# Public Document Pack

Hampshire County Council

**NOTICE OF MEETING**

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| **Meeting** | Hampshire Pension Fund Panel and Board |
| **Date and Time** | Thursday, 28th July, 2022 at 10.00 am |
| **Place** | Mitchell Room, EII Court, 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 and available for repeat viewing, it may also be recorded and filmed by the press and public. Filming or recording is only permitted in the meeting room whilst the meeting is taking place so must stop when the meeting is either adjourned or closed. Filming is not permitted elsewhere in the building at any time. 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 7 - 14)

   To confirm the Minutes of the meeting held on 25 March 2022.

**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. ACCESS JOINT COMMITTEE - MINUTES OF MEETING ON 7 MARCH 2022** (Pages 15 - 20)

To receive the minutes of the ACCESS Joint Committee held on 7 March 2022.

**7. GOVERNANCE: INTERNAL AUDIT REPORT AND OPINION** (Pages 21 - 34)

To consider a report from the Director of Corporate Operations providing Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of Hampshire Pension Services'/Hampshire Pension Fund's framworks of govenance, risk management and control for the year ending 31 March 2022.

**8. GOVERNANCE: INTERNAL AUDIT 2022/23 PLAN** (Pages 35 - 46)

To consider the report of the Director of Corporate Operations providing the Pension Fund Panel and Board with the Internal Audit Plan for 2022-23 together with an indicative plan for 2023-24 to 2024-25 for Hampshire Pension Services / Hampshire Pension Fund.

**9. GOVERNANCE: PENSIONS ADMINISTRATION UPDATE** (Pages 47 - 72)

To consider a report from the Director of Corporate Operations updating the Panel and Board on administration performance for 2021/22 and developments affecting the pension scheme in the first part of 2022/23.

**10. GOVERNANCE: TRIENNIAL VALUATION** (Pages 73 - 82)

To consider a report of the Director of Corporate Operations providing the panel and Board with information about the valuation process in the LGPS and and update on progress for the 2022 valuation.

**11. GOVERNANCE: DEPUTATIONS TO THE PANEL AND BOARD** (Pages 83 - 100)

To consider a report from the Director of Corporate Operations outlining a proposed amendment to the rules regarding deputations made to the Pension Fund Panel and Board and its sub committees.

**12. INVESTMENT: RESPONSIBLE INVESTMENT CONSULTATION AND POLICY** (Pages 101 - 148)

To consider a report from the Director of Corporate Operations recommending amendments to the Pension Fund's Responsible Investment (RI) policy recommended to the Panel and Board following consultation with Local Government Pension Scheme (LGPS) stakeholders.

**13. INVESTMENT: PENSION FUND CASH ANNUAL REPORT 2021/22** (Pages 149 - 156)

To consider a report of the Director of Corporate Operations updating the Pension Fund Panel and Board on the policy for managing the Hampshire Pension Fund's cash balance.

**14. GOVERNANCE: RISK REGISTER** (Pages 157 - 168)

To consider a report from the Director of Corporate Operations reintroducing the Pension Fund's Risk Register, part of the Fund's Business Plan.

**15. GOVERNANCE: ANNUAL REPORT AND PENSION FUND COSTS** (Pages 169 - 304)

To consider a report from the Director of Corporate Operations introducing the 2021/22 draft Pension Fund Annual Report to the Panel and Board and providing an analysis of costs incurred in managing the Pension Fund during 2021/22.

**16. 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.

**17. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING** (Pages 305 - 308)

To confirm the exempt minutes of the meeting held on 25 March 2022.

**18. ACCESS JOINT COMMITTEE EXEMPT MINUTES FROM MEETING HELD ON 7 MARCH 2022** (Pages 309 - 314)

To receive the exempt minutes of the ACCESS Joint Committee held on 7 March 2022.

**19. ANNUAL REPORT AND PENSION FUND COSTS - EXEMPT APPENDIX** (Pages 315 - 316)

To consider an exempt appendix in relation to the Annual Report and Pension Fund Costs.

**20. INVESTMENT - INVESTMENT UPDATE** (Pages 317 - 338)

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 25 March 2022.

**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.

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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Ashburton Hall, EII Court, Winchester on Friday, 25th March, 2022

**PRESENT**

Chairman:
* Councillor Mark Kemp-Gee

Vice-Chairman:
* Councillor Tom Thacker

Elected members of the Administering Authority (Councillors):

* Councillor Alex Crawford
* Councillor Alan Dowden
* Councillor Jonathan Glen
* Councillor Dominic Hiscock
* Councillor Andrew Joy
* Councillor Derek Mellor
* Councillor Rob Mocatta

*Present

**Co-opted members**

Employer Representatives (Co-opted members):
Cllr Cal Corkery, Employer Representative - Portsmouth City Council
Cllr Rob Harwood, Employer Representative - Southampton City Council
Cllr Paul Taylor, Employer Representative - HIOWLGA
* Liz Bartle, Employer Representative - Other Employer

Scheme Member Representatives:
* Dr Clifford Allen, Scheme Member Representative - Pensioner Member
Sarah Manchester, Scheme Member Representative Substitute
* Neil Wood, Scheme Member Representative - Active Member
Lindsay Gowland, Scheme Member Representative - Deferred Member

Also present with the agreement of the Chairman: Councillor Drew as an observer

**Broadcast Announcement**

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes

50. **APOLOGIES FOR ABSENCE**

Councillor Harwood, Ms Gowland and Mrs Manchester sent their apologies.

51. **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 Personal interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 4 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.

52. **CONFIRMATION OF MINUTES (NON-EXEMPT)**

The minutes of the Pension Fund Panel and Board held on 10 December 2021 were confirmed.

53. **DEPUTATIONS**

The Panel and Board received a deputation from Ms. Wendy Waghorn representing the Dirty Money Campaign. Ms. Waghorn began by thanking the Pension Fund for their revised decarbonisation plans and her group appreciated the commitment the Fund was showing. She thanked the Pension Fund for listening to her group's previous deputations concerning this subject.

Ms. Waghorn said that the Hampshire Pension Fund's attitude toward Responsible Investment (RI) has transformed in the past five years and its approach is now consistent with current good practice in this area, putting Hampshire in the top tier of schemes in the country.

However Ms. Waghorn asked the Pension Fund to go further; amending its proposed commitment to the goals to the Paris Agreement, from a 'well below 2 degrees Celsius' temperature rise, to be a 1.5-degree warming limit, explaining that this is supported by a number of leading voices.

Ms. Waghorn suggested that instead of the Pension Fund's proposal to join the Institutional Investor Group on Climate Change, it should join the Asset Owner Alliance, which is more robustly committed to a 1.5 degree warming limit. Ms. Waghorn made the following specific amendments to the Pension Fund's proposed new RI policy:

- add "developing and implementing a plan to meet the Pension Fund's net-zero-by-2050 commitment" to its RI priorities,
- formalise the net-zero commitment through becoming a signatory to the Net Zero Asset Owner Alliance. Or, as a stepping stone, become a signatory to the Institutional Investors Group on Climate Change's (IIGCC) Paris Aligned Investment Initiative,
- change the new investment belief to reference 1.5 degrees not 'well below 2 degrees'.
- broaden the focus to include deforestation.

Ms. Waghorn concluded by again thanking the Pension Fund, stressing that combating climate change needed maximum ambition, which she and her group would not give up on.

Cllr Kemp-Gee thanked Ms. Waghorn for her deputation.

## 54. CHAIRMAN'S ANNOUNCEMENTS

The Chairman began by stating his dismay about Russia's invasion of Ukraine and that we stand shoulder to shoulder with the people of the Ukraine. He highlighted that the Pension Fund and the ACCESS pool have been proactive and had both published statements on this issue.

Cllr Kemp-Gee continued by inviting any members of the committee to share any recent highlights from their training:

- Dr Bartle thanked the Pension Fund's officers for the recent cyber risk training, which she and other Members thought was very effective.
- Cllr Dowden shared that he attended a recent Federated Hermes events which had good coverage of environmental, social and governance (ESG) issues.

## 55. RESPONSIBLE INVESTMENT SUB-COMMITTEE MINUTES - 4 MARCH 2022

The minutes of the RI sub-committee meeting held on 4 March 2022 were received.

## 56. ACCESS JOINT COMMITTEE MINUTES 6 DECEMBER 2021

The minutes of the ACCESS Joint Committee (JC) meeting held on 6 December 2021 were received.

## 57. GOVERNANCE: ACCESS BUSINESS PLAN

The Panel and Board considered the report from the Director of Corporate Operations (Item 8 in the Minute Book) including the ACCESS Business Plan for 2022/23, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2022/23 was £1.37m, of which Hampshire's equal share would be £124,000.

RESOLVED:

(a) That the ACCESS Business Plan for 2022/23 was approved.

## 58. GOVERNANCE: PENSION FUND PANEL AND BOARD MEETINGS

The Panel and Board considered the report from the Director of Corporate Operations (Item 9 in the Minute Book) reviewing the committee's meeting requirements following the first year of changing the calendar of meetings. During 2021/22 the Panel and Board had met four times as planned. The Panel and Board had received all the necessary governance and investment papers required for the management of the Pension Fund. In addition, six virtual investment manager briefings had been held this year. These briefings had been well attended with 50-75% attendance. Virtual meetings had reduced the travel requirements for both Members and the Fund's investment managers.

The Director highlighted that historically concerns were raised that the number of Panel and Board meetings reduced the opportunities for interactions with scheme members. There had been a single deputation made to each of the committee's meetings this municipal year. Within the County Council's deputation rules there remains significant further capacity for more deputations and the number of Panel and Board meetings is not a constraint.

It has been reported that 20,000 scheme members (of a total of 183,000 members) are 'disenfranchised' because they are not Hampshire residents and therefore cannot make a deputation to the Panel and Board. Further investigation will take place on the required governance to amend the deputation rules specifically for the Pension Fund Panel and Board.

The Director reported that at its latest meeting on 7 March 2022 the ACCESS JC agreed to invite observers to Joint Committee meetings on a rotational basis, allowing two observers from each Local Pension Board to be in attendance in person at least once each a year. Observers from Local Pension Boards are intended to further assist ACCESS with the assurance of transparent reporting and to demonstrate the effective implementation of local investment strategies by the JC on behalf of the Councils. The Panel and Board will be kept up to date on when the arrangements for Local Pension Board observers will begin and when representatives from Hampshire will be invited.

RESOLVED:

(a) That the current schedule of four quarterly meetings of the Pension Fund Panel and Board and separate investment manager briefings remains in place.
(b) That the investment manager briefings remain virtual but the option is available for face-to-face meetings by exception.
(c) That the ACCESS Joint Committee arrangements to invite two observers from each of the Councils' Local Pension Boards at least once a year are noted, and that the Scheme Member and Employer representatives on the Panel and Board are asked to agree amongst themselves who will take the first invitation at being Hampshire's observers.

