of Reference
- RI Sub-Committee Terms of Reference

Investment pooling

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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, 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.

Value of pooled and non-pooled investments

	2019/20		2020/21	
	£'000	%	£'000	%
Equities	1,366,327	19.8	2,793,703	30.8
Passive investments	2,521,958	36.5	3,254,406	35.9
Pooled subtotal	3,888,285	56.3	6,048,109	66.7
Equities	734,497	10.6	0	0.0
Bonds	921,425	13.3	1,415,873	15.6
Property	509,548	7.4	543,685	6.0
Alternative assets	645,310	9.3	935,896	10.3
Cash and other assets	211,415	3.1	129,252	1.4
Non-pooled subtotal	3,022,195	43.7	3,024,706	33.3
Total	6,910,480	100.0	9,072,815	100.0

The proportion of the Pension Fund's investments held under the ACCESS pool increased to two thirds by the end of 2020/21 following the transfer of Hampshire's final two remaining global equities portfolios to the ACCESS pool.

ACCESS's business plan for 2021/22 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.

Progress on investment pooling (continued)

Pooled costs and savings

Hampshire Pension Fund's investment management costs of £50.8m are also reported in the Fund's accounts. 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	771	0.02	7,411	0.19	8,182	0.10
Indirect fees	3,512	0.07	5,671	0.15	9,183	0.11
Transaction costs	2,544	0.05	30,776	0.80	33,320	0.39
Custody and other costs	–	0.00	114	0.00	114	0.00
Total	6,827	0.14	43,972	1.15	50,799	0.60

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.

Cumulative pooling costs and savings

	£000
Pool setup and on-going costs*	459
Transition costs	539
Investment management fee savings	-2,421
Net saving of pooling to date	-1,423

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

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.

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 2020/21.

The report can be found here: <https://www.accesspool.org/>

DRAFT

Hampshire Pension Fund investments

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DRAFT

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.

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.

Investment Policy including Responsible Investment (continued)

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. It sets out its expectations for different types of investment manager in its Responsible Investment Policy, which can be found in full on the Responsible Investment webpage:

Passive investment managers and quantitative investment managers are expected to engage on ESG issues with companies within their index and to exercise voting rights. Active investment managers are required to pro-actively consider how all relevant factors, including those relating to ESG, will influence the long-term value of each investment.

Where investments are made in closed-ended limited partnerships, investment managers are required to integrate ESG considerations into their selection of these funds. The Pension Fund also holds directly owned UK property and the investment manager is required to consider improving the environmental impact of these properties as part of the investment case.

The Panel and Board will consider disinvestment from particular stocks or sectors, or the investment in specific 'social' investments, where it believes the decision would be supported by a significant majority of scheme members and employers, so long as it does not result in significant financial detriment to the Pension Fund.

Investment managers are expected to work actively with companies they are invested with to ensure they achieve the best possible outcomes for the Pension Fund and are instructed to exercise the Fund's responsibility to vote on company resolutions wherever possible. The Responsible Investment Policy provides guidelines for investment managers when casting their votes, and investment managers who do not follow these guidelines must report to the Pension Fund to explain why.



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:

- tax reclamation services
- 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. JP Morgan did have custody of all of the Pension Fund's non-pooled active equity portfolios, but during the year all remaining active equity investment portfolios were transferred to the ACCESS pool, and therefore JP Morgan no longer hold any Pension Fund assets in custody. 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 first year from the 2019 triennial valuation in 2020/21. 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

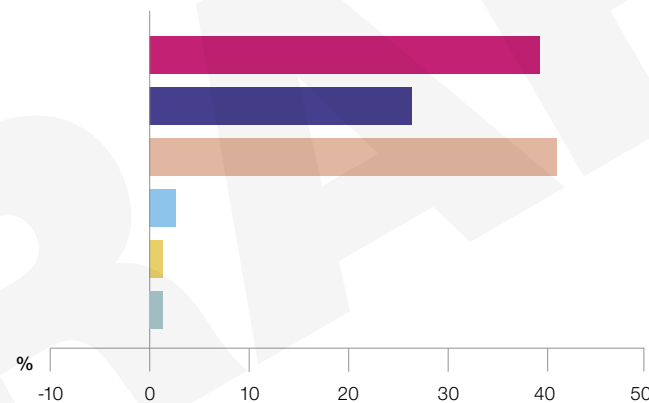
The global coronavirus pandemic had a significant impact on financial markets at the end of 2019/20, however stock markets then rebounded throughout 2020/21. This rebound initially came from sectors of the market and individual companies that benefited from changes in the way people lived their lives due to lockdowns and restrictions, with other areas such as travel and hospitality struggling badly. The news of successful vaccine trials then had a far wider positive effect, boosting the fortunes for many more companies and leading to increases in share prices more generally.

Having fallen 6.22% the previous year, global stock markets rose by 39.58% over the 12 months to 31 March 2021. The UK stock market lagged this return, but still produced positive returns of 26.71% after declining 18.45% the previous year.

UK index-linked bonds delivered modest positive returns of 2.23% for the year, after having returned a gain of 1.98% the previous year including the impact of the pandemic, while the UK commercial property market returns were slightly lower at 1.20%. By comparison, the return on cash using LIBOR as the measure was approximately 0.14%.

Market returns in 2020/21

	%
Global equities	39.58
UK equities	26.71
Emerging market equities	40.50
UK index-linked bonds	2.23
UK property	1.20
LIBOR (cash)	1.20



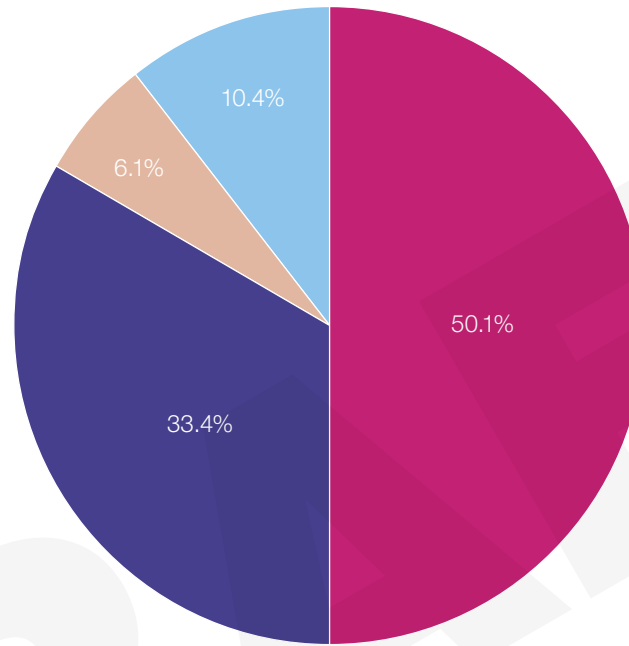
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Investment Performance Report (continued)

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 2021*

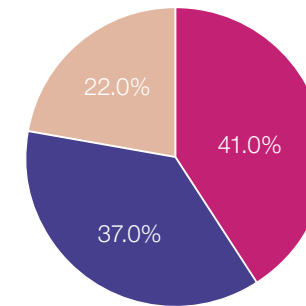
	%
Pooled funds – Equities	50.1
Pooled funds – Fixed income	33.4
Property	6.1
Alternatives	10.4
Total	100.0

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

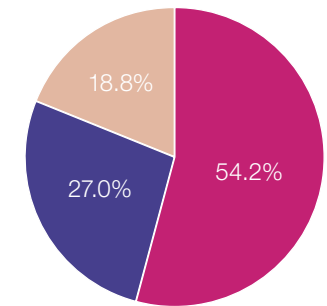
The Fund's Investment Strategy has been set to ensure that the Fund invests in assets with different characteristics. The maximum and minimum amounts allowed within the strategy and the current target and actual allocations at 31 March 2021 are shown in the table. More details can be found in the Investment Strategy Statement.

	Minimum	Maximum	Target	Actual
Growth	40%	70%	41%	54.2%
Income	10%	45%	37%	27.0%
Protection	10%	30%	22%	18.8%

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. 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 2020** %	Actual allocation at 31 March 2021** %	Benchmark	Annual target performance gross/net of fees	ACCESS pool?
Growth						
UK equities						
LF ACCESS UK Equity Fund (Schroders)	0.0	4.5	0.0*	FTSE All Share	+1.25% gross	Y
High-performance global equities (pooled)						
LF ACCESS Managed Volatility (Acadian)	6.5	6.5	5.9	MSCI World	+1.5% to 2.5% net	Y
LF ACCESS Global Alpha (Baillie Gifford)	5.0	4.2	7.5	MSCI All Countries World	+1.5% to 2.5% net	Y
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	7.0	9.1	10.1	MSCI All Countries World	+1.5% to 2.5% net	Y
LF ACCESS Global Stock Fund (Dodge & Cox)	6.5	6.2	7.2	MSCI All Countries World	+1.5% to 2.5% net	Y
Passive equities (pooled)						
UBS (UK equities)*	0.0	4.1	2.7	FTSE All Share Index	–	Y
UBS (global equities)	3.0	4.8	7.6	FTSE All World Equity Index	–	Y
UBS (alternative beta)	8.0	5.4	8.3	MSCI All Countries World	–	Y
Private equity and other alternatives						
Aberdeen Standard Investments	5.0	4.4	4.9	–	+9.0% to 11.5% net	N
Hedge funds						
Morgan Stanley	0.0	0.1	0.0*	–	+5.5% to 8.0% net	n/a

* portfolio no longer forms part of the Investment Strategy

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

Investment Performance Report (continued)

	Target Portfolio size %	Actual allocation at 31 March 2020** %	Actual allocation at 31 March 2021** %	Benchmark	Annual target performance gross/net of fees	ACCESS pool?
Income						
Multi-asset Credit						
Alcentra	5.5	4.6	5.1	3 month GBP LIBOR	+3.0%	N
Barings	4.5	3.7	4.3	3 month GBP LIBOR	+3.0%	N
Asset Backed Securities						
Insight	1.0	2.5	3.1	3 month GBP LIBOR	+2.0%	N
TwentyFour	1.0	2.6	3.1	3 month GBP LIBOR	+2.0%	N
Private debt						
JP Morgan	5.0	1.9	2.4	3 month GBP LIBOR	+4.0%	N
Infrastructure						
GCM Grosvenor	10.0	3.0	3.0	–	+7.5% to 10.0% net	N
European property						
Aberdeen Standard Investments	0.0	0.0	0.0*	Eurozone Harmonised Index of Consumer Prices (HICP)	+5% gross	n/a
UK property						
CBRE Global Investors	10.0	7.4	6.0	Retail Prices Index (RPI)	+3.5% net	N

* portfolio no longer forms part of the Investment Strategy

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

Investment Performance Report (continued)

	Target Portfolio size %	Actual allocation at 31 March 2020** %	Actual allocation at 31 March 2021** %	Benchmark	Annual target performance gross/net of fees	ACCESS pool?
Protection						
Passive index-linked bonds						
UBS	22.0	22.1	17.4	FT British Government Over Five Years Index-Linked Gilts Index	–	Y
Other						
Cash and other net assets	0.0	3.0	1.4	–	–	N/A
TOTAL	100	100	100			

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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 LF ACCESS UK Equity Fund (Schroders). 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. The Pension Fund's global equities portfolios with Baillie Gifford (Global Alpha) and Acadian successfully transitioned to the ACCESS pool during 2020/21.