59. **INVESTMENTS: UPDATE TO THE RESPONSIBLE INVESTMENT POLICY**

The Panel and Board considered the report from the Director of Corporate Operations (Item 10 in the Minute Book) introducing proposed amendments to the Pension Fund's Responsible Investment (RI) policy. The Director presented a draft of the RI policy including updates based on feedback received from the RI consultants Minerva and key areas that have been brought out in Members' discussions and representations from scheme members. The most significant additions to the policy are:

- that the Pension Fund supports the objectives of the Paris Agreement, and believes that keeping a global temperature rise this century to well below 2ºC relative to pre-industrial levels is entirely consistent with securing strong financial returns;
- to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a Just Transition; and
- that the Pension Fund commits to the aim for its investments to have net-zero greenhouse gas emissions by 2050.

The Director reminded the committee it had been reported by Friends of the Earth that the Pension Fund had £136m of investments in fossil fuel companies. This figure was based on the Carbon Underground 200 index, which only includes companies owning reserves of fossil fuels, and not in wider supply chain for example in processing or selling fossil fuels. With the assistance of its investment managers the Pension Fund has reviewed its exposure to fossil fuels and renewable energy based on a fuller definition. As at 31 December 2021 the Pension Fund was valued at £9.9bn; £323m (3.3%) was invested in renewable energy and £214m (2.2%) was invested in fossil fuel companies.

The Director shared a draft of the Fund's third annual RI update for scheme members, prepared on the basis of the proposed changes to the RI policy. The RI update contains an explanation of why the Pension Fund continues to not believe in disinvesting from fossil fuel companies which is also listed as follows. It is hoped this will improve dialogue with scheme members.

- Transitioning to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition - that the benefits of a low carbon economy transition are shared widely.
- Some fossil fuel companies are playing an important role in the transition to a lower carbon economy and these companies need support from investors.
- If the Pension Fund sells its shares in fossil fuel companies, it will lose its ability to engage with those companies. The investors that would buy these shares may not choose to engage with these companies.

The Director presented figures showing the Pension Fund's very small investments in thermal coal. Thermal coal is the greatest challenge for the Fund's RI policy and the proposed aim for net-zero by 2050 due to the very high carbon emissions and lack of possible transition to lower carbon alternatives, therefore in spite of the very low current investment in thermal coal, following the agreement of the RI sub-committee it was recommended that the Fund works to remove this exposure from the Fund's portfolios and this is included in the RI policy.

It is 3 years since the Pension Fund consulted on its RI policy and so given the changes proposed the Director recommended that the Pension Fund consults with its stakeholders on what they consider should be the Fund's priorities when considering RI. It is proposed that the consultation would run from 4 April to 31 May 2022 and the results will be reported to the Pension Fund Panel and Board on 28 July 2022 with a recommendation on finalising the policy at that point.

RESOLVED:

a) The proposed updates to the Responsible Investment policy were agreed for consultation with scheme members and employers.
b) That the annual Responsible Investment update is published.
c) That a further tranche of work from the Responsible Investment consultants, MJ Hudson (formerly MJ Hudson Spring), is commissioned to again review the Pension Fund's investment portfolios and produce a plan for meeting the 2050 net-zero aim.

60. **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 Paragraphs 3 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.

61. **CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING**

The exempt minutes of the Pension Fund Panel and Board held on 10 December 2021 were confirmed.

62. **RESPONSIBLE INVESTMENT SUB-COMMITTEE - 4 MARCH 2022 - EXEMPT MINUTES**

The exempt minutes of the RI sub-committee held on 4 March 2022 were noted.

63. **ACCESS JOINT COMMITTEE - 6 DECEMBER 2021 - EXEMPT MINUTES**

The exempt minutes of the ACCESS Joint Committee held on 6 December 2021 were confirmed.

64. **INVESTMENTS: PENSION FUND'S CUSTODIAN PERFORMANCE REPORT**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 15 in the Minute Book) on the Pension Fund's custodian. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

65. **INVESTMENT - INVESTMENT UPDATE**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 16 in the Minute Book) on the progress on the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

66. **INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 17 in the Minute Book) on the progress on the Pension Fund's alternative investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

Chairman,

# ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held on Monday, 7th March, 2022.

PRESENT: Chair: Cllr Mark Kemp-Gee (Hampshire CC), Vice-Chair: Cllr Susan Barker (Essex CC), Cllr Paul Redstone (East Sussex CC), Cllr Jeremy Hunt (West Sussex CC), Cllr Debbie Andre (Isle of Wight), Cllr Charles Morton (West Northamptonshire), Cllr Judy Oliver (Norfolk CC), Cllr Charlie Simkins (Kent CC), Cllr Karen Soons (Suffolk CC), Cllr Catherine Rae (Cambridgeshire CC) and Cllr Andrew Williams (Hertfordshire CC)

ALSO PRESENT: Kevin McDonald (ASU), Mark Paget (ASU), Paul Tysoe (ASU), Dawn Butler (ASU), Sallie Woodward (ASU), Clifford Sims (Squire Patton Boggs), John Wright (Hymans Robertson)

OFFICERS: Alison Mings (Kent), Andrew Boutflower (Hampshire), Alexander Younger (Norfolk), Jo Thistlewood (IoW), Gemma Farley (Hampshire), Paul Finbow (Suffolk), Rachel Wood (West Sussex), Sharon Tan (Suffolk), Sian Kunert (East Sussex),Kay Goldsmith (Kent) and Joel Cook (Clerk)

## UNRESTRICTED ITEMS

### 34. Apologies/Substitutes
*(Item. 1)*

1. Apologies were received from Cllr Whelan (Cllr Rae substituting), Cllr Jarman (Cllr Andre substituting), Cllr Longley (Cllr Morton substituting) and Cllr Fox (Cllr Redstone substituting) (joined virtually as a guest)

RESOLVED that the apologies be noted.

### 35. Declaration of interests in items on the agenda
*(Item. 2)*

None.

### 36. Chair's remarks
*(Item. 3)*

1. The Chair reflected on the terrible situation in Ukraine. He referred to a draft statement by the Joint Committee that had been circulated ahead of the meeting.

2. Members discussed the potential for specific reference being made to fiduciary considerations within the statement. Views were expressed and

there was a recognition that the detailed financial and investment elements were matters for individual authorities to determine rather than the Pool.

3. Following discussion, the Committee agreed that the Director of the ASU, in collaboration with the Chair and Vice-Chair, would revise the statement and publish the final version on the ACCESS website.

RESOLVED that the Chair's remarks be noted.

**37. Minutes of the meeting held on 6 December 2021**
*(Item. 4)*

RESOLVED that the minutes from the meeting held on 6 December 2021 be signed as a true and accurate record.

**38. Local Pension Board observation of Joint Committee meetings**
*(Item. 5)*

1. Mr McDonald introduced the report which proposed the basis for Scheme Member representation with ACCESS governance arrangements. The proposal in the report was for 2 observers from each Local Pension Board to attend the Joint Committee meetings on a rotational basis at least once a year.

2. The Committee debated whether the Scheme Member representatives should have voting rights, with Members sharing differing views about the implication on voting rights and whether they were appropriate. Mr McDonald explained the guidance did not specify voting rights and that most other Pools in the country did not give voting rights to such representatives.

3. The importance of communication with Scheme Member representatives outside of the meeting was seen as important, both providing access to the agenda before the meeting and giving the opportunity for feedback after the meeting.

4. The Chair moved the recommendations set out in the report and invited any amendments. Cllr Andre introduced a proposal that rather than involving non-voting observers, two scheme representatives, to be drawn from administering authority Local Pension Boards, be elected to the role of attendees to Joint Committee meetings for a period of four years.

5. Cllr Andre proposed, and Cllr Soons seconded the following amendment to the motion as it was detailed in the report:

The Committee:

i. notes the report;
ii. agrees to the election of **two scheme representatives to attend Joint Committee meetings for a period of four years**;
iii. agrees that **the Committee will undertake a review of these arrangements after the first full year following election**; and

iv. agree that the ACCESS Support Unit liaise with Councils as necessary in order to establish and progress the requisite changes to the Inter Authority Agreement.

6. Members voted on the motion. The motion was lost.

7. The Committee were in agreement that any changes made should be reviewed after 12 months to ensure they were working for all involved, including the Scheme Representatives.

8. The Chair returned to the substantive motion, as set out in the papers and this was agreed by majority vote.

RESOLVED that:

1) The report be noted.

2) The invitation of observers to attend Joint Committee meetings on a rotational basis, allowing two observers from each Local Pension Board to be in attendance in person at least once each a year, as detailed in section 2 of the report, be agreed.

3) The Committee agree to undertake a review of the above arrangements after a full year following their implementation.

4) The ACCESS Support Unit to liaise with Councils as necessary in order to establish and progress the requisite changes to the Inter-Authority Agreement.

**39. Internal Audit of the ACCESS Support Unit (ASU)**
*(Item. 6)*

1. Mr McDonald highlighted to the Committee that the 2021 Internal Audit of the ASU had been conducted with an outcome of good assurance.

2. As the Lead Auditor had been unable to attend the meeting, Members agreed the item should be carried forward to the next Committee meeting.

RESOLVED that the item be carried forward to the June 2022 meeting.

**40. Business Plan, Budget and Risk Summary**
*(Item. 7)*

1. Mr McDonald provided an overview of the 2021/22 Business Plan, noting that a number of key milestones were the subject of specific reports later in the agenda.

2. The Department for Levelling Up, Housing & Communities (DLUHC) had published a white paper called "Levelling Up the United Kingdom" which included reference to the Local Government Pension Scheme. Mr McDonald explained that a further consultation was expected in summer 2022 which would include the following areas:

- climate change reporting
- pooling
- levelling up
- potential Secretary of State guidance on investments & UK foreign policy

3. Details of the anticipated outturn against the current year's budget were highlighted.

4. Scoping work continued on the third-party review of the ASU. Subsequent to Member feedback, Mr McDonald confirmed the item would be brought to the Committee ahead of any formal review commencing. He anticipated it would come to the June meeting.

RESOLVED that the 2020/21 outturn, Business Plan update, the 2021/22 budget update, and summary risk register be noted.

**Motion to exclude the press and public**

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

**41. Exempt Minutes - Meeting held on 6 December 2022**
*(Item. 8)*

RESOLVED that the exempt minutes from the meeting held on 6 December 2021 be signed as a true and accurate record.

**42. Communications update**
*(Item. 9)*

*Kate Cunningham from MHP Mischief was in attendance for this item.*

1. Ms Cunningham provided an update on MHP Mischief's activity during their first full year as the Pool's communication partner as well as future changes to the business.

RESOLVED that the report be noted.

**43. Alternative Investments Implementation Advisor**
*(Item. 10)*

*Odi Lahav, Jack Fishburn, and Ben Lucas from MJ Hudson were in attendance for this item.*

1. Mr Boutflower (virtual) introduced the report, highlighting that MJ Hudson (MJH) had been appointed as Implementation Adviser following a procurement process during 2021.