* portfolio no longer forms part of the Investment Strategy

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

Investment Performance Report (continued)

The value of the investments held by each of the Fund's managers on 31 March 2021 is shown in the following table.

Manager	Value of investments on 31 March 2021** £m
Growth	
LF ACCESS Managed Volatility (Acadian)	537
LF ACCESS Global Alpha (Baillie Gifford)	681
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	918
LF ACCESS Global Stock Fund (Dodge & Cox)	657
UBS (passive UK equities portfolio)	242
UBS (passive global equities portfolio)	688
UBS (passive alternative beta portfolio)	752
Aberdeen Standard (private equity and other alternatives)	447
Income	
Alcentra (Multi-asset Credit)	463
Barings (Multi-asset Credit)	389
Insight (ABS)	285
TwentyFour (ABS)	279
JP Morgan Alternative Asset Management (private debt)	219
GCM Grosvenor (infrastructure)	270
CBRE (UK property)	544
Protection	
UBS (index-linked bond portfolio)	1,572
Cash and other net assets	129
Total	9,073

** 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 Report (continued)

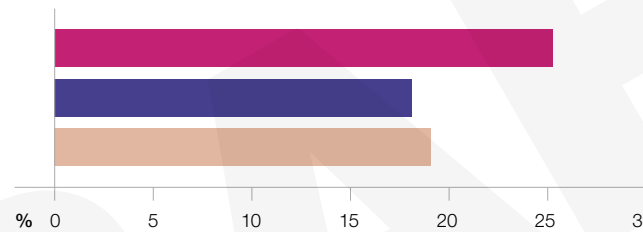
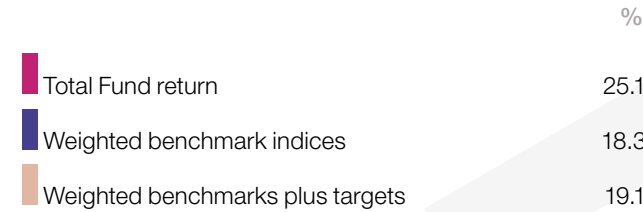
Investment performance of the overall Pension Fund

Total investment returns for the Hampshire Pension Fund were strong in 2020/21 delivering a return of 25.1% against a weighted benchmark return of 18.3%. 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.

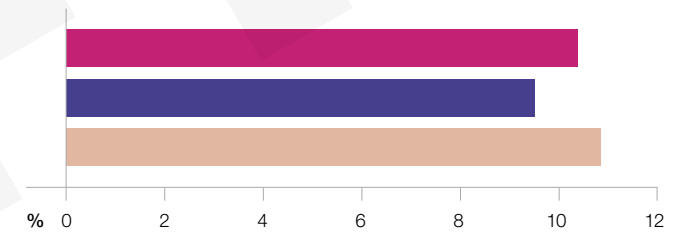
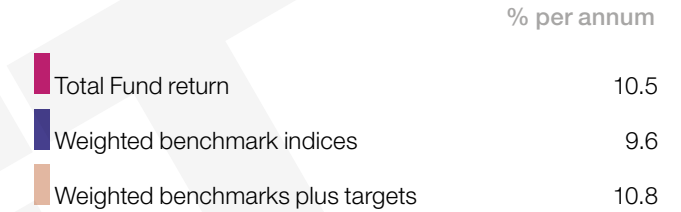
The strongest performer relative to the relevant benchmark over this period was the LF ACCESS Long Term Global Growth investment (Baillie Gifford), which has been an exceptional performer for the Pension Fund since first investing in 2016. The LF ACCESS Global Alpha fund (Baillie Gifford) and LF ACCES Global Stock fund (Dodge & Cox) both also performed strongly, as did the Multi-Asset Credit portfolios managed by Alcentra and Barings. The weakest performers were the LF ACCESS Managed Volatility fund (Acadian) and the Pension Fund's property portfolio. The market did not favour managed volatility strategies during 2020/21 while the performance of the property portfolio reflects a challenging year for the UK commercial property market. All investment managers delivered positive returns in 2020/21.

The Fund's investment return was 9.3% per annum over the three years to March 2021, and 10.5% per annum over the five years to March 2021. The 3-year return has been lower than the 5-year return because the impact of the pandemic weighs more heavily on performance over the shorter timeframe. Over the five-year period to 31 March 2021 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.

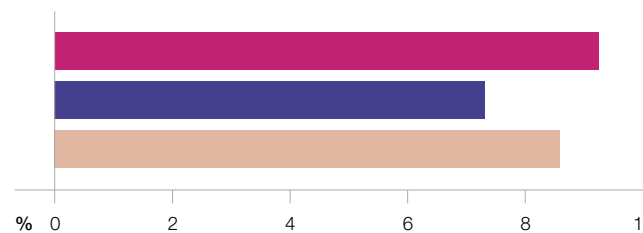
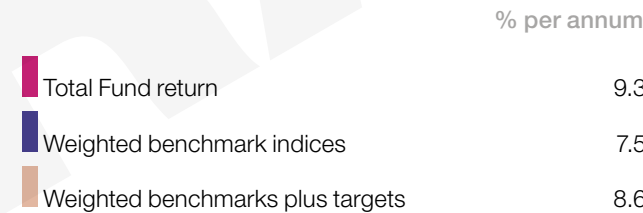
Total investment returns for the Fund 12 months to 31 March 2021



Total investment returns for the Fund Five years to 31 March 2021



Total investment returns for the Fund Three years to 31 March 2021



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.

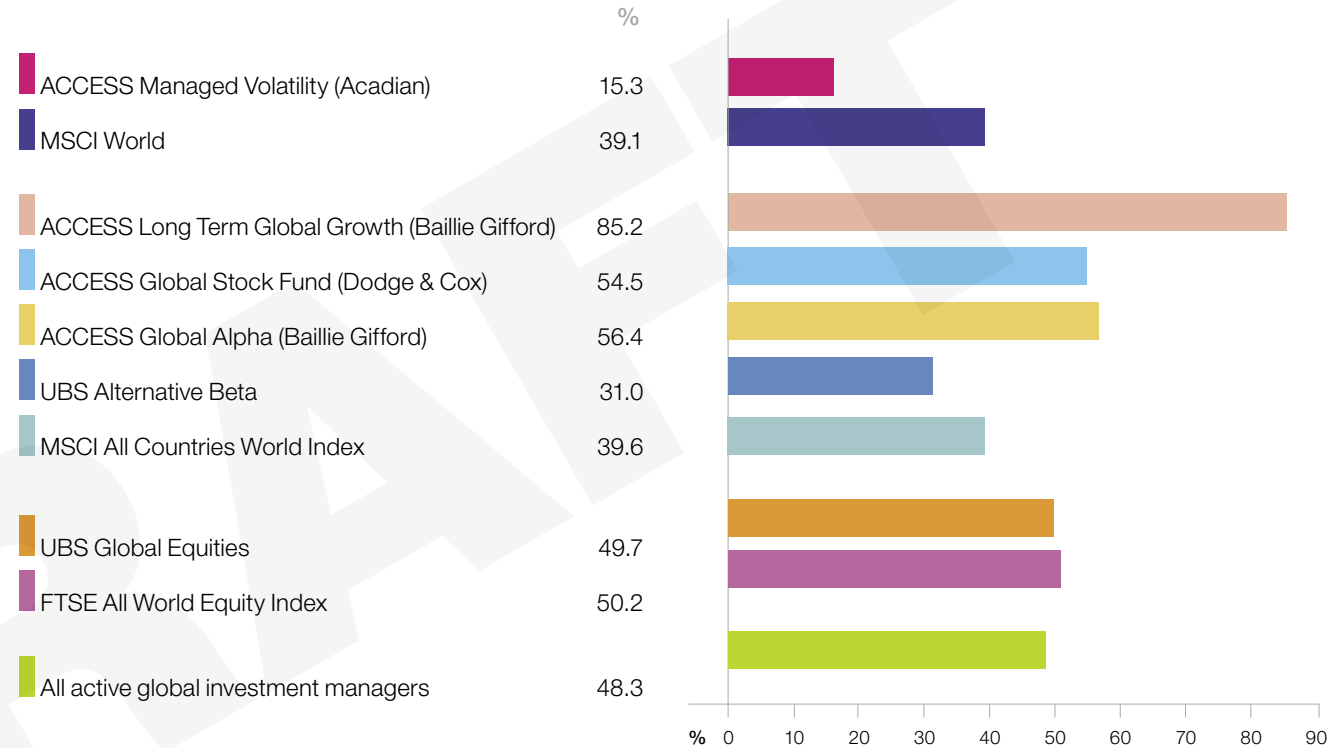
Full details of the investment management arrangements are on page 32 and performance data is only shown where meaningful data is available.

Global stock markets gained 39.58% in 2020/21, as measured by the MSCI All Countries World Index (ACWI), and 39.09% when emerging market stocks were excluded (MSCI World).