2. MJH updated the Committee on the work undertaken so far in relation to determining an order for alternative asset classes.

3. MJH were recommending that Real Estate (property) be the first asset class progressed. It was less complex than other asset classes, which allowed for a cautious start and additional time to analyse other asset classes. Its ESG (Environmental, Social and Governance) rating was discussed, and was viewed as well established.

4. MJH explained that once an asset class order had been decided upon, a procurement exercise would be carried out to appoint a fund manager. MJH would continue to monitor the investment and implementation.

RESOLVED that:
1) The report be noted; and
2) The Real Estate (property) be the first asset class progressed.

**44. Draft Responsible Investment Guidelines**
*(Item. 11)*

1. Mr Whitby provided an update on the ACCESS Responsible Investment guidelines.

2. Mr Whitby was expecting to present the finalised guidelines at the Joint Committee's June 2022 meeting, with a (virtual) workshop to be held in May.

3. An explicit provision for agreeing Pool guidelines was not in the Inter-Authority Agreement (IAA), and therefore an amendment to the IAA was being progressed.

RESOLVED that the update on the ACCESS RI Guidelines project be noted.

**45. Performance report**
*(Item. 12)*

1. Ms Tan provided an overview of current ACCESS performance, including reference to the Investment Performance Report, which showed that pooled assets of all ACCESS Authorities amounted to £34.993bn at the end of December 2021 (up from £32.915bn in September 2021). Pool aligned assets represented 57% of total assets.

RESOLVED that the report be noted.

**46. Sub-fund implementation**
*(Item. 13)*

1. Mr Tysoe provided an update on the progress with both agreed and prospective sub-funds.

RESOLVED that

1) The report be noted.
2) The following sub-funds be submitted to Link for consideration:
    - Multi Asset Credit
    - Asset Back Securities
    - Quality Equity
    - Fixed income

**47. Contract and Supplier Relationship Management**
*(Item. 14)*

1. Mr McDonald provided an update on Contract and Supplier Relationship Management activity, with key work and future areas of focus highlighted to the Committee.

RESOLVED that
1) The report and activity update be noted; and
2) An amendment to Schedule 4 of the Operator Agreement to incorporate specific amended and additional KPIs, as negotiated by the Contracts Manager, be approved.

**48. Risk Management**
*(Item. 15)*

*(This item was taken at the end of the meeting after the Link Presentation)*

1. Mr McDonald updated the Committee on the current risk profile of the Pool.

RESOLVED that the report be noted.

**49. Business As Usual evaluation.**
*(Item. 16)*

*(This item was taken before the Risk Management item)*

1. Mr McDonald provided an update from the Business As Usual Evaluation.

RESOLVED that the report be noted.

**50. Link Presentation**
*(Item. 17)*

*James Zealander, Karl Midl and Alistair Coyle from LINK were in attendance for this item.*

1. Representatives from Link Fund Solutions updated the Committee on performance, current progress with sub-fund launches, and future changes in the business.

2. The developing situation within the financial markets as a consequence of the war in Ukraine was discussed.

RESOLVED that the report be noted.

HAMPSHIRE COUNTY COUNCIL

Decision Report

| | |
|---|---|
| **Decision Maker** | Pension Fund Panel and Board |
| **Date:** | 28 July 2022 |
| **Title:** | Governance - Annual Internal Audit Report & Opinion 2021-22 |
| **Report From:** | Director of Corporate Operations |

**Contact name:** Neil Pitman; Chief Internal Auditor

**Tel:** 07719 417233 **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 Hampshire Pension Services' / Hampshire Pension Fund's frameworks of governance, risk management and control for the year ending 31 March 2022.

## Recommendation

2. That the Pension Fund Panel and Board note the Chief Internal Auditor's Annual Internal Audit Report and Opinion for 2021-22.

## 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 overall adequacy and effectiveness of the internal control environment.

4. The Annual Report for 2021-22 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the frameworks of governance, risk management and control for the year ending 31 March 2022.

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

   - 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 the internal control environment.

   - In my opinion frameworks of governance, risk management and management control are 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.

**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℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

7. The climate change and carbon control mitigation tools were not applicable as the report relates 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:** | 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:**<br><br>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 disproportionally low.

2. **Equalities Impact Assessment:**

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

Southern Internal Audit Partnership

Assurance through excellence and innovation

# HAMPSHIRE PENSION FUND PANEL AND BOARD
# ANNUAL INTERNAL AUDIT REPORT AND OPINION 2021-22

**Prepared by:** **Antony Harvey, Deputy Head of Partnership**

**July 2022**

## Contents

## 1. Role of Internal Audit

The Council is required by the Accounts and Audit (England) Regulations 2015, to

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

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.


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 Chief Internal Auditor 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.
- 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 Southern Internal Audit Partnership (SIAP) maintain an agile approach to audit, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments of our clients, with the necessity to provide comprehensive, compliant and value adding assurance.

Working practices have been reviewed, modified and agreed with all partners following the impact and lessons learned from the COVID-19 pandemic and as a result we have sought to optimise the use of virtual technologies to communicate with key contacts and in completion of our fieldwork. However, the need for site visits to complete elements of testing continues to be assessed and agreed on a case-by-case basis.

## 3. Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of Hampshire Pension Services' / Hampshire Pension Fund's activities and to support the preparation of the Council's Annual Governance Statement. Work has been planned and performed to obtain sufficient evidence to provide reasonable assurance that the internal control system is operating effectively.

The 2021-22 internal audit plan was considered by Hampshire Pension Fund Panel and Board in February 2021. It 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.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. 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.

## 4. Internal Audit Opinion

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform their annual 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 Council's audit need that has been covered within the period.



We enjoy an open and honest working relationship with the Council. Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved. I feel that the maturity of this relationship and the Council's effective use of internal audit has assisted in identifying and putting in place actions to mitigate weaknesses impacting on organisational governance, risk and control over the 2021-22 financial year.

| Annual Internal Audit Opinion 2021-22 |
|---|
| 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 the internal control environment.<br><br>In my opinion frameworks of governance, risk management and management control are **substantial** and audit testing has demonstrated controls to be working in practice.<br><br>Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement. |

## 5. Overview

Internal Audit work found there to be sound control environments in place across all review areas which were found to be working effectively. We are pleased to report that no significant issues were identified arising from the work completed during 2021-22. The internal audit opinion assigned to each review completed is:-

**Pension Starters – Substantial Assurance**

**Pension Leavers – Substantial Assurance**

**Pensions Payroll and Benefit Calculations - Substantial Assurance**

**Governance Arrangements - Substantial Assurance**

Internal audit also provided consultancy on the Universal Pensions Management (UPM) system during 2021-22, to support Hampshire Pension Services' review of cyber security risk and how defences could be improved as the service expands in both customers and staff numbers. An audit is planned for 2022-23 to provide assurance over the cyber security arrangements for the UPM application once the enhancements identified by the review have been implemented.

## 6. Quality Assurance and Improvement

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a Quality Assurance and Improvement Programme (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 provision for 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 International Professional Practices Framework (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.'***

## 7. 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.

## 8. 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 2021-22 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.
- An independent external quality assessment against the IPPF, PSIAS & LGAN.

## 9. Internal Audit Performance

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

| Performance Indicator | Target | Actual |
|---|---|---|
| Percentage of internal audit plan delivered (to draft report) | 95% | 100% |
| Positive customer survey response | | |
| • Hampshire County Council | 90% | 99% |
| • SIAP – all Partners | 90% | 99% |
| Public Sector Internal Audit Standards | Compliant | Compliant |

*Customer satisfaction 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 April 2022).*

## 10. 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 2022

**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker** | Pension Fund Panel and Board |
| **Date:** | 28 July 2022 |
| **Title:** | Governance - Internal Audit Plan 2022-23 to 2024-25 |
| **Report From:** | Director of Corporate Operations |

**Contact name:** Neil Pitman; Chief Internal Auditor

**Tel:** 07719 417233 **Email:** Neil.pitman@hants.gov.uk

## Purpose of this Report

1. The purpose of this paper is to provide the Pension Fund Panel and Board with the Internal Audit Plan for 2022-23 together with an indicative plan for 2023-24 to 2024-25 for Hampshire Pension Services / Hampshire Pension Fund (Appendix 1).

2. The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities, systems or processes under review that:
   - the frameworks of governance, risk management and management control are appropriate and operating effectively; and
   - risks to the achievement of the Council's objectives are identified, assessed and managed to a defined acceptable level.

## Recommendation

3. That the Pension Fund Panel and Board approve the Internal Audit Plan for 2022-23.

## Contextual Information

4. The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on the adequacy and effectiveness of the frameworks of governance, risk management and management control.

5. The plan will remain fluid and subject to on-going review, and amended in consultation with the relevant officers, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Chief Internal Auditor's continued contact and liaison with those responsible for the governance of the Council.

6. The Council's 'internal audit charter' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion. Significant matters that jeopardise the delivery of the plan, or require changes to the plan will be identified, addressed and reported to the Management Team.

**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℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

8. The climate change and carbon control mitigation tools were not applicable as the report relates 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:** | 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:**<br><br>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.)**

| <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 disproportionally low.

2. **Equalities Impact Assessment:**

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

Southern Internal Audit Partnership

Assurance through excellence and innovation

# INTERNAL AUDIT PLAN 2022-23 TO 2024-25
# HAMPSHIRE PENSION SERVICES / HAMPSHIRE PENSION FUND

**Prepared by:** **Antony Harvey, Deputy Head of Partnership**

**July 2022**

# Contents

## 1. Introduction

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].

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 organisations' 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 County 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 County 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.

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities, systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.
Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant Audit Sponsors, to ensure it continues to reflect the needs of the service. Amendments to the

plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of Hampshire Pension Services and Hampshire Pension Fund.

## 2. Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Antony Harvey, Deputy Head of Southern Internal Audit Partnership supported by Melanie Weston, Audit Manager.

## 3. Conformance with internal auditing standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors (IIA) completed an external quality assessment of the Southern Internal Audit Partnership. The report concluded:

> *'The mandatory elements of the International Professional Practices Framework (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.'*

## 4. Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

## 5. Developing the internal audit plan

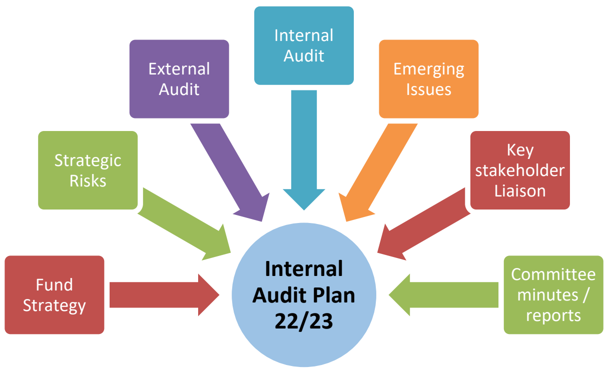
We have used various sources of information and discussed priorities for internal audit with:

- Rob Carr – Director of Corporate Operations;
- Andrew Lowe – Head of Pensions, Investments and Borrowing;
- Lois Downer – Head of Pensions Administration; and
- Andrew Boutflower – Head of Investments and Borrowing.