The Baillie Gifford Long Term Global Growth fund greatly outperformed the index. This was due to a concentrated portfolio of growth stocks that was well positioned to benefit from the shift in behaviours brought about by the pandemic as well as other longer-term trends. The less concentrated Baillie Gifford Global Alpha fund also performed well for similar reasons, while the Dodge and Cox Global Stock Fund benefited from being well positioned to take advantage of the wider market rebound that followed the positive vaccine news in November 2020. In aggregate, the Fund's active global equity managers outperformed the MSCI ACWI benchmark, returning 48.33% compared with the 39.58% gain for the index.

Global equities

12 months to 31 March 2021

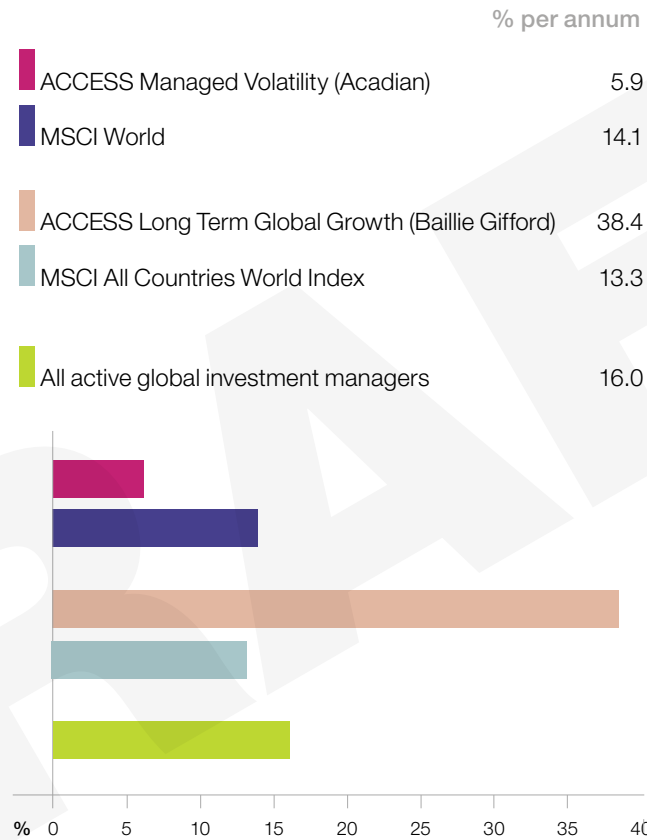


Investment Performance Report (continued)

Two of the Pension Fund's current global equity managers have a track record of three years and their performance is shown in the adjacent table 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 outperformed the wider market in aggregate.

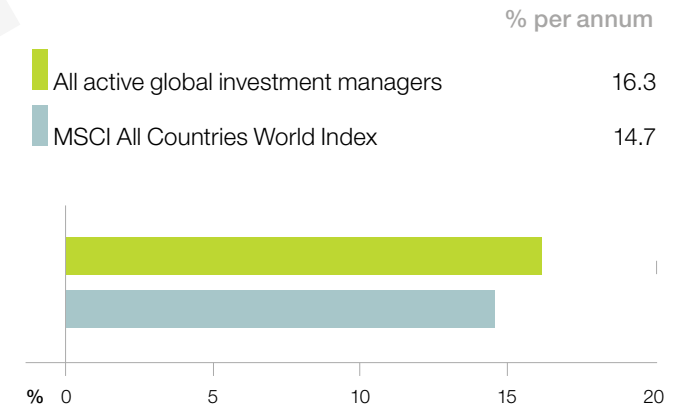
The Baillie Gifford Long Term Global Growth Fund has achieved very strong returns over this period, significantly outperforming the benchmark. This has been because of a concentrated portfolio of growth stocks that have benefited from disruption and change. The Acadian portfolio has underperformed the benchmark because the strategy focuses on low volatility stocks and there has not been significant volatility in the market for the majority of the three year period.

Global equities Three years to 31 March 2021



None of the Pension Fund's current active global equity managers have a track record of five years. The table below 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. The investment managers are set a target to outperform the benchmark by 1.5% to 2.5% and the outperformance is within this range.

Global equities Five years to 31 March 2021

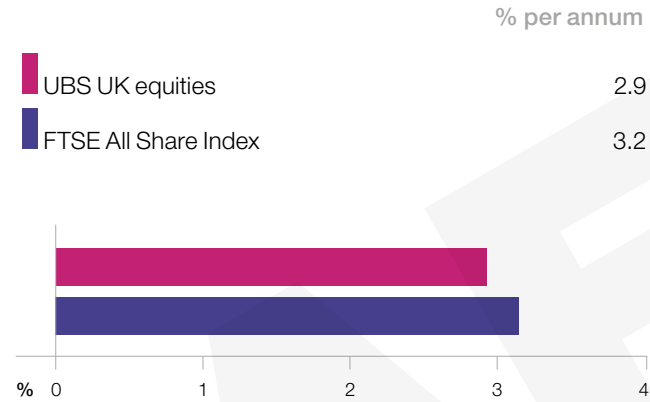


Investment Performance Report (continued)

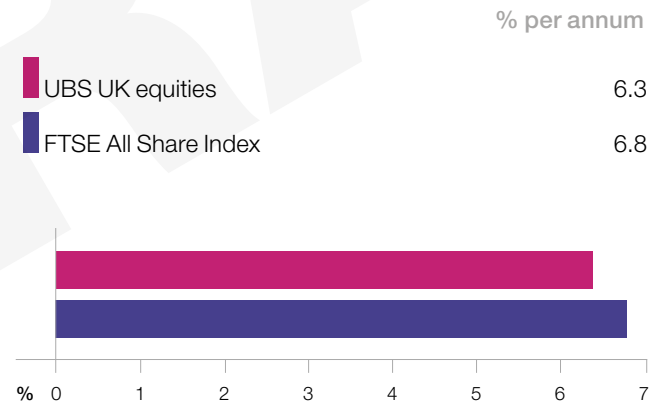
UK equities

The UK stock market experienced positive gains during 2020/21 as the FTSE All Share index returned 26.7% over the year after losing 18.5% the previous year. The UK stock market has however lagged the global benchmark significantly over recent years and the Pension Fund has now fully divested from its actively managed portfolio of UK equities. The Fund also no longer maintains an allocation to passively managed UK equities within its investment strategy, although it temporarily continues to hold an actual allocation pending the deployment of these funds through its other investment managers. This passively managed portfolio has marginally underperformed the benchmark over the 1, 3 and 5 year time periods as measured by the Pension Fund's custodian.

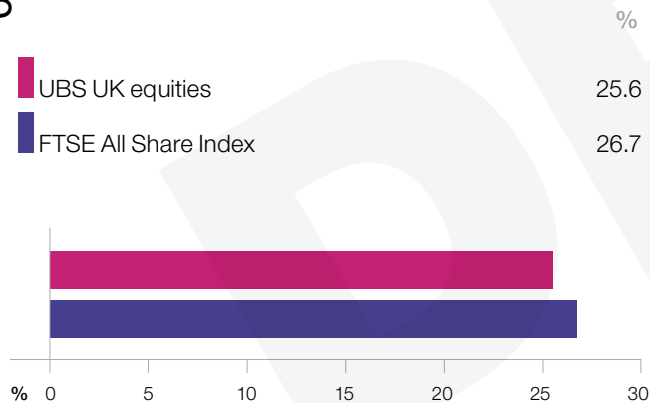
UK equities Three years to 31 March 2021



UK equities Five years to 31 March 2021



UK equities 12 months to 31 March 2021



Investment Performance Report (continued)

Fixed income

The FTSE British Government Over Five Years Index-Linked Gilts Index returned 2.23% during 2020/21 and UBS delivered returns of 2.96%. Over 5 years the portfolio performance has mirrored the benchmark at 6.42% per annum.

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 LIBOR rate. The value of both portfolios fell significantly as markets reacted to the global coronavirus pandemic but have delivered strong positive returns in 2020/21, gaining 22.9% and 27.0% respectively.

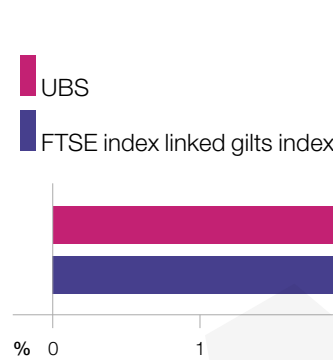
Two new investment managers were appointed during 2019/20 to manage investments in Asset Backed Securities (ABS), Insight and TwentyFour, and both managers have performed above their performance target of LIBOR +2% over the past 12 months, delivering returns of 7.9% and 8.0% respectively.

The outperformance of the MAC and ABS portfolios came as markets more widely rebounded from the initial impact of the pandemic.

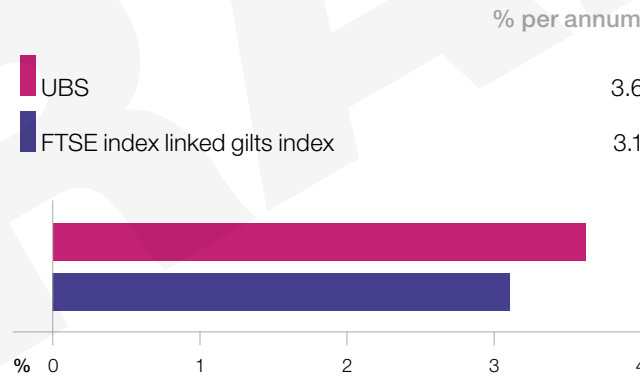
The Fund's investments in private debt through JP Morgan Alternative Asset Management are covered under the section on alternative investments on page 42.

None of the Fund's current actively managed fixed income portfolios have a track record of three years or more.