Based on these conversations with key stakeholders, review of key corporate documents and our understanding of the service, the Southern Internal Audit Partnership have developed an annual audit plan for the forthcoming year (2022-23) together with an indicative plan for 2023-24 and 2024-25.

The Hampshire Pension Fund Panel & Board are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance is obtained.



## 6. Internal Audit Plan 2022-23 to 2024-24

| Audit Review | Indicative scope | 22 -23 | 23-24 | 24-25 |
|---|---|---|---|---|
| Pensions payroll and benefit calculations | Annual review to provide assurance that Hampshire Pension Services' (HPS) systems and controls ensure that:-<br>• Lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients;<br>• All changes to on-going pensions are accurate and timely;<br>• Pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies. | ✓ | ✓ | ✓ |
| Pension starters | Review of the control framework to support appropriate, complete and prompt admission of new starters to the various pension schemes administered by HPS. | | | ✓ |
| Pension leavers | Audit of the controls to ensure accurate, prompt and complete administration of pension leavers, including the production of on-going annual benefit statements within agreed timescales, by HPS. | | | ✓ |
| Pension transfers | To provide assurance over the processes and controls to support the accuracy and timeliness of transfers in and out of the schemes administered by HPS. | ✓ | | |
| Pension refunds | To assess that there are appropriate arrangements to ensure all refunds are valid, accurate and are paid promptly to the correct recipients following a validated request to withdraw from the schemes administered by HPS. | | ✓ | |
| Member deaths | To provide assurance that HPS' systems and processes ensure that any payments related to deceased members are calculated correctly and paid promptly to the correct recipient with the risk of overpayments minimised. | ✓ | | |

| Audit Review | Indicative scope | 22 -23 | 23-24 | 24-25 |
|---|---|---|---|---|
| Accounting for pension receipts | Review of HPS' control framework to ensure that all funds due from employers are received promptly, are accounted for correctly and are reconciled to annual returns. | ✓ | | |
| Governance arrangements | Review of the governance arrangements for HPS, Hampshire Pension Fund and Hampshire Pension Fund Panel and Board and assurance over compliance with the arrangements. | | | ✓ |
| Fund management, investments and accounting for assets | Assurance over Hampshire Pension Fund's compliance with the approved Pension Fund Investment Strategy and that all assets are accounted for, held securely and all dividends/interest etc due is received. | | ✓ | |
| UPM – Cyber security | To provide assurance over the cyber security arrangements for the UPM application. | ✓ | | |
| Annual return process and improvement plan | Review of the annual return process and improvement plan to ensure all pension records are accurate and up to date. | | ✓ | |
| Management | Planning, liaison, reporting, audit committee, external audit, advice. | ✓ | ✓ | ✓ |
| Total Days | | **100** | | |

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**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Panel:** | Pension Fund Panel and Board |
| **Date:** | 28 July 2022 |
| **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 2021/22 and developments affecting the pension scheme in the first part of 2022/23.

**Recommendation(s)**

2. It is recommended that the Panel and Board:
   - note the strong performance of Pension Services in 2021/22
   - note that the cost per member will increase in 2022/23 due to the work three statutory projects; McCloud, Pension Dashboards and GMP rectification
   - agree in principle to the approach set out in paragraph 61 in relation to GMP rectification.

**Executive Summary**

3. Pension Services have performed well against the four key measures of good administration in 2021/22:
   - Cost per member
   - Internal and external audit
   - Customer Service Excellence
   - Performance against service standards.

4. Employers have provided their annual returns to Pensions which provides information on active members and is used to produce annual benefit statements and valuation data. All these returns have been uploaded onto the pension administration system, although there has been a higher level of queries raised this year due in part to employers experiencing resourcing pressures.

5. 43% of pensioners have now registered for the Member Portal, with a further 28% choosing to opt out of electronic communications. A new reporting facility has been developed so that use of the Portal can be monitored to inform future developments and communications.

6. The McCloud remedy project has continued with the large majority of employers having provided data for the period 1 April 2014 to 31 March 2021. Returns for the period 1 April 2021 to 31 March 2022 have in the main been delayed as employers have prioritised end of year queries.

7. Work on reviewing cyber security has continued over the last six months with the results of the first annual vulnerability assessment now with the software supplier and Hampshire IT for consideration. No critical, high or urgent vulnerabilities were identified by the exercise.

8. Preparations for the Pension Dashboards programme have commenced with officers attending webinars and training sessions to understand the statutory requirements for this project. Civica are undertaking their preparatory work to be able to connect the system with dashboards in line with the defined project timescales.

9. The rectification stage of the GMP reconciliation project has started with the aim of correcting any under or over paid pension payments in April 2023.

**Administration performance**

10. As at 31 March 2022, there were 350 active employers paying into the Hampshire Pension Fund (HPF), and a total of 191,426 members. The table below provides a detailed breakdown of the membership by employer type:

| | | Member type | | |
|---|---|---|---|---|
| **Employer Type** | **Employers** | **Active members** | **Deferred members** | **Pensioner members** |
| Scheduled | 192 | 59,108 | 80,061 | 45,166 |
| Resolution | 56 | 308 | 230 | 241 |
| Admitted | 73 | 1,506 | 1,174 | 1,211 |
| Community admitted | 10 | 52 | 294 | 392 |
| Transferee admitted | 19 | 70 | 274 | 254 |
| **Active employers total** | **350** | **59,000** | **78,502** | **44,808** |
| Councillors (no active members) | *10* | *0* | *84* | *134* |
| Ceased (no active members) | *52* | *0* | *229* | *638* |
| **Grand total** | **412** | **61,044** | **82,346** | **48,036** |

Hampshire Pensions Services (HPS) administer the Hampshire LGPS and have performed well against the four key measures of good administration in 2021/22:

- 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**

11. One of the key external measures of administration performance is cost per member. The 2021/22 administration cost per member was £12.82 (£12.57 in 2020/21). The increase in cost from the previous year was due to the work on the McCloud remedy for which the Fund's share was £62,000 (32p per member). There will be further costs of the McCloud remedy over the next two to three years. Further details are contained in paragraphs 33 to 35 of this report. In addition, the Fund will also incur costs in 2022/23 on two further projects; pension dashboards and GMP rectification. These are described in more detail in paragraphs 48 to 63 of this report.

12. 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 2020/21 on which Hampshire was the 4th largest Fund by membership and, at £16.75, had the third lowest combined administration

and governance cost per member out of the 83 English and Welsh Funds on the return. The average cost per member across all Funds was £35.62.

**Audit reports**

13. 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 starters and pension leavers. The audits planned for 2022/23 (pension transfers, member deaths, accounting for pension receipts) are part of the ongoing risk based programme to cover all key processes over a three year cycle, along with the annual assurance on retirements through to pension payments.

**Customer Service Excellence**

14. HPS 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

15. HPS have held the Customer Service Excellence (CSE) standard since 2009, and following a full assessment in April 2021, underwent a year 2 interim assessment in January 2022, with compliance plus passes in six areas:
    - There is corporate commitment to putting the customer at the heart of service delivery and leaders in our organisation actively support this and advocate for customers.
    - We can demonstrate how customer facing staff insights and experiences and incorporated into internal processes, policy development and service planning.
    - We make our services easily accessible to all our customers through a provision of a range of alternative channels.
    - We monitor and meet our standards, meet departmental and performance targets and we tell our customers about our performance.
    - We have developed and learned from best practice identified within and outside our organisation, and we publish our examples externally where appropriate

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

**Performance against service standards (KPIs)**

16. The KPIs for HPS evidence the good performance in 2021/22 with 100% achievement against service standards for all key processes.

17. The tables below show the performance for the second two quarters of 2021/22. 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 2021/22**

| | Time to Complete | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Type of Case** | **0 – 5 days** | **6 – 10 days** | **11 -15 days** | **16 – 20 days** | **21 – 30 days** | **31+ days** | **Total** | **% completed on time** |
| Active Retirement | 82 | 50 | 91 | 0 | 0 | 0 | 223 | 100.00% |
| Deferred Retirement | 75 | 113 | 199 | 0 | 0 | 0 | 387 | 100.00% |
| Estimates | 63 | 102 | 1,219 | 0 | 0 | 0 | 1,384 | 100.00% |
| Deferred Benefits | 53 | 9 | 26 | 78 | 1,985 | 0 | 2,151 | 100.00% |
| Transfers In & Out | 18 | 12 | 66 | 0 | 0 | 0 | 96 | 100.00% |
| Divorce | 4 | 8 | 42 | 0 | 0 | 0 | 54 | 100.00% |
| Refunds | 203 | 131 | 37 | 0 | 0 | 0 | 371 | 100.00% |
| Rejoiners | 11 | 1 | 35 | 154 | 0 | 0 | 201 | 100.00% |
| Interfunds | 13 | 30 | 139 | 0 | 0 | 0 | 182 | 100.00% |
| Death Benefits | 139 | 45 | 30 | 0 | 0 | 0 | 214 | 100.00% |
| **Grand Total** | **661** | **501** | **1,884** | **232** | **1,985** | **0** | **5,263** | **100.00%** |

**Q4 2021/22**

| | Time to Complete | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Type of Case** | **0 – 5 days** | **6 – 10 days** | **11 -15 days** | **16 – 20 days** | **21 – 30 days** | **31+ days** | **Total** | **% completed on time** |
| Active Retirement | 39 | 29 | 36 | 0 | 0 | 0 | 104 | 100.00% |
| Deferred Retirement | 144 | 80 | 229 | 0 | 0 | 0 | 453 | 100.00% |
| Estimates | 52 | 106 | 931 | 0 | 0 | 0 | 1,089 | 100.00% |
| Deferred Benefits | 56 | 56 | 184 | 384 | 1,257 | 0 | 1,937 | 100.00% |
| Transfers In & Out | 11 | 11 | 36 | 0 | 0 | 0 | 58 | 100.00% |
| Divorce | 3 | 37 | 65 | 0 | 0 | 0 | 105 | 100.00% |
| Refunds | 444 | 50 | 8 | 0 | 0 | 0 | 502 | 100.00% |
| Rejoiners | 17 | 5 | 14 | 140 | 0 | 0 | 176 | 100.00% |
| Interfunds | 17 | 26 | 152 | 0 | 0 | 0 | 195 | 100.00% |
| Death Benefits | 165 | 22 | 54 | 0 | 0 | 0 | 241 | 100.00% |
| **Grand Total** | **948** | **422** | **1,709** | **524** | **1,257** | **0** | **4,860** | **100.00%** |

18. The performance for 2021/22 is summarised in the table below.

**Hampshire LG summary 2021/22**

| Area of work | Service standard | Number of cases | % cases completed against service standard | | | |
|---|---|---|---|---|---|---|
| | | | Q1 - 21/22 | Q2 - 21/22 | Q3 - 21/22 | Q4 - 21/22 |
| | | | % | % | % | % |
| **Retirement** | 15 days | 962 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Deferred Retirement** | 15 days | 1,774 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Estimate** | 15 days | 4,755 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Deferred** | 30 days | 6,827 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Transfers In and Out** | 15 days | 330 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Divorce** | 15 days | 369 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Refund** | 15 days | 1,405 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Rejoiners** | 20 days | 623 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Interfunds** | 15 days | 631 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Death benefits** | 15 days | 952 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Total key casework processed** | | **18,628** | **100.00** | **100.00** | **100.00** | **100.00** |

19. A total of 2,935 Scheme members retired during 2021/22, with an average retirement age of 62 years. Of this number, 1,393 (47.5%) took some form of early retirement including 124 ill health retirements and 1,176 members choosing to take a reduced pension.
The number of retirements in the year differs from the number of retirements processed in the year, because of timing differences i.e. a retirement processed in March 2022 with a retirement date of June 2022 would show as processed in 2021/22 but as a retirement in 2022/23).