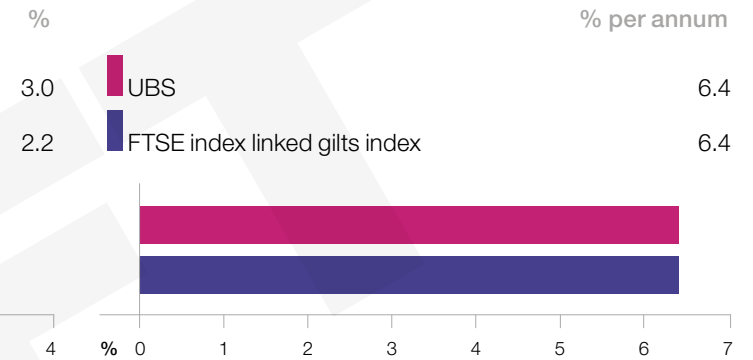
**Index linked gilts
12 months to 31 March 2021**



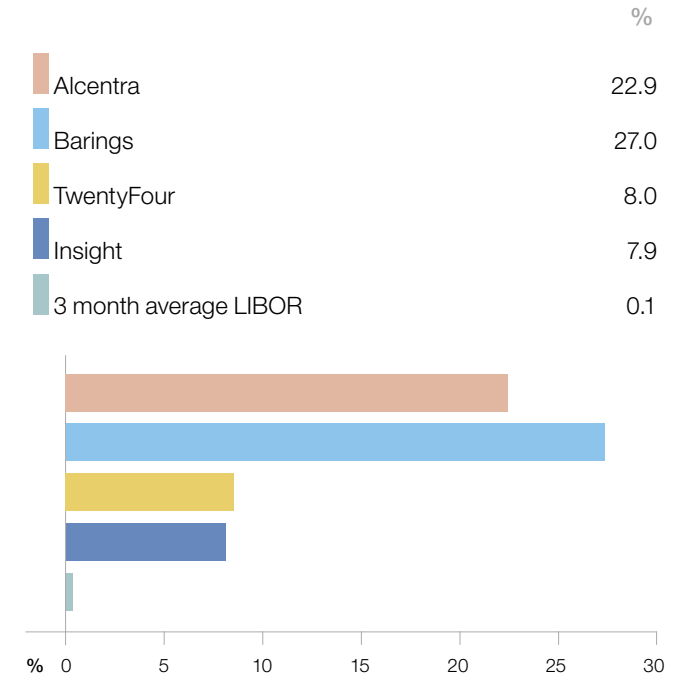
**Index linked gilts
Three years to 31 March 2021**



**Index linked gilts
Five years to 31 March 2021**



**Actively managed fixed income
12 months to 31 March 2021**



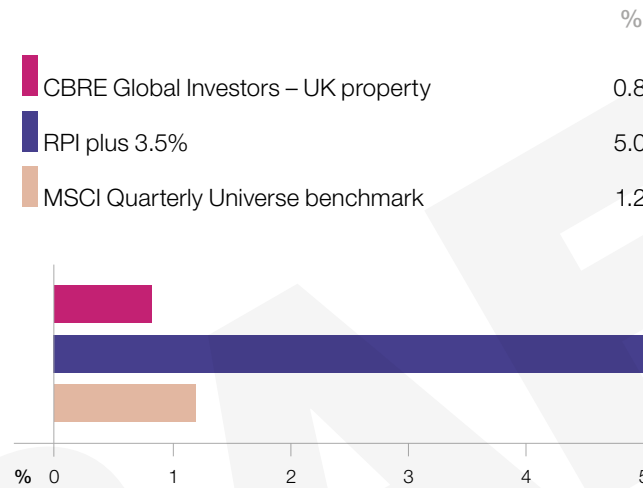
Investment Performance Report (continued)

Property

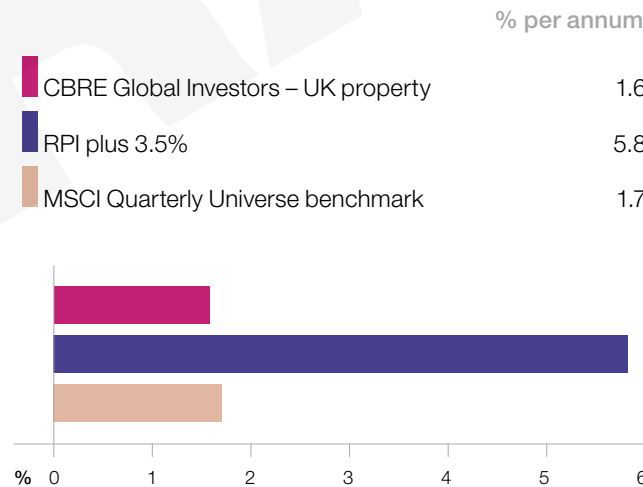
CBRE Global Investors manage a portfolio of UK properties, with a performance target of the Retail Price Index (RPI) plus 3.5% over 7 to 10 years. CBRE Global Investors' performance return of 0.76% in 2020/21 was below their target and reflects a challenging year for the UK commercial property market as a result of the pandemic. CBRE Global Investors have underperformed their RPI plus 3.5% target over the last 3 and 5 year period but have outperformed over the 7 to 10 year periods on a gross of fees basis.

CBRE Global Investors have slightly underperformed the MSCI Quarterly Universe property benchmark over the 1, 3 and 5 year periods. This benchmark reflects the returns achieved by similarly sized property portfolios but is not the performance target for this portfolio.

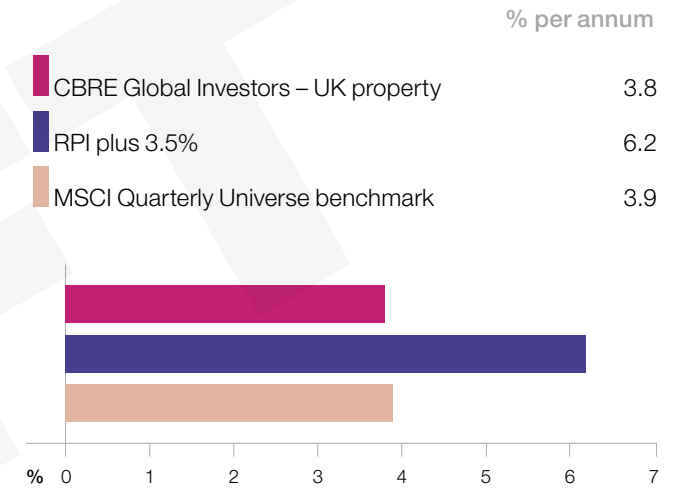
Property 12 months to 31 March 2021



Property Three years to 31 March 2021



Property Five years to 31 March 2021



Investment Performance Report (continued)

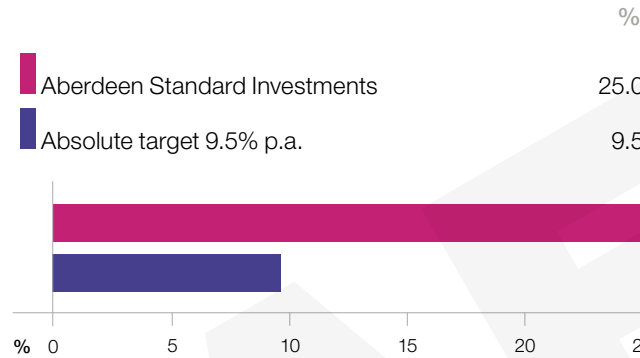
Alternative investments

The Pension Fund's private equity, infrastructure and private debt portfolios are managed by Aberdeen Standard Investments, 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.

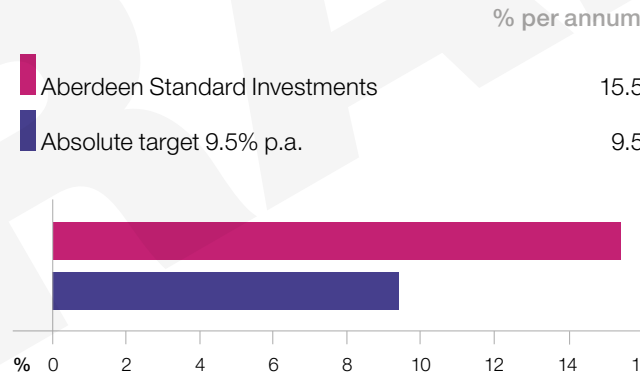
The performance of the private equity and infrastructure portfolios is measured using the Internal Rate of Return (IRR), which gives an annualised effective interest rate for the investment, taking account of the timing of the cashflows.

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

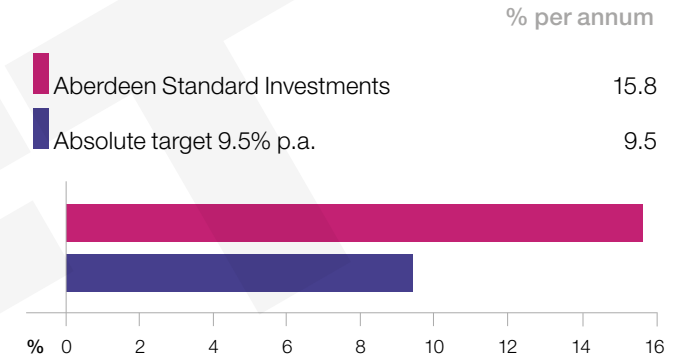
Private equity and other 12 months to 31 March 2021



Private equity and other Three years to 31 March 2021

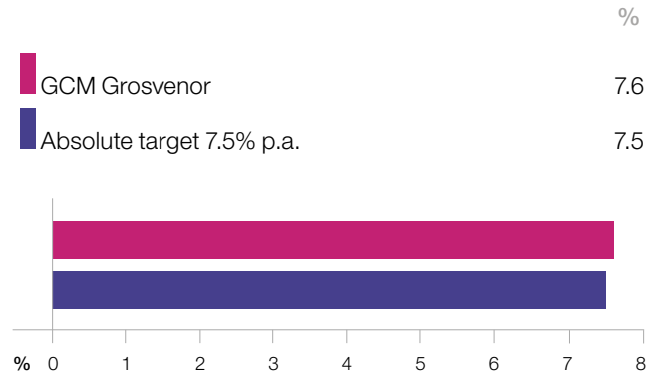


Private equity and other Five years to 31 March 2021

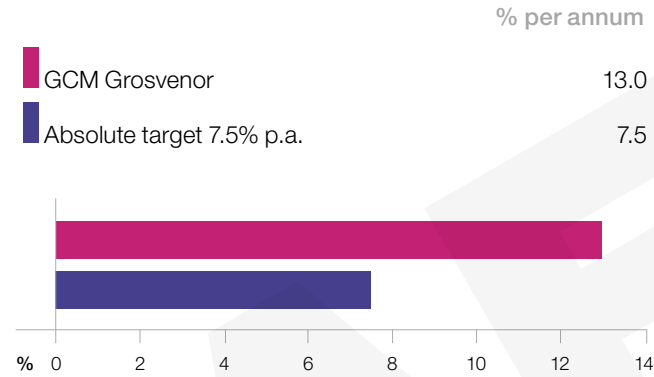


Investment Performance Report (continued)

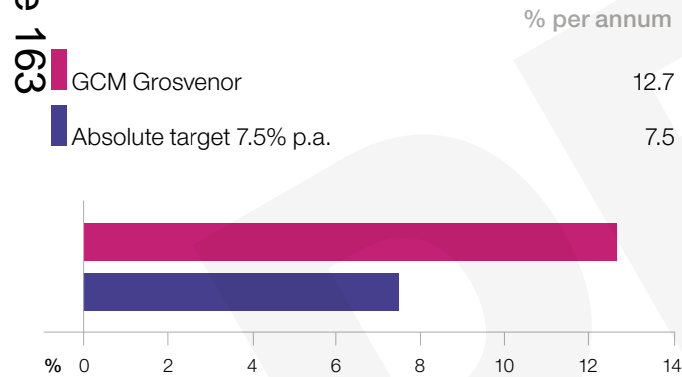
Infrastructure 12 months to 31 March 2021



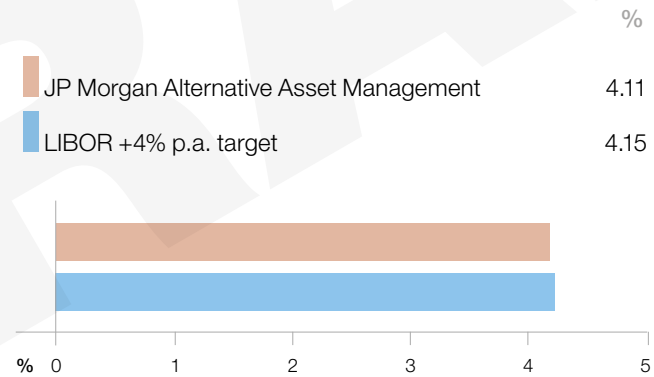
Infrastructure Five years to 31 March 2021



Infrastructure Three years to 31 March 2021



Private debt 12 months to 31 March 2021



Responsible Investment Activity 2020/21

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.
- Conducted a significant consultation exercise with stakeholders and engaged Dr Rupert Younger (Chair of Oxford University's SRI Committee) in drafting this RI Policy in 2018 and 2019.
- 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.
- Is a signatory to the UK Stewardship Code which is about how investors should act when making and owning investments.

- Appointed the specialist RI consultants MJ Hudson Spring in April 2020 to review the Fund's investments. This has given the Panel and Board an independent opinion on the effectiveness of its current investment managers and suggestions for how to challenge them to do more on RI.
- 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 two annual updates to report to scheme members specifically on RI activity.

Responsible Investment Sub-Committee

The following items were considered by the RI Sub-Committee during 2020/21:

- Scheme member communication
- Shareholder voting and engagement
- MJ Hudson Spring ESG assessment
- Baillie Gifford Global Alpha portfolio changes
- Annual Responsible Investment update for scheme members
- Task Force on Climate-related Financial Disclosure
- Changes to Acadian's Managed Volatility portfolio

The Pension Fund Panel and Board agreed to make changes to the Baillie Gifford Global Alpha and Acadian portfolios to target lower carbon emissions without impacting investment returns following the recommendations of the RI Sub-Committee.

Addressing climate change concerns

With climate change set to have a large impact on all of us over time, the Pension Fund must make sure this is reflected in how it invests.

The Pension Fund:

- Holds its portfolio of global passive shares (that track world stock markets) in a Climate Aware Fund, which skews its investments towards companies in each sector that have the best environmental credentials.
- Has a carbon footprint for its largest actively managed equity (shares) portfolio that is only 3% of the benchmark average for world companies.
- Has agreed to change its Baillie Gifford Global Alpha actively managed equity portfolio so that it is aligned with the climate change goals of the Paris Agreement, without affecting the performance target.
- Has agreed to change its Acadian Managed Volatility actively managed equity portfolio so that its investments will be kept at a maximum of 50% of the carbon intensity of the portfolio's benchmark, without impacting the performance target.
- Is talking to its other investment managers about greener options for their funds.
- Continues to challenge all its investment managers to improve their reporting on carbon emissions and to justify their decisions.

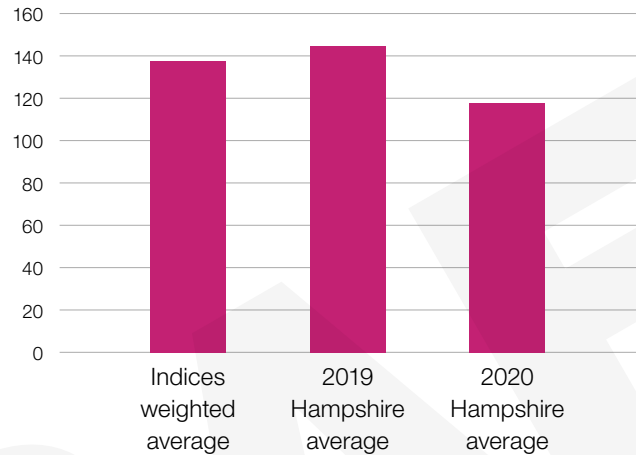
Responsible Investment Activity 2020/21 (continued)

- Has agreed to use a global property ESG benchmark (GRESB) to assess its property portfolio.
- Holds a global infrastructure portfolio where 14% of commitments are to renewable energy investments.
- Supports the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) and produced a TCFD report.
- Can measure the carbon emissions of 53% of its investments (50% last year).
- Has lower than average carbon emissions for these investments when compared with the carbon footprint and carbon intensity of companies on average (based on the most relevant benchmark indices).

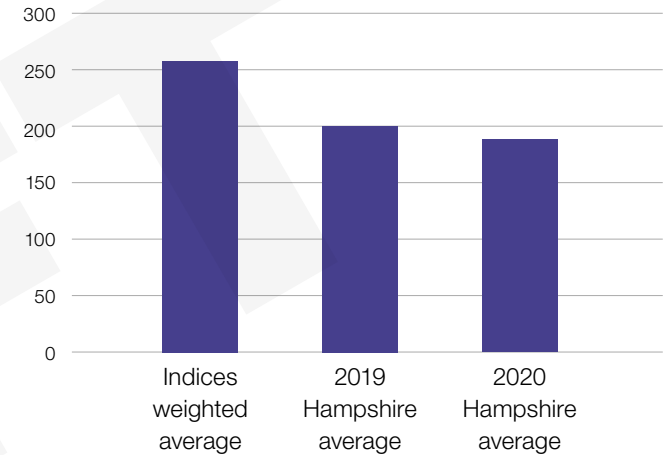
The impact on emissions can be measured either as the CO₂ emissions relative to the size of companies (carbon footprint) or CO₂ emissions relative to how much revenue companies generate (carbon intensity). Emissions are measured in tonnes of CO₂ per £1m and data comes from the Pension Fund's investment managers and relevant benchmarks and covers Scope 1 and Scope 2 emissions. Scope 1 and Scope 2 emissions are those directly created by companies in the power generation or its own operations. It does not include supply chain emissions (Scope 3) where reliable data is not currently available.

Investment decisions will not be made solely on the basis of carbon emissions, but the data will be used as a baseline to enable the Panel and Board to monitor the actions of its investment managers and as a useful way to help these managers to target their engagement with companies on the reduction of carbon emissions.

Carbon Footprint (tCO₂e/£m invested) 31 December 2020



Carbon Intensity (tCO₂e/£m invested) 31 December 2020



Further actions

Other actions that the Pension Fund is taking as a responsible investor include:

- Reporting on RI activity on its website and improving reporting and transparency.
- Regularly reviewing shareholder voting and company engagement conducted by its investment managers and asking its investment managers to report on the outcomes of this activity.
- Challenging its investment managers to give concrete examples of how they are considering ESG factors when making decisions.
- Publishing its statement of compliance with the updated UK Stewardship Code 2020.

- Completing its first submission to the UN Principles for Responsible Investment.
- Reporting its approach to climate related risks under the Task Force for Climate-related Financial Disclosures (TCFD) framework.

Responsible Investment Activity 2020/21 (continued)

Engagement and shareholder voting

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 2020/21 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:

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 been endorsed by over 1,000 companies and financial institutions representing a combined market capitalisation of over US\$12 trillion and nearly US\$118 trillion assets under management. The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners which is published here:

Responsible Investment Activity 2020/21 (continued)

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 investments 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.

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 the full TCFD report. The Pension Fund is not currently using quantitative targets for the carbon output of its investments, as part of its Responsible Investment Policy but is committed to continuing to monitor the carbon footprint and intensity of its investments and working with its investment managers to identify opportunities to improve environmental outcomes that also correlate with positive investment performance.

Administration of the Hampshire Pension Fund

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Scheme Administration Report

Who belongs to the Hampshire Pension Fund?

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

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

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

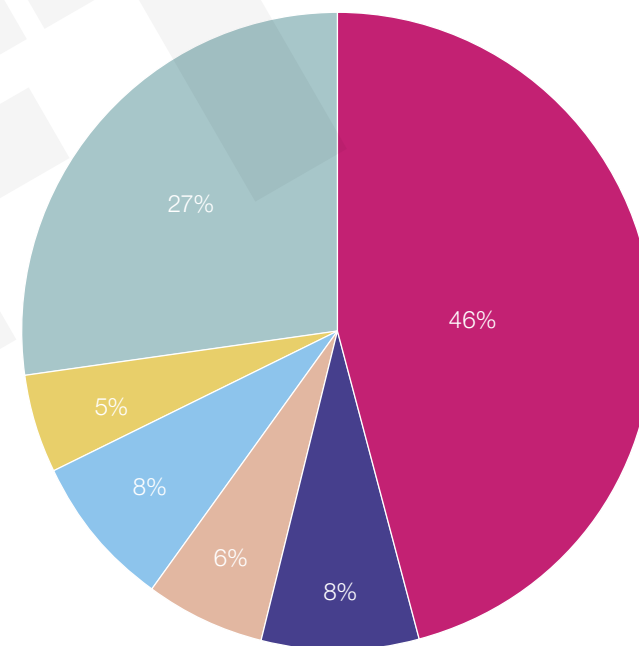
The LGPS is a qualifying scheme under the automatic enrolment regulations, and can be used as such by Fund employers.