20. The average annual pension paid in 2021/22 was £4,927 (£5,042 in 2020/21).

21. The annual exercise to apply the statutory pensions increase to pensions in payment and deferred payments was completed as planned. Deferred annual benefit statements for all except 9 members had already been produced by the end of June, ahead of the statutory deadline of 31 August.

**Timeliness of contributions**

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

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

**Mortality screening and National Fraud Initiative**

24. 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 | 73 | £17,202.43 |
| Dependant Pension | 176 | £81,097.54 |
| Invoice | 341 | £125,990.82 |
| Write Off | 55 | £1,442.08 |
| **Total** | **645** | **£225,732.87** |

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

**Annual returns**

26. 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.

27. There has been a noticeable decrease in the timeliness and the quality of the annual returns provided by employers this year. This is due in large part to the late pay award which meant many employers could not resource the production of the end of year information until much later than planned. More generally, employers are also reporting resourcing issues within their payroll sections which is impacting on their ability to prioritise pension work.

28. 279/340 returns were received by the deadline, with 58 of the remaining 61 returns received by the end of May 2021. The final 3 outstanding returns were received by 13 June. All returns have been uploaded and 2,358 queries have been raised with employers, which is an increase of 43% from 2020/21. However a significant part of this increase is due to one large employer who, having changed their payroll system in the year, is now experiencing issues extracting pensions information. The Employer Services team is meeting weekly with the employer to ensure that priority is given to the urgent queries and focus is maintained on improving the new system to allow the employer to meet their administration responsibilities.

29. Once the end of year data has been uploaded and as many queries as possible cleared by 30 June, valuation data is extracted from the system across all membership records. This data is on track to be with the Fund Actuary by the end of July.

**Member Portal**

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

31. In March 2021, pensioners were given a year's notice that they would no longer automatically receive a paper payslip and P60 but would have to view this via the Member Portal unless they opted out of electronic communication. A reminder letter was sent to all pensioners in January 2022 with an enclosed opt out form for pensioners to return. At the end of March 2022, 12,632 pensioners (28%) had opted out and therefore received a paper payslip showing their annual increase. 19,254 pensioners (43%) had registered on the Portal. This means that 29% of pensioners have neither opted out or registered and consideration will be given to a further communication exercise with this group later in 2022/23.

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

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

**McCloud**

33. There has been confirmation that the draft regulations detailing the requirements for implementing the McCloud remedy in the LGPS have been delayed until the autumn. These were previously anticipated prior to the summer recess. It is not expected that the deadline for implementation will be changed, therefore there will be increased pressure on administration staff

and system suppliers to deliver the required changes to the system and processes.

34. The team has continued to gather data from employers for the main part of the McCloud period (April 2014 to March 2021). The table below shows the progress to date.

| | | |
|---|---|---|
| Number of employers requested to provide data | | 337 |
| Number of completed Data Collection templates received | | 327 |
| Initial checks completed on templates received | 327 | |
| Employers ready for upload (all queries resolved) | 275 | |
| Number of Data Collection templates outstanding | | 10 |

Employers also had a deadline of 30 June to provide the final year of information. However employers were allowed to give priority to end of year returns and queries and as a result only 15% of the required information is ready to upload into UPM. The team will resume working with employers once the end of year queries have been resolved.

35. Civica have issued a more detailed plan to their clients for providing the changes to the software which will allow the underpin calculations to be performed, as required by the remedy. The first key deliverables are due to be released for sites to test at the end of January 2023. The costs of the software, and of the project team, are being shared as a proportion of membership by the four LGPS Funds administered by HPS. HPF has 60% of the total membership and therefore will pick up the largest share of the costs. The combined software and team costs are anticipated to be £102,000 in 2022/23.

**Pension scams**

36. Pension scams continue to be a high risk for Funds and HPS are continually reviewing processes to ensure that all required steps are in place to limit the risk of members falling for a scam.

37. In November 2021, new regulations came into effect which require Funds to take additional precautions with requests to transfer out. As part of the changes, all requests for a transfer (other than to a public service scheme or to a limited number of schemes approved by the Pensions Regulator) have to meet a new set of conditions. If any conditions are not met, the case will be reviewed by a senior manager and if, after taking further steps such as requiring the member to seek independent advice, the issues cannot be resolved, the transfer may be refused. From November 2021 to June 2022, 7 transfers were reviewed with additional steps being taken in some cases to establish the legitimacy of the transfer. No transfers have required refusal.

38. As well as having to take extra steps to ensure that current transfers out of the Fund are legitimate, the Fund is also having to review a number of transfers out of the LGPS which took place between 8 – 10 years ago before pension liberation was as widely known as a threat, and before the Pension Regulator issued its landmark 2013 Action Pack. The February 2013 guidance marked a sea change in the pensions industry approach to the developing concerns regarding pension liberation, scams and for how administrators and pension providers should consider and process transfers out. The change was significant and administrators had considerable work to do to update their processes and documents. Transfers which took place in 2013 and 2014 before this work could be fully implemented are vulnerable to a maladministration claim.

39. These cases are often raised by financial advisers on behalf of former members, and most are speculative and without reasonable grounds. Advisers raise these cases under the guise of a data subject access request (DSAR) to which the Fund is obliged to respond. A DSAR is a request to a public body to provide all information held on an individual member and is used by the adviser to check that the Fund followed all necessary steps in processing the transfer. Providing the information required by a DSAR and then the defence of any subsequent maladministration claim is causing additional pressure on the administration team.

40. No cases against the Fund have been referred to the Pensions Ombudsman since the high profile ruling in 2019 on the 'Mrs H' transfer, which resulted in the Fund having to reinstate the members' benefits. However, around 250 transfers took place in the early days of new requirements coming in and it is expected that DSARs for members who have subsequently lost their pension benefits will continue to come into the Fund.

**Cyber security**

41. A cyber report was presented to the Panel and Board at the December 2021 meeting, with an action plan for making improvements to the controls in place. An updated plan is contained in Appendix 1 but in summary:

- Training has been provided to Panel and Board members on cyber security for the HPF, and all staff have completed their annual data protection and acceptable use training. Cyber training will be included on training plans for Panel and Board members, as well as officers.
- Use of facial recognition technology to verify the eligibility of overseas pensioners to their pensions will be in place by the summer. (Overseas pensioners are higher risk because they are not covered by the monthly mortality screen)
- The administration system was extensively tested for vulnerabilities, by an external cyber specialist with areas for improvement shared with Civica.

The updated cyber compliance statement and action plan will be provided to the Panel and Board for approval at the December 2022 meeting.

42. As part of the cyber arrangements now in place, HPS requested that IT Services organise and facilitate the penetration testing of the Universal Pensions Management (UPM) application provided by Civica. The penetration testing was comprised of three distinct elements -

- External Penetration testing
- Internal Penetration testing
- Application Penetration testing

43. These elements were spread across two engagements with 2-Sec, the vendor chosen to undertake the work. The first engagement was to meet the External Penetration testing aspect. We were able to facilitate this as part of Hamphire's annual penetration testing of our external facing infrastructure. The second engagement was created directly to meet the other two aspects, the internal testing and application testing.

44. Predominantly the aim of the penetration testing is to identify vulnerabilities within the UPM solution. Vulnerabilities within systems expose a solution to threats, ranging from data loss to external actors taking over the system. The higher the severity of the vulnerability the more likely it is to be exploited and the higher the impact is on the business if exploitation is achieved.

45. The feedback report from Hampshire IT set out that *'the overall security position for UPM appears to be good at this point in time. Although a number of medium and low vulnerabilities were found within the solution, no high, critical or urgent vulnerabilities were identified. This is unusual for a solution the size and complexity of UPM.*

46. *Using Hampshire's internal vulnerability assessment scoring system (VAS) none of the issues identified warranted adding to the Hampshire IT vulnerability management register (VMR) long term, nor did any of them require escalation to the Hampshire IT Information Security Management Forum (ISMF) or risk management boards.*

47. *No significant remediation work has been required, but improvements have been identified, which will be taken forward with Civica and internally by IT.'*

**Pension Dashboard Programme**

48. At the start of 2022, the Department for Works and Pensions (DWP) consulted on draft regulations to establish Pension Dashboards. Pension Dashboards will allow individuals to go to a single website and receive details

of all the pensions they hold across UK pension providers, including public sector schemes.

49. As with auto-enrolment, all schemes will be given a date by which they must be able to connect to the pension dashboard, with the largest funds going first. For HPF this date will be 30 September 2024. By this staging date, HPF must be able to connect to the dashboard and respond to data requests, although dashboards will not be live and available to individuals until the majority of pension providers have connected. A further consultation which closed on 19 July suggests that providers will be given three months notice of dashboards going live.

50. There are two types of data request with which Funds will have to comply; Find and View.
    - Find requests match dashboard users with a pension membership and are made to all schemes each time any individual uses the dashboard
    - A view request is made if a user is matched to a membership held by HPF, with pension information then being passed back to the dashboard for the individual to view

51. View data giving details of the pension benefit has to be no more than 13 months old and for the vast majority of members, this will be achieved by supplying annual benefit statement information. However there will be cases where members join in the year and have not yet had a benefit statement produced or no statement has been run because of missing information from employers. These cases will need to be run by the administration team within the 10 day SLA set by the regulations, which may be challenging if the reason for the absence of a statement is due to the employer not having met their responsibility to provide timely and accurate data to HPF.

52. HPF will need to connect to the dashboard via an Integrated Service Provider (ISP). Although HPF could choose to connect directly to the dashboard, this would mean that all data requests would be made directly into the pension administration system, UPM. The volume of Find requests will be significant as a request will be generated anytime a user logs onto a dashboard, regardless of whether or not they do have an HPF membership. Using an ISP reduces the load on UPM and ensures that 24/7 online provision can be delivered. The ISP will hold a copy of the membership data held on UPM in order to provide the Find and View information to the dashboard on demand.

53. There will be a large number of ISPs in the marketplace, including Civica who supply UPM to HPF. Regardless of which ISP is chosen, Civica will need to provide the interface between UPM and the ISP (for which there will be a new annual cost, which we will share across all Partners).

54. It would be logical to contract with Civica for its ISP service as this will:

- ensure an end to end service with a single supplier
- reduce the risks associated with engaging another 3rd party supplier in particular ensuring connectivity and ensuring the ISP is in sync with the data structure and optimised to link to UPM.

However, before a final decision can be made the procurement route needs to be assessed. Civica have indicated an annual charge for their ISP service, which will need to be compared with other providers to ensure value for money, albeit weighed against the risks of engaging a 3rd party supplier.

55. The ongoing resource required to support the Fund in meeting its obligations with regards Dashboards cannot be clearly estimated at this point. This is because the technical solutions are still in their infancy and whilst it is anticipated that the data flows will be largely automated, this cannot be guaranteed. It is also not clear what level of take up there will be and therefore how many requests for information are received, given that scheme members currently receive annual information about their benefits.

56. Further information on the progress of the pension dashboard project and likely costs for the Fund, in terms of both the ISP and likely resourcing impact will be brought to the Panel and Board's December meeting.

**GMP reconciliation**

57. In December 2019, the Panel and Board were updated on the progress of the GMP reconciliation project for the Fund which was nearing completion of the first, reconciliation, stage. The project was then paused while Civica developed the required software solution for importing the matched GMP values into UPM. Following the completion of the 2022 pension increase, the project can now move to the second stage; rectification. This stage involves calculating and correcting the under and over payments which have occurred due to the discrepancy in the GMP values held by HMRC compared to those held by the Fund. A background to the project is attached in Appendix 2.

58. GMP values need to be corrected for all membership statuses, however the key group is pensioner and beneficiary members who are currently receiving pension payments from the Fund. Intellica have passed the data through their system to get an initial indication of the under and over payments, but results were banded and not at the individual level. This is summarised in the table below.

| Description | Number | Next steps |
|---|---|---|
| Run through bulk solution without error | 2,983 | QA results and confirm analysis. Correct those within agreed tolerances |
| Member is in receipt of pension relating to more than one employment | 1,218 | Agree logic for applying rectification and then run through bulk solution |
| Potential data issues | 408 | Need to investigate issues then run through bulk solution |
| Post 2016 SPA | 1,956 | Fund now responsible for full PI so likely no further action required |

59. The initial data pass suggests that just under 35% of the group are currently being overpaid because the GMP held on the member's record is incorrect. The total overpayment (i.e. the total of all overpayments since the pensions for affected pensioners have been in payment) is approximately £2.2m. Once these records are corrected, the Fund will reduce its ongoing liabilities. Conversely it is anticipated that the Fund has underpaid pensions by around £400,000 in total and these pensions will be increased, with the increase backdated from when the pension came into payment. Intellica have indicated that HPF is in a good position compared with other Funds in terms of the over and under payments, suggesting that the HPF data was of relatively good quality.

60. It is technically within the Fund's discretion as to whether overpayments are recovered. However the Pension Ombudsman has been clear that it would be inappropriate to claim overpayments in situations where members would have been unaware they were being overpaid. This approach has been applied by the DWP, Civil Service, Teacher's and NHS in relation to their GMP discrepancies. GMP is not easily understood and it is very unlikely that any member could have known they were not due the pension that was being paid to them. Likewise it is standard industry practice that underpayments are corrected with interest due on previous year's amounts. However there are a group of pensioners for whom the underpayment is less than £1 on their annual pension.

61. The correction of pensions which are higher than they should be will be done so that the reduced pension comes into payment in April 2023. This is the same pay period in which pensioners will receive their annual increase (albeit calculated on the lower amount) which will minimise the impact of the reduced pension on the individual. All affected pensioners will be written to in advance of the reduction.

62. The Panel and Board are asked to agree in principle that:

- all records will be corrected to show the correct GMP value
- all underpayments greater than £1 per annum will be repaid to the member
- if the underpayment is less than £1 per annum, the record will be corrected but no contact will be made with the member
- no attempt will be made at recovering overpayments

The Panel and Board are asked to delegate authority to the Director of Corporate Operations to consider any special cases which may emerge when the detailed assessment of the records is made. This may include requesting an individual member to re-pay an amount of pension where individual circumstances mean it is unreasonable for the Fund to write off the total overpayment or conversely considering hardship cases where the correction of the overpayment needs to be managed over a longer period of time.

63. The costs of the rectification stage of the project are being charged on a time and materials basis. Intellica have estimated that the first stage of rectification, covering the re-matching following 2022 PI, initial analysis from the bulk solution and production of a detailed breakdown of required rectification to cost up to £48,000. The actual implementation of the rectification is currently estimated to be up to £180,000 depending on the volume of cases which need to be assessed manually rather than through the bulk calculation. However this estimate will be reviewed at the end of the first phase of rectification once more information is available. Based on an extrapolation of the initial data pass it is anticipated that the overall impact of the exercise for HPF taking into account the under and over payments will be an annual saving of between £124,000 and £220,000 per annum.

**Climate Change Impact Assessments**

64. 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℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

65. 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 the principles for the GMP project and delegate authority to the Director of Corporate Operations to consider any special cases as they arise.** | |

**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 disproportionally 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.

## Cyber security improvement plan to December 2022. Updated 30 June 2022.

| TPR Cyber cycle | Description | Improvement | Timescale | Progress to 30.6.22 |
|---|---|---|---|---|
| Assess and understand the risk | Documenting the Fund's cyber strategy | The Fund currently relies on the Host Authority's cyber policy but in the creation of a compliance statement has started to document its own. This will be reviewed at least annually and approved by the Pension Fund Panel and Board. | December 2021 | Complete |
| Assess and understand the risk | Allocating primary responsibility for cyber risk | Primary responsibility is allocated in the new compliance statement to the Director of Corporate Operations | December 2021 | Complete |
| Assess and understand the risk | Updating the Pension Fund Panel and Board on cyber risks, controls and incidents | The Pension Fund Panel and Board have not been updated regularly on cyber risks, controls and incidents but from 2021/22 this will be included at least annually on the agenda. | December 2021 | Complete |
| Assess and understand the risk | Including Cyber Risk in the Risk Register | Cyber risk has been previously included in the risk register but the risk has been reviewed and reworded and now will be done so at least annually. | December 2021 | Complete |
| Assess and understand the risk | Provide the Pension Fund Panel and Board and officers with clear guidance on their responsibilities for cyber security. | Pension staff are now required annually to read the policy statement on cyber security.<br>The cyber security policy statement and associated improvement plan will be reported annually to the PFPB. | December 2021 | Complete |
| Put controls in place | Third party access to UPM | Civica consultants require access to UPM to provide support to the Pensions team. Access to UPM is requested by Pensions and chaperoning is not considered necessary. However user accesses should be restricted to a maximum of 1 working week at a time, with the exception for work which has to continue over weekends. | December 2021 | Complete |

| TPR Cyber cycle | Description | Improvement | Timescale | Progress to 30.6.22 |
|---|---|---|---|---|
| Put controls in place | Shared account management | To run bulk processes such as the production of annual benefit statements, Pensions use shared UPM accounts so that individuals can run processes but also log on separately for individual processing. These accounts are not currently assigned to individuals but will be with effect from the annual processes starting in January 2022 to allow an audit trail. | January 2022 | Complete |
| Assess and understand the risk | Provide annual training to the Pension Fund Panel and Board on cyber risk, including phishing risks. | Include regular cyber security training on training plans for Panel and Board members. This will enable the Panel and Board to understand the requirements for cyber security and to support any required changes. | March 2022 | Complete – session took place on 18 March |
| Put controls in place | Prompt removal of UPM accesses from staff who have left | Document the process for line managers to request for UPM access to be removed from leavers as part of the leaver process.<br>Systems team have introduced quarterly reporting to ensure that accounts are deleted appropriately. | March 2022 | Complete |
| Put controls in place | Changing standard passwords on documents | Our passwords for external documents change on a regular basis but follow the same pattern. It is therefore possible that someone who has left could still open information. Password protocol needs amending. | March 2022 | In progress |
| Put controls in place | One Time Passcode | As part of the development of the Member Portal, the existing two factor authentication will be improved to require a member to enter a unique passcode as well as their password when they log in. The passcode will be sent to the registered email address. | April 2022 | Complete |
| Put controls in place | Online Identity and Verification | Implementation of a module within UPM which will allow members to confirm their identify online, improving security and removing the need for paper evidence. | July 2022 | Final testing in progress, on track to be live by 31 July |

| TPR Cyber cycle | Description | Improvement | Timescale | Progress to 30.6.22 |
|---|---|---|---|---|
| Put controls in place | Access profiles within UPM | Work with Civica to improve the profiles within UPM to increase the granularity of the access covered and the way in which the accesses are described and held in the system | July 2022 | Complete - reduced number of profiles and aligned to grade structure. |
| Assess and understand the risk | Knowledge of data flows in and out of the teams | Produce a member data flow map to detail where information comes into the team and how it is handled | December 2022 | |
| Put controls in place | Reliance on 3rd party cyber security arrangements | Send an annual questionnaire to all third party providers covering their security policies and any incidents in the year | December 2022 | |

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## GMP reconciliation project

Background

The LGPS, like all public sector schemes, was ‘contracted out’ of the state second pension scheme between 6 April 1978 and 5 April 1997. This meant that members who were contributing to the LGPS in this period paid lower national insurance contributions but were only eligible for the basic state pension. As part of being a contracted out scheme, schemes had to ensure that the pension it paid to the member was as least as good as the member would have received had they been entitled to the additional state pension. This notional pension amount is known as the Guaranteed Minimum Pension (GMP).

The GMP is only applied to an individual when they start to receive a pension. When a member moves between pension schemes, information about their GMP entitlement has to be given to HMRC so that they know which scheme holds the GMP liability. HMRC records were not always kept up to date with the latest information.

From April 2016, contracting out ceased with the introduction of the single tier state pension. The result of this was that HMRC announced they would no longer maintain GMP data on an ongoing basis, and instead would assign the GMP liability to the last recorded scheme that the member belonged to. All pension schemes had reconcile their records with HMRC records. Initially this reconciliation was due to be completed by 2018, with HMRC then intending to write to individuals with details of which Fund held their GMP liability. It became clear that HMRC was not in a position to meet their own timetable as they could not respond to the volume of queries being sent by schemes.

Hampshire GMP project

Hampshire completed its reconciliation project in 2019 with just over 10,000 members who remained in an unreconciled position due to outstanding queries with HMRC or due to being a stalemate case (where the Fund records did not align with HMRC, but the Fund did not accept that HMRC’s record was correct).