Further information on automatic enrolment can be found on the Pensions Regulator website

www.thepensionsregulator.gov.uk

On 31 March 2021 there were 45,576 pensioners, 78,834 deferred members, and 59,000 contributors, a total of 183,410 Scheme members.

	Number of contributors	%
Hampshire County Council	27,234	46
Portsmouth City Council	4,632	8
Southampton City Council	3,304	6
District and Borough councils	4,962	8
Office of Police and Crime Commissioner and Chief Constable	2,667	5
Other organisations	16,201	27
Total	59,000	100.0



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	184	57,459	76,596	42,840
Resolution	59	291	207	223
Admitted	62	1,107	1,113	1,128
Community admitted	13	64	307	377
Transferee admitted	19	79	279	240
Councillors (no active members)	10	0	89	132
Ceased (no active members)	52	0	243	636
Total	399	59,000	78,834	45,576

How the service is delivered

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

There are 53 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 Pension Services framework of governance, risk management and control.

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

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

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

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

Pension Services have held the Customer Service Excellence (CSE) standard since 2009, and retained the award following a full triennial assessment in April 2021, with compliance plus passes in five areas:

- We can demonstrate how customer facing staff insights, and experiences are incorporated into internal processes, policy development and service planning.
- We make our services easily accessible to all 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.

Pension Services ran 12 remote training events in the year which were attended by 151 people representing 60 employers, and two Employer Focus Group meetings. The Annual Employers Meeting was held as a virtual meeting in November 2020 and was attended by representatives from

Scheme Administration Report (continued)

121 employers. In addition Pension Services 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 Pension Services website. Members can view their own record including their annual benefit statement via member self-service, as well as update personal details and run estimates. 68,614 members had registered for the Member Portal by 30 April 2021 (45,993 by 30 April 2020).

Key performance data

Pension Services' 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.

Annual benefit statements were produced for 99.73% of active members and for 100% of deferred members by the statutory deadline of 31 August 2020. Of the 161 active members who did not have a statement by the deadline, 114 were produced by December 2020 once employers had provided the outstanding information.

Pension Savings Statements (PSS) were produced by the statutory deadline of 6 October for the 98 members who were identified as breaching the annual allowance limit in 2019/20. Of these 19 had a tax charge.

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.

Timeliness of contributions

All employer contributions due for 2020/21 have been received. The last contribution payment was received on 10 May 2021.

A total of £0.591m was paid late (£3.845m in 2019/20) which was 0.12% of the total contributions received. The average delay on all late payments received during 2020/21 was 9 days (11 days in 2019/20). Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2020/21.

Mortality screening and National Fraud Initiative

Pension Services 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	50	£9,935.77
Dependant Pension	224	£94,096.81
Invoice	357	£142,252.80
Write Off	99	£2,953.99
Total	730	£249,239.37

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

Area of work	Service standard	Number of cases	% cases completed against service standard			
			Q1 – 20/21	Q2 – 20/21	Q3 – 20/21	Q4 – 20/21
Retirement	15 days	1,001	100	100	100	100
Deferred Retirement	15 days	1,494	100	100	100	100
Estimate	15 days	1,660	100	100	100	100
Deferred	30 days	6,140	100	100	100	100
Transfers In and Out	15 days	281	100	100	100	100
Divorce	15 days	315	100	100	100	100
Refund	15 days	1,037	100	100	100	100
Rejoiners	20 days	562	100	100	100	100
Interfunds	15 days	490	100	100	100	100
Death benefits	15 days	946	100	100	100	100

Scheme Administration Report (continued)

Cost benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Ministry for Housing, Communities and Local Government. The most recent data is that for the financial year 2019/20 and is summarised in the following table:

	2019/20		2018/19	
	Hampshire	All Funds	Hampshire	All Funds
Administration cost per member	£12.30	£23.50	£14.07	£22.28
Governance cost per member	£4.04	£12.21	£3.68	£10.39
Investment cost per member	£267.62	£209.71	£236.44	£222.27

Administration costs were higher in 2018/19 partly due to the investment in the new Member Portal.

Value for money statement

Hampshire Pension Services 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 2020/21

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

- Added an online estimate facility within the Member Portal for active and deferred members, as well as ability to complete starter and leaver forms online.
- Upgraded the Employer Web facility to offer better user experience.
- Updated over 4,300 addresses following a tracing exercise.
- Implemented a new call handling system to allow better contact with members.

Common and conditional data scores were reported to the Pensions Regulator in December 2020. The results of this provided a score for conditional data of 95% (94% in 2019/20). The score for common data was measured as 93% (92% in 2019/20). An exercise to trace a large number of deferred members for whom we do not hold an up to date address was started in November 2020 and has resulted in over 4,000 records being updated with current addresses. This should feed through to an improvement in the 2021 scores which will be reported to the Pensions Regulator in November 2021.

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 2021 are set out in the following table:

Band	Actual salary	Contribution rate per year	
		Main section	50:50 section
1	Up to £14,600	5.50%	2.75%
2	£14,601 to £22,900	5.80%	2.90%
3	£22,901 to £37,200	6.50%	3.25%
4	£37,201 to £47,100	6.80%	3.40%
5	£47,101 to £65,900	8.50%	4.25%
6	£65,901 to £93,400	9.90%	4.95%
7	£93,401 to £110,000	10.50%	5.25%
8	£110,001 to £165,000	11.40%	5.70%
9	£165,000 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 58.

Scheme Administration Report (continued)

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.

In 2020/21 employers paid the contributions certified for the first year in the 2019 valuation. At this valuation, the Funding Strategy Statement was amended to allow employers to pre-pay their certified contributions and receive a discount to reflect the earlier payment to the Fund. Pre payment could be for the full three year period covered by the valuation, or for one year (with a further election being allowed for the subsequent two years). The table below shows the breakdown of pre-payments.

Prepayment Election	Number of employers	Contributions paid (£m)
Primary only: 3 Years	7	305.8
Secondary only: 3 Years	1	4.3
Primary only: 1 year	7	36.4
Primary and Secondary: 1 Year	1	0.7
Total	16	347.2

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 2019/20 was £5,042 (£5,038 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 2,514 Scheme members retired during 2020/21, with an average retirement age of 62 years. Of this number, 1,689 (or 67.2%) took some form of early retirement including 123 ill health retirements and 933 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.

The Fund has two AVC providers, Prudential and Zurich. Members with existing AVCs with Equitable Life transferred to Utmost Life and Pensions in January 2020, following the positive vote by shareholders.

Membership information

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

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

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.

Complaints

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

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

There were nine formal complaints made in 2020/21. These were all investigated and changes were made to processes where appropriate.

Appeals

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

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

The Fund considered two stage one Internal Dispute Resolution Procedure (IDRP) appeals against the Pension Fund during 2019/20. These were not upheld and proceeded to stage two of the IDRP process. In both cases the stage two decision was for the Fund to reconsider the case.

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

Financial performance and Pension Fund accounts

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Financial Performance Report – Budget Commentary

Shown below is the Pension Fund's budget for 2020/21 compared to actual expenditure, and the budget for the years 2021/22 and 2022/23.

The budget for 2020/21 was agreed by the Pension Fund Panel and Board at its meeting of 13 December 2019.

	Budget 2020/21 £000	Actuals 2020/21 £000	Budget 2021/22 £000	Budget 2022/23 £000
Contributions received – Employers - normal	397,910	413,577	92,540	95,520
Contributions received – Employers - deficit	6,300	10,230	6,500	6,800
Contributions received – Employers - total	404,210	423,807	99,040	102,320
Contributions received - Members	70,400	73,431	72,600	74,900
Transfer values	0	-882	0	0
Benefits paid	-277,200	-270,665	-282,700	-288,400
Net additions/withdrawals from dealings with members	197,410	225,691	-111,060	-111,180
Investment management fees	52,090	50,799	58,323	61,545
Staff	1,762	1,756	1,804	1,847
Premises	61	61	62	63
IT	285	352	300	306
Supplies & Services	223	130	214	217
Other	0	7	0	0
Administrative Costs	2,331	2,306	2,380	2,433
Staff	385	396	395	405
Premises	5	5	5	5
IT	5	5	5	5
Supplies & Services	335	355	325	345
Other	5	5	5	5
Oversight & Governance Costs	735	766	735	765
Management Expenses	55,002	53,871	61,284	64,586

Financial Performance Report – Budget Commentary (continued)

Dealings with members

Net additions from dealing with members was £28.3m greater than forecast. This was a result of a combination of higher than forecast employer and employee contributions being received as a result of a higher than forecast pay increase, and lower than forecast benefits paid due to a lower than forecast increase in the value of pensions paid.

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 costs though investment in technology has produced more efficient processes and a reduction in budgeted printing and postage costs. Other expenditure shows the net change in the Pension Fund's bad debt provision. This provision is made on debts owed to the Fund, including any outstanding contributions.

Oversight and governance costs were higher than forecast due to additional expenditure on consultancy costs for advice on the Pension Fund's investment strategy and responsible investment policy.

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 2021

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.

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.

Statement of the Actuary (continued)

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. 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.

Statement of the Actuary (continued)

– 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 on changes to the LGPS was issued in July 2020.

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.

Work on the 2020 cost management process has now been started, and it is possible that further changes to benefits and/or contributions may ultimately be required under that process, although the outcome is not expected to be known for some time.