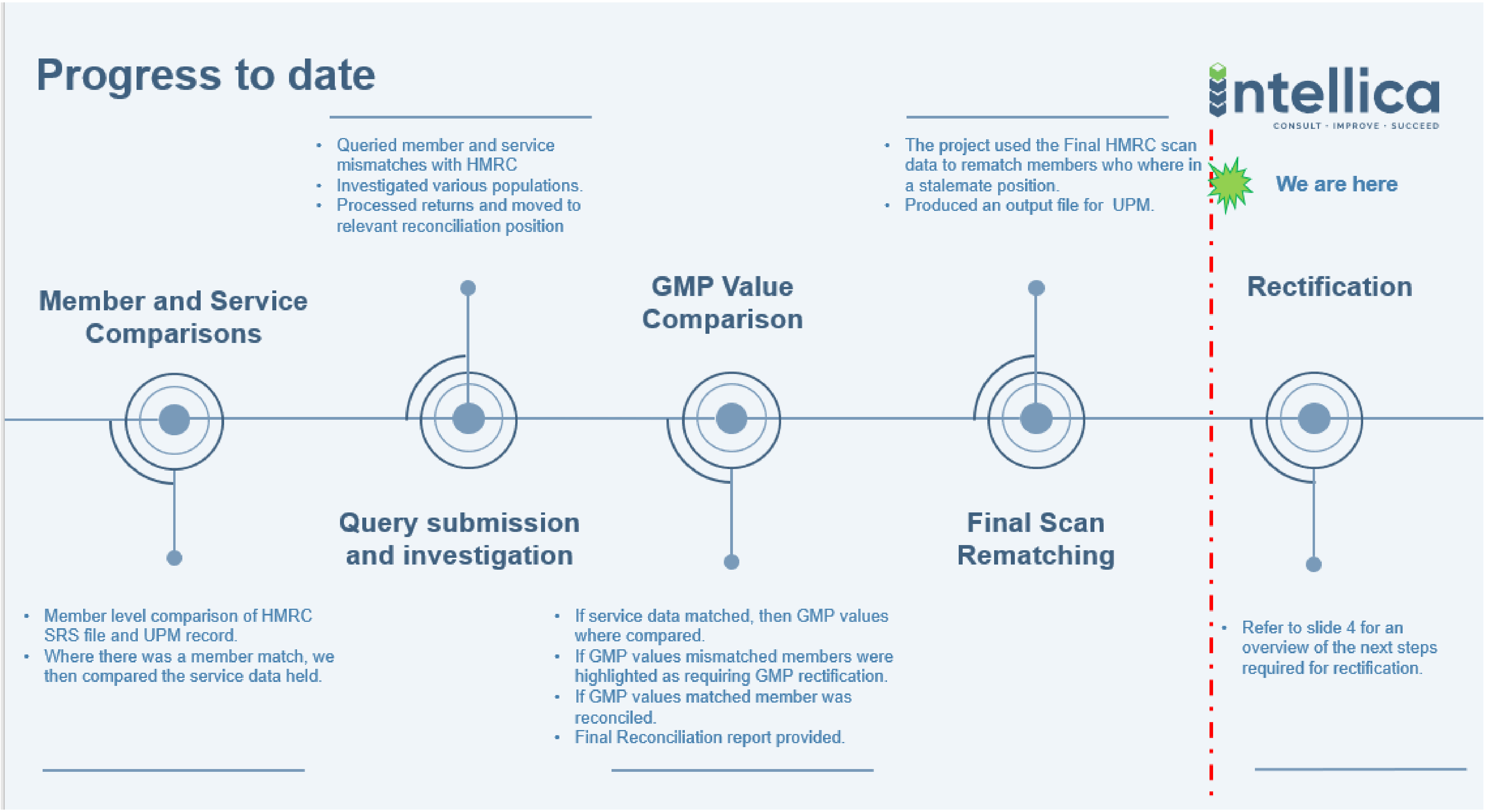
Due to the number of queries submitted to HMRC towards the end of the project from the industry as a whole, HMRC issued communications to say that the closure scans would be a lot later than expected. The final file for Hampshire was received in August 2020 and was used to review cases which were in an unreconciled position. This work completed in February 2021.

The outcome of the reconciliation work, following the final scan rematching exercise which completed in June 2022 is shown in the table below.

| Status | Number of folders* | Proposed action |
|---|---|---|
| Active | 2,644 | Load reconciled data to record |
| Pensioner | 7,043 | Rectify pension in payment |
| Deferred | 3,492 | Load reconciled data to record |
| No liability records | 2,981 | Load reconciled data to record |
| **Total requiring action** | **16,160** | |
| Stalemate cases | 5,935 | Accept value already held on UPM as correct |
| Outstanding HMRC queries | 1,540 | Accept value held on UPM as correct unless HMRC respond |

* matching was carried out at individual person level but the rectification needs to happen across all the memberships held by that person in the system (known as folders).

The diagram overleaf summarises the work which has been undertaken to date.


Progress to date
intellica
CONSULT · IMPROVE · SUCCEED
Queried member and service mismatches with HMRC
Investigated various populations.
Processed returns and moved to relevant reconciliation position
The project used the Final HMRC scan data to rematch members who where in a stalemate position.
Produced an output file for UPM.
We are here
Member and Service Comparisons
GMP Value Comparison
Rectification
Query submission and investigation
Final Scan Rematching
Member level comparison of HMRC SRS file and UPM record.
Where there was a member match, we then compared the service data held.
If service data matched, then GMP values where compared.
If GMP values mismatched members were highlighted as requiring GMP rectification.
If GMP values matched member was reconciled.
Final Reconciliation report provided.
Refer to slide 4 for an overview of the next steps required for rectification.

**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker:** | Pension Fund Panel and Board |
| **Date:** | 28 July 2022 |
| **Title:** | Governance – Triennial valuation |
| **Report From:** | Director of Corporate Operations |

**Contact name:** Lois Downer

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

## Purpose of this Report

1. The purpose of this report is to provide the Panel and Board with information about the valuation process in the LGPS, and to give an update on progress for the 2022 valuation.

## Recommendations

2. It is recommended that the Panel and Board note the information contained in this report.

## Executive Summary

3. LGPS funds have to obtain an actuarial valuation every three years. The main output from the valuation is a rates and adjustments certificate which certifies the contributions each employer must pay into the Fund over the following three years.

4. Work is underway for the current valuation which is as at 31 March 2022. Membership data will be supplied to the Fund Actuary by 21 July 2022 and initial whole of Fund results will be presented to the Panel and Board by the Actuary at their meeting on 30 September 2022 before being shared with employers at the Annual Employer meeting in October. Initial individual employer results will be provided to all employers by the end of December 2022, with the rates and adjustments certificate being finalised by 31 March 2023. New contribution rates are payable from 1 April 2023.

5. Initial financial and demographic assumptions have been agreed with the Fund Actuary to feed into the 2022 valuation calculations.

**Purpose of the triennial valuation**

6. Each administering authority needs to ensure that the cost of pension promises in its fund can be met over the long term and is required by the LGPS regulations to obtain an actuarial valuation of the assets and liabilities of its fund as at 31 March every three years. The main output from the valuation is a rates and adjustments certificate, which certifies the contributions payable by each employer in the fund for the following three years. The valuation also provides an opportunity to review the Funding Strategy Statement and is a formal measure of the health of the fund.

7. In order to compare the assets and liabilities of the fund and calculate required employer contribution rates, the Fund Actuary must place a value on them. Assets are usually taken at market value, but to place a value on liabilities, the Actuary needs to:
   - make use of Fund specific data
   - make some assumptions about the future
   - carry out some calculations.

8. Consequently, the Pensions team has to provide full membership data to the Actuary in order that she can analyse fund experience over the past 3 years and to estimate benefits that will be payable. The Actuary can then set appropriate financial and demographic assumptions which are a best fit for the fund and build these into the valuation calculations.

**Valuation timetable**

9. Although the formal valuation is only carried out every 3 years, work is undertaken throughout the interim period to ensure that there are no surprises and that the fund continues to be able to pay its obligations. The current triennial valuation date is 31 March 2022 with new contribution rates applying from 1 April 2023.

10. Initial decisions about financial and demographic assumptions to be used in the valuation are made shortly after the valuation date so that the Actuary has time to build them into the valuation model. These are discussed in more detail in paragraphs 23 to 30.

11. Details about all members for the three year period is provided to the Actuary by mid July following the valuation date. This data is extracted from the pension administration system, following the upload and validation of the

annual returns submitted by scheme employers and the application of annual increases to benefits in payment and deferment and to CARE amounts held for members with membership after 1 April 2014.

12. Any data queries are resolved by the end of July so that the Actuary can then carry out the necessary calculations to produce whole of fund results by early September. These initial results are then discussed with officers and will be brought to the Panel and Board for discussion and agreement on the 30 September 2022 before being shared with employers at the AEM in October.

13. The Actuary will then calculate individual employer results and these will be sent to employers by the end of December 2022. There may be some discussion with employers about these rates but in the main, these initial results will be formalised in the rates and adjustments certificate which has to be signed by the Actuary by 31 March 2023.

**Structure of the Fund for the valuation**

14. The structure of the Fund for valuation purposes remains unchanged from the 2019 valuation.

Scheduled Bodies

15. The Actuary will calculate an individual contribution rate for each Scheduled body employer based on their own liabilities and notional share of the assets. The exceptions to this are academies and Town and Parish Councils. Academies are treated as part of an academy pool and pay a common contribution rate based on the group's future service and share of the group's deficit. Town and Parish Councils are also grouped together and pay a common future service contribution and an individual deficit contribution based on their own liabilities and likely future participation in the fund. Any TPC who elects by mid August to do so, may choose not to participate in the pool but instead have an individual contribution rate calculated.

Admitted Body Group

16. Employers in the Admitted Body Group now all have a commitment from an associated local council to subsume liabilities on exit. The Group operates with different recovery periods reflective of each employer's likely future participation in the Fund.

HE and FE sector

17. Employers in the HE and FE sector continue to have an individual contribution rate calculated based on their own liabilities in the fund. The

funding target for these employers will be the intermediate one on either a high, medium or low risk basis. This rating has been determined through AON's financial analysis assessment that was carried out earlier in the year.

18. Broadly speaking this analysis tests the employer's:
    - ability to meet ongoing pension contributions out of operating income,
    - ability to meet interest payments on loans out of cashflow, and
    - capacity to meet an exit debt out of net assets.

19. To make this assessment Aon generates accounting ratios using the information provided by the employers, together with any relevant external information, for example financial notices of concern. In determining the appropriate risk category for the 2022 valuation Aon took into account trend information, including forecasts, and compared metrics across employers operating within the same sector to obtain a relative view of their strength as well as an absolute one.

20. Aon also considers wider geographical comparisons where they have similar information for LGPS employers in the sector which are operating in different geographical locations.

21. In order to assess the risk in relation to an employer's LGPS pension liabilities in advance of the 2022 valuation date Aon has to base this on the employer's liabilities at the 2019 valuation. Employers can ask for an updated assessment of their assets and liabilities to be used in the risk assessment but are required to pay for the additional actuarial work involved.