– 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 at the following address:

Aon Solutions UK Limited
May 2021

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Pension Fund Accounts



Fund Account	See Note	2019/20 £000	2020/21 £000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	340,141	497,238
*Transfers in from other pension funds		18,715	13,748
		358,856	510,986
Benefits	8	(264,906)	(270,665)
*Payments to and on account of leavers		(21,856)	(14,630)
		(286,762)	(285,295)
Net additions from dealings with members		72,094	225,691
Management expenses	9	(50,698)	(53,871)
Net additions inc. fund management expenses		21,396	171,820
Returns on investments			
Investment income	10	103,557	102,410
Taxes on income		870	(350)
Profits and losses on disposal of investments and changes in the market value of investments	11a	(397,224)	1,888,455
Net return on investments		(292,797)	1,990,515
Net increase in the net assets available for benefits during the year		(271,401)	2,162,335
Opening net assets of the scheme		7,181,881	6,910,480
Closing net assets of the scheme		6,910,480	9,072,815

Pension Fund Accounts (continued)

Net Assets Statement for the year ending 31 March 2021	See Note	31 March 2020 £000	31 March 2021 £000
Investment assets		6,739,972	8,938,561
Cash deposits		105	26
Investment liabilities		0	0
Total net investments	11	6,740,077	8,938,587
Long term debtors	20	1,521	0
Current assets	18	178,471	140,155
Current liabilities	19	(9,589)	(5,927)
Net assets of the Fund available to fund benefits at the period end		6,910,480	9,072,815

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.

* 2019/20 figures for Transfers in from other pension funds and Payments to and on account of leavers (published as £31.080m and £34.221m) have been amended to remove the impact of leavers and joiners within the Hampshire Fund. There is no impact on the net additions to the Pension Fund in 2019/20.

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 2020/21 and the underlying statutory powers underpinning the Scheme.

a) General

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

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

It is a contributory defined benefit pension scheme administered by Hampshire County Council to provide pensions and other benefits for pensionable employees of Hampshire County Council, Portsmouth and Southampton

City Councils, the 11 district councils in Hampshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

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

b) Membership

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

Organisations participating in the Hampshire Pension Fund include:

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

There are 337 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2020	31 March 2021
Number of employers with active members	342	337
Number of employees in Scheme		
County Council	27,610	27,234
Other employers	31,303	31,766
Total	58,913	59,000
Number of pensioners		
County Council	18,929	19,813
Other employers	24,777	25,763
Total	43,706	45,576
Deferred pensioners		
County Council	37,485	39,019
Other employers	38,435	39,815
Total	75,920	78,834
Total members in the Pension Fund	178,539	183,410

Notes to Pension Fund Accounts (continued)

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay 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 16.1% to 18.6% of pensionable pay plus a past service deficit contribution.

d) Benefits

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

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:

<https://www.hants.gov.uk/hampshire-services/pensions>

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its position at year end at 31 March 2021. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* 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.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. 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.

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.

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

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

b) Transfers to and from other schemes

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.

Notes to Pension Fund Accounts (continued)

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.

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 2020/21 £3.4 million of fees is based on such estimates (2019/20 £2.1 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.

Notes to Pension Fund Accounts (continued)

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).

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).

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

Notes to Pension Fund Accounts (continued)

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 £443 million and infrastructure investments was £269 million at 31 March 2021 (£301 million and £206 million respectively at 31 March

2020). 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 2021 was £220 million (£136 million at 31 March 2020).

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.

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 117 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 2021 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.
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 £443 million. The investment manager recommends a tolerance of 10% around the net asset value (+/-£44m)
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 £269 million. The investment managers recommends a tolerance of 10% around the net asset value (+/-£27m)
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 £220 million. The investment managers recommends a tolerance of 5% around the net asset value (+/-£11m)

Notes to Pension Fund Accounts (continued)

6. Events after the reporting date

The Ministry for Housing, Communities and Local Government published a written statement on 13 May 2021 confirming the key changes to scheme regulations that will be made to remove age discrimination from the LGPS as a result of the McCloud and Sargeant legal cases. The financial impact of the remedy remains difficult to determine and no adjustments to these accounts have been made as a result.

7. Contributions receivable

By category	2019/20 £000	2020/21 £000
Employees' contributions	69,558	73,431
Employers' contributions		
Normal contributions	179,290	413,577
Deficit recovery contributions	91,293	10,230
Total employers' contributions	270,583	423,807
Total	340,141	497,238
By authority	2019/20 £000	2020/21 £000
Administering authority	128,829	262,158
Scheduled bodies	193,120	222,631
Admitted bodies	18,192	12,449
Total	340,141	497,238

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

8. Benefits payable

By category	2019/20 £000	2020/21 £000
Pensions	220,205	229,754
Commutation and lump sum retirement benefits	38,865	35,498
Lump sum death benefits	5,836	5,413
Total	264,906	270,665
By authority	2019/20 £000	2020/21 £000
Administering authority	97,738	103,091
Scheduled bodies	154,627	154,467
Admitted bodies	12,541	13,107
Total	264,906	270,665

9. Management expenses

By category	2019/20 £000	2020/21 £000
Administrative costs	2,196	2,306
Investment management expenses	47,780	50,799
Oversight and governance costs	722	766
Total	50,698	53,871

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

2020/21	Management fees £000	Transaction costs £000	Total £000
Bonds	0	0	0
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 £3.93m and £1.19m paid to Link and UBS respectively as part of the ACCESS pool

2019/20	Management fees £000	Transaction costs £000	Total £000
Bonds	0	1	1
Equities	1,933	415	2,348
Pooled investments*	8,850	2,401	11,251
Pooled property investments	115	0	115
Property	1,183	5,497	6,681
Alternatives	26,637	311	26,948
Cash	0	49	49
	38,719	8,674	47,393
Custody and other investment costs			387
Total			47,780

*includes £6.41m and £1.40m paid to Link and UBS respectively as part of the ACCESS pool.

Notes to Pension Fund Accounts (continued)

10. Investment income

	2019/20 £000	2020/21 £000
Income from bonds	0	0
Income from equities	13,957	17,464
Pooled property investments	1,651	261
Pooled investments – unit trusts and other managed funds	41,696	26,334
Rents from property	25,064	27,985
Interest on cash deposits	1,177	188
Alternative investment income	18,227	29,207
Stock lending	135	60
Other	1,650	911
Total before taxes	103,557	102,410

11. Investments

	31 Mar 2020 £000	31 Mar 2021 £000
Investment Assets		
Bonds	0	0
Equities	721,741	0
Pooled funds		
– Fixed income unit trusts	2,518,963	2,987,605
– Unit trusts	2,351,748	4,476,377
	4,870,711	7,463,982
Other investments		
Pooled property investments	54,268	72,435
Alternative investments	645,310	932,407
Property	455,280	471,250
Derivative contracts:		
– Forward currency contracts	4	73
	1,154,862	1,476,165
Cash deposits	105	26
Total investment assets	6,747,419	8,940,173

Notes to Pension Fund Accounts (continued)

11a) Reconciliation of movements in investments and derivatives

Period 2020/21	Market value 1 April 2020	Purchases and derivative payments	Sales and derivative receipts	Change in value during the year	Market value 31 Mar 2021
	£'000	£'000	£'000	£'000	£'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

Notes to Pension Fund Accounts (continued)

11a) Reconciliation of movements in investments and derivatives

Period 2019/20	Market value 1 April 2019	Purchases and derivative payments	Sales and derivative receipts	Change in value during the year	Market value 31 Mar 2020
	£'000	£'000	£'000	£'000	£'000
Bonds	159	1,411	(1,652)	82	0
Equities	755,114	406,533	(347,542)	(51,364)	762,741
Pooled investments	5,208,539	517,914	(602,619)	(294,123)	4,829,711
Pooled property investments	51,160	11,134	(4,316)	(3,710)	54,268
Alternative investments	585,565	196,893	(111,688)	(25,460)	645,310
Property	487,255	3,604	(15,392)	(20,187)	455,280
	7,087,792	1,137,489	(1,083,209)	(394,762)	6,747,310
Derivative contracts:					
– Forward foreign exchange	0	14,753	(17,911)	(4,180)	(7,338)
	0	14,753	(17,911)	(4,180)	(7,338)
Other investment balances:					
– Cash deposits	86			1,718	105
Net investment assets	7,087,878			(397,224)	6,740,077

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

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

Notes to Pension Fund Accounts (continued)

11b) Investments analysed by fund manager

	Market value 31 March 2020 £000	%	Market value 31 March 2021 £000	%
Investments part of the ACCESS pool				
ACCESS Pooled investments managed by Link				
Acadian	0	0	536,778	5.9
Baillie Gifford	631,642	9.1	1,599,468	17.7
Dodge & Cox	426,046	6.2	657,457	7.2
Schroders	308,639	4.5	0	0.0
ACCESS Pooled investments managed by UBS	2,521,958	36.5	3,254,406	35.9
	3,888,285	56.3	6,048,109	66.7
Investments held outside of the ACCESS pool				
Acadian	447,506	6.4	0	0.0
Alcentra	314,917	4.6	463,141	5.1
Baillie Gifford	286,991	4.2	0	0.0
Barings	252,305	3.7	388,622	4.3
CBRE Global Investors	508,671	7.3	543,487	6.0
Insight	175,362	2.5	284,849	3.1
Twenty-four Asset Management	178,841	2.6	279,261	3.1
	2,164,593	31.3	1,959,360	21.6
Other investments	649,710	9.4	936,094	10.3
Other net assets	207,892	3.0	129,252	1.4
Total	6,910,480	100.0	9,072,815	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) Stock lending

Following the transfer of the Pension Fund's remaining directly held equity portfolios into pooled funds as part of the ACCESS pool, the Fund no longer has its own stock to enter into a stock lending programme. At the year end, the value of quoted stock on loan was £0 million (£67.7 million 2019/20). As at 31 March 2021, the custodian bank held collateral at fair value of £0 million (£74.8 million 2019/20). Collateral consists of acceptable securities and government debt.

Stock lending commissions earned in 2020/21 prior to the transfer of investments to the ACCESS pool, were remitted to the Fund via the custodian bank. During the period the stock was on loan the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

11d) Property holdings

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

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

	Year ending 31 March 2020 £000	Year ending 31 March 2021 £000
Within one year	22,842	18,816
Between one and five years	66,997	61,038
Later than five years	166,381	157,336
Total future lease payments due under existing contracts	256,220	237,190

The above disclosures have been reduced by a credit loss allowance of 20% for 2021/22 to effect the ongoing impact of the Coronavirus pandemic and a 4.5% per annum thereafter, 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.

Notes to Pension Fund Accounts (continued)

Open forward currency contracts

At 31 March 2021, the Fund had open forward currency contracts in place with a net unrealised loss of £1.5 million.

Settlements	Currency bought	Local value	Currency sold*	Local value	Asset value	Liability value
		000		000	£000	£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)

Prior year comparative

Settlements	Currency bought	Local value	Currency sold*	Local value	Asset value	Liability value
		000		000	£000	£000
1 to 6 months	GBP	144,170	USD	(188,104)	0	(7,331)
1 to 6 months	GBP	882	EUR	(1,008)	0	(11)
1 to 6 months	EUR	412	GBP	(361)	4	0
Open forward currency contracts at 31 March 2020					4	(7,342)
Net forward currency contracts at 31 March 2020						(7,338)

* 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	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	2	Market forward exchange rates at the year end	Exchange rate risk	Not required
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 RICS Valuation – Current Global Standards	Comparable recent market transactions on arm's-length terms	Not required
Alternative Investments – Hedge funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Alternative Investments – Private equity, 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 2021.

	Assessed valuation range (+/-)	Value at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Alternative Investments – Hedge funds	5%	26	27	24
Alternative Investments – Private debt	5%	220,386	231,406	209,367
Alternative Investments – Infrastructure	10%	269,038	295,943	242,134
Alternative Investments – Private equity	10%	442,957	487,253	398,661

13a) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

Values at 31 March 2021	Quoted market price	Using observable inputs	With significant unobservable inputs	
Financial assets	Level 1 £000	Level 2 £000	Level 3 £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

Values at 31 March 2020	Quoted market price	Using observable inputs	With significant unobservable inputs	
Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	4,971,229	621,227	699,578	6,292,034
Non-financial assets at fair value through profit and loss	0	0	455,280	455,280
Financial liabilities at fair value through profit and loss	0	(7,342)	0	(7,342)
Net investment assets	4,971,229	613,885	1,154,858	6,739,972

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)

14b) Net gains and losses on financial instruments

31 March 2020 £'000		31 March 2021 £'000
	Financial assets	
(372,857)	Fair value through profit and loss	1,879,128
	Financial liabilities	
(4,180)	Fair value through profit and loss	17,457
(377,037)	Total	1,896,585

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

15. Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

15a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Notes to Pension Fund Accounts (continued)

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 2020/21 reporting period based on a one standard deviation movement in the value of the Fund's investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-)
UK equities	16.11%
Overseas equities	15.66%
UK bonds	11.40%
Overseas bonds	9.14%
Property	2.36%
Alternative investments	5.65%
Cash	0.11%

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

Had the market price of the Fund investments increased/decreased in line with the 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	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Total assets 2021	8,938,587	1,076,231	10,014,818	7,862,356
Total assets 2020	6,740,077	689,884	7,429,961	6,050,193

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 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

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

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

Notes to Pension Fund Accounts (continued)

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

Assets exposed to interest rate risk	Value as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash & cash equivalents	145,159	0	145,159	145,159
Cash deposits	105	0	105	105
Bonds	0	0	0	0
Total	145,264	0	145,264	145,264

Income exposed to interest rate risk	Amount receivable as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits / cash & cash equivalents	194	1,242	1,436	(1,048)
Bonds	0	0	0	0
Total	194	1,242	1,436	(1,048)

Income exposed to interest rate risk	Amount receivable as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits / cash & cash equivalents	1,177	1,018	2,195	159
Bonds	0	0	0	0
Total	1,177	1,018	2,195	159

Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

Currency risk

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

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

Currency risk – sensitivity analysis

Following analysis of historical data, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 5.9% (as measured by one standard deviation).

A 5.9% 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.

Notes to Pension Fund Accounts (continued)

A 5.9% 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	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Total assets 2021	4,333,409	254,950	4,588,359	4,078,459
Total assets 2020	2,629,780	206,050	2,835,830	2,423,730

15b) Credit risk

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

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

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

Credit risk on 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 2021 was £97.75 million (31 March 2020: £186.305 million). This was held with the following institutions:

	Rating as at 31 March 2021	Balance as at 31 March 2020	Balance as at 31 March 2021
		£000	£000
Money market funds			
Aberdeen Standard	AAAm	18,000	5,200
Blackrock	AAAm	18,000	0
DWS (formerly Deutsche)	AAAm	11,110	2,590
Federated Investors UK	AAAm	18,000	4,800
Insight	AAAm	4,950	0
JP Morgan	AAAm	18,000	0
Bank deposits			
DZ Bank AG	AA-	10,000	0
HSBC	A+	21,000	0
Lloyds	A	1,000	8,670
NatWest	A	200	3,490
Nordea Bank AB	AA-	15,000	0
Landesbank Baden-Wuerttemberg	A	0	12,000
Handelsbanken	AA-	18,000	0
Treasury bills			
UK Government	AA-	33,045	5,000
Local Authority deposits			
Local Authority deposits	n/a	0	56,000
Total		186,305	97,750

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 2021 the value of illiquid assets was £1,436million, which represented 16.1% of the total fund assets (31 March 2020: £1,127 million, which represented 16.7% 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 2021 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.

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.

Notes to Pension Fund Accounts (continued)

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.

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 2020	31 March 2021
	£000	£000
Debtors:		
– Contributions due: employees	25	369
– Contributions due: employers	23,661	19,894
– Transfer values receivable (joiners)	1,521	1,521
– Tax	3,157	3,187
– Sundry debtors	4,948	12,142
Cash balances	145,159	103,042
Total	178,471	140,155
Analysis of debtors	31 March 2020	31 March 2021
	£000	£000
Central government bodies	5,258	6,176
Other local authorities	18,225	14,634
Other entities and individuals	9,829	16,303
Total	33,312	37,113

18. Current liabilities

	31 March 2020	31 March 2021
	£000	£000
Sundry creditors	8,737	4,570
Transfer values payable (leavers)	0	0
Benefits payable	114	495
Tax	738	862
Total	9,589	5,927
Analysis of creditors	31 March 2020	31 March 2021
	£000	£000
Central government bodies	738	862
Other local authorities	906	745
Other entities and individuals	7,945	4,320
Total	9,589	5,927

20. Long term debtors

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

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over 10 instalments commencing April 2012. The total amount of the remaining debt is £1.521 million, which is classified as a debt repayable in one year. There is therefore no long-term debtor in 2020/21.

	31 March 2020	31 March 2021
	£000	£000
Magistrates Courts – due from central government body	1,521	0
Total	1,521	0

21. Additional voluntary contributions

	Market value 31 March 2020	Market value 31 March 2021
	£000	£000
Prudential	13,817	18,527
Zurich	5,221	5,800
Utmost	961	852
Total	19,999	25,179

During the year, AVCs of £2.309 million were paid directly to Prudential (2019/20: £4.292 million), £0.263 million to Zurich (2019/20: £0.279 million), and £0.006 million to Utmost (2019/20: £0.007 million).

Notes to Pension Fund Accounts (continued)

22. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £233.465 million to the Fund in 2020/21 (2019/20 £128.829 million).

During the reporting period, the County Council incurred costs of £2.983 million (2019/20: £2.778 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 Deputy Chief Executive and Director of Corporate Resources of Hampshire County Council, acting as Treasurer to the Fund, and the Head of Pensions, Investments and Borrowing.

Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council's charge for the administration of the Fund above. Details of the salary of the Director of Corporate Resources 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 2021, the Fund had an average cash balance of £158.602 million (year to 31 March 2020: £159.138 million), earning interest of £0.194 million (2019/20 £1.157 million) on these funds.

23. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2021 totalled £539.490 million (31 March 2020: £629.438 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 Ministry for Housing, Communities and Local Government published a written statement on 13 May 2021 confirming the key changes to scheme regulations that will be made to remove age discrimination from the LGPS. The financial impact of the remedy remains difficult to determine, but it is a potential future liability for the Fund. We expect draft regulations to be published later this year.

24. Contingent assets

The Fund had no contingent assets on 31 March 2021.

25. Impairment losses

During 2020/21, the Fund has recognised an impairment loss for bad and doubtful debt of £0.009 million (2019/20: £0.037 million) for possible non-recovery of pensioner death overpayments, and there were no potential non-payment of cessation values where the employer is not backed up by a guarantee on 31 March 2021. An Expected Credit Loss has been recognised of £0.008 million (2019/20: £0.061m) for cash investments held at amortised cost.

Statement of Responsibilities for the Hampshire Pension Fund Accounts

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Independent Auditors' Report

to the members of Hampshire County Council

To follow when report received from auditors



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DRAFT

Other useful resources

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DRAFT

Useful websites and document links

ACCESS pool website:

<https://www.accesspool.org>

Hampshire County Council Constitution:

Hampshire Pension Fund useful information:

- Responsible Investment Policy:

<https://www.hants.gov.uk/hampshire-services/pensions/responsible-investment>

- Task Force on Climate-related Financial Disclosures Report:

<https://www.hants.gov.uk/hampshire-services/pensions/responsible-investment>

- All policies:

- Contributing employers to the Hampshire Pension Fund:

- The report on the actuarial valuation at 31 March 2019:

- Meetings of the Pension Fund Panel and Board:

<http://democracy.hants.gov.uk/ieListMeetings.aspx?CId=189&Year=0>

LGPS Scheme Advisory Board website:

<http://www.lgpsboard.org>

Principles for Responsible Investment (PRI) website:

<http://www.unipri.org>

Task Force on Climate-related Disclosures website:

<http://www.fsb-tcfd.org>

UK Stewardship Code (FRC) website

<http://www.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.

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 has now been succeeded by MHCLG, the Ministry for Housing, Communities and Local Government.

Deferred member

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

Glossary (continued)

Derivatives

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

Discretionary

Allowable but not compulsory under law.

Dividends

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

Economic exposure

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

Emerging markets

The financial markets of developing economies.

Equities

Shares in UK and overseas companies.

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.

Index

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

Glossary (continued)

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.

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

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

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.

Glossary (continued)

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

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.

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.

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
<http://www.fsb-tcfd.org>

Glossary (continued)

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:

<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:

<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.

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