22. Employers who are on the intermediate funding target but disagree with their financial risk assessment can choose to pay for a full covenant assessment at around £10,000 in advance of their contribution rate being certified by the end of March 2023.

**Initial financial and demographic assumptions**

23. One of the three aims of the Fund as set out in the Funding Strategy Statement is to enable primary contribution rates to be kept nearly constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike. It is with this aim in mind that the key assumptions used in the valuation are determined.

24. Prior to the membership data being available, the Actuary does some initial work on the assumptions that will be used at the valuation. This includes:

- agreeing the best fit market data for demographic assumptions
- determining the likely funding target for different groups of employers
- agreeing the CPI and pay growth assumptions
- discussing any other likely factors that will need to be allowed for in the calculations

25. A starting point for each of these assumptions has been agreed in discussions with officers so that the Actuary can run the calculations through when the membership data is available and produce initial results for the fund. The assumptions will then be reviewed, and where necessary refined, to ensure that they are appropriate, and in line with expectations from the bodies which oversee the LGPS such as the Government Actuary's Department and the Scheme Advisory Board.

26. The Fund Actuary has determined that the latest version of the CMI mortality tables which was published in March 2022 is the best fit for use in the current valuation. This has been agreed by officers.

27. There are different funding targets for different groups of employers, based on the likely future participation in the fund:

- one for secure scheduled bodies
- an intermediate funding target for non tax payer backed scheduled bodies (differentiated for high medium and low risk employers within this sector)
- An ongoing orphan funding target for employers who still have active members but are likely to exit the scheme in the short term.

28. The secure scheduled body target is derived from three elements; solvency target, trajectory period and Probability of Funding Success (PoFS). Officers have agreed that these elements remain unchanged from the 2019 valuation, subject to a final review once the draft valuation results are known:

- Consistent with the 2019 valuation, the solvency target is based on a long term prudent investment return of CPI plus 2% per annum.
- The trajectory period was set at 25 years at the 2019 valuation, having been increased from 22 years at the 2016 valuation. It is appropriate to retain this at 25 years for the 2022 valuation.
- The PoFS was increased back to 75% at the 2019 valuation and officers have agreed it is appropriate to maintain this level of prudence for 2022.

29. The Actuary has recommended a CPI assumption of 2.3% which represents an increase of 0.2% from 2019 and is based on the long-term inflation

assumption from Aon's Capital Market Assumptions (CMAs). However because the April 2023 pensions increase will be based on the full year CPI from September 2021 to September 2022 Aon are also recommending a one off uplift of 5% on the scheduled body funding target for the short term inflation which is not fully reflected in CMAs. Short term inflation expectations are effectively priced into the ongoing orphan target due to this being connected to gilts.

30. The intermediate funding target is set with the objective of maintaining affordability whilst targeting a gilts based exit position for these employers. As gilts yields have continued to fall a greater allowance was made for asset outperformance in the investment strategy such that the impact of falling gilt yields on the discount rate is reduced. This then increased the difference between the discount rate for secure employers and those on the intermediate target but by less than would be required based purely on the change in gilt yields. For the 2022 valuation, this approach is likely to be maintained, with the inflation assumptions for the intermediate funding target being linked to those for secure scheduled bodies, rather than tied to that of gilts.

31. The pay growth assumption has become less important since the removal of the final pay link to future service. However the assumption does have an effect on the impact of the McCloud judgement, as any remedy could potentially increase the number of people for whom benefits are based on final pay instead of CARE. The assumption was reduced from 3.6% to 3.3% at the 2019 valuation, and it is recommended that this is retained for 2022.

32. From the work already carried out by the Actuary, it is anticipated that there will be a material improvement in the funding level at a whole of fund position compared with 2019, due to the higher than assumed asset returns. This means that secure scheduled bodies should be able to bank the deficit contribution reduction from the 2019 valuation and still see stable contribution rates at the 2022 valuation; this of course is a provisional view at this stage subject to confirmation once the valuation work is complete.

33. However, given the significant falls, employers with a funding target linked to gilts such as the HE/FE sector may see increases in their contributions at this valuation; as above, this is a provisional view subject to confirmation. The Actuary will work with the Administering Authority to ensure that any increases are stepped to allow continued affordability of the scheme to employers.

**Climate change**

34. The potential impact of climate change needs to be quantified and documented in the 2022 valuation. Aon have been commissioned to provide analysis on different climate change scenarios which will:

- test the resilience of the Fund's investment and funding strategies to climate change shocks
- assess the potential impact of the future global economy and therefore the impact to the assets and liabilities of the Fund
- meet regulatory requirements in relation to climate change related reporting and expectations such that the Fund can evaluate the way in which climate-related risks may affect the strategies and plans of the Fund and report on this activity in a consistent and transparent manner

35. Aon's analysis will cover three scenarios:

- Orderly transition; the Paris-aligned scenario with immediate and co-ordinated action to tackle climate change taken using carbon taxes and environmental regulation
- Disorderly transition; delayed and limited action taken and insufficient consideration given to sustainable long-term policies to manage global warming
- No transition; no new climate policies are implemented leading to significant global warming and dramatic long term impacts.

36. As part of their work, Aon will provide statistics required for TCFD reporting, summaries of the impact on expected investment returns under each scenario over the short, medium and long term as well as the impact on future overall employer contribution rates. The valuation report will cover the basic requirements to meet the Government's Actuary's Department's expectations with the additional analysis provided in a separate report for the Fund.

**Climate Change Impact Assessments**

1. 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℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

2. 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:**<br>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.)**

| 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 disproportionally 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 & Board |
| **Date:** | 28 July 2022 |
| **Title:** | Governance: Deputations to the Panel and Board |
| **Report From:** | Director of Corporate Operations |

**Contact name:** Paul Hodgson

**Tel:** 0370 7793213 **Email:** paul.hodgson@hants.gov.uk

**Purpose of this Report**

1. This report outlines a proposed amendment to the rules regarding deputations made to the Pension Fund Panel and Board and its sub committees. It asks the Panel and Board to support and recommend proposed changes to the County Council's Constitution to Cabinet for its recommendation to the County Council for approval.

**Recommendations**

2. That the Pension Fund Panel and Board recommends the proposed changes to the County Council's Standing Orders set out at Appendix 1 to Cabinet for its endorsement and recommendation to the County Council for approval.

3. That the Pension Fund Panel and Board recommends the proposed changes to the Pension Fund Panel and Board's Terms of Reference, as set out at Appendix 2, to Cabinet for its endorsement and recommendation to the County Council for approval.

**Background**

4. The Pension Fund Panel and Board is governed by its Terms of Reference which are set out at Part 1 Chapter 8 of the Constitution. Meetings of the Panel and Board are also governed by the County Council's Standing Orders, which are set out in Part 3 Chapter 1 of the Constitution.

5. In respect of deputations, the rules are set out in Standing Order 12. Amongst other things, these state that deputations shall consist of not more than four people who are local government electors for the administrative area of Hampshire County Council (see Standing Order 12.2.2).

6. This precludes deputations being received at Panel and Board meetings from scheme members (active, deferred and retired) of the Hampshire LGPS who live outside of the Hampshire County Council area (including in Portsmouth or Southampton). It therefore excludes deferred or retired members who may moved away from Hampshire, as well as active members who work for employers in the Hampshire scheme, but who may not live in the Hampshire County Council area.

7. To ensure fairness and reasonable opportunities for engagement, it is considered that members of the Hampshire Local Government Pension Scheme who live outside of Hampshire should be allowed to make deputations to the Panel and Board, or its sub committees. In order to enable this, the County Council's Standing Orders and the Panel and Board's Terms of Reference need to be amended.

8. Proposed amendments to the County Council's Standing Orders are set out Appendix 1. Proposed amendments to the Pension Fund Panel and Board's Terms of Reference are set out at Appendix 2.

9. As the proposed changes are amendments to the County Council's Constitution, then they need to go to full Council, on the recommendation of Cabinet.

**Climate Change Impact Assessments**

10. 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℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

11. 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. This is captured in the Pension Fund's governance framework. Therefore the Pension Fund recognises in its Risk Register, which forms part of the Business Plan, that the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns.

12. 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 Responsible Investment (RI) policy InvestmentStrategyStatementincludingRIpolicy.pdf (hants.gov.uk) which is part of part of the Investment Strategy Statement.

**CORPORATE OR LEGAL INFORMATION:**

**Links to the Strategic Plan**

**This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board are required to keep their governance arrangements under review.**

**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 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 disproportionally 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 the Scheme. The proposals do allow for greater participation and inclusion of all Scheme Members by enabling deputations to be received where they currently cannot be received.

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### 12. *Deputations

12.1 Subject to the provisions of this Standing Order, the County Council shall receive deputations at a Meeting of the County Council on any business that is properly within its terms of reference and the deputation shall be allowed to address the Meeting.

12.2 Subject to the provisions of this Standing Order, Cabinet or any Executive Member, Committees or Standing Panels of the County Council shall receive deputations at any Meeting or Individual Executive Member Decision Day relating to business that is properly within the Agenda for such Meeting or Individual Executive Member Decision Day and the deputation shall be allowed to address the Meeting or Individual Executive Member Decision Day.

For the purpose of this Standing Order:

12.2.1 notice in writing shall be given to the Chief Executive (to the Head of Democratic and Member Services via members.services@hants.gov.uk) that a deputation wishes to address a Meeting or Individual Executive Member Decision Day and the notice shall specify the subject on which the deputation wishes to speak. In the case of a County Council Meeting, the notice shall be given at least 10 clear Working Days in advance. In the case of other Meetings or Individual Executive Decision Days, the notice shall be given at least three clear Working Days in advance.

12.2.2 deputations shall consist of not more than four people who shall (except in the case of a deputation to the Regulatory Committee when it is exercising a function within the Functions Regulations, Regulation 2 and Schedule 1, or in respect of a deputation to the Pension Fund Panel and Board or a Sub Committee of the Pension Fund Panel and Board) be local government electors for the administrative area of Hampshire County Council, or otherwise and subject to the provisions set out at paragraph 12.2.3 below, have attained the age of seven years or older;

12.2.3 any deputation request received from a child of compulsory school age shall be accompanied by the following:

12.2.3.1. written consent from the parent of or person with Parental Responsibility for the child to the making of the deputation, including in respect of a request to make a deputation at a Meeting of the County Council or Cabinet, to the deputation being recorded and available for broadcast; and

12.2.3.2. in the case of a request to make a deputation within school term time, written consent to the making of the deputation from the Headteacher of the school the child attends, without which consent(s) the deputation shall not be heard.

12.2.4 without prejudice to the provisions of 12.2.3 above, deputations will not be received from children in cases where, in the opinion of the Director of Children's Services, it is not in the best interests of the child to make the deputation.

12.2.5 any member of a deputation may address a Meeting or Individual Executive Decision Day;

12.2.6 deputations shall be taken at the beginning of the Meeting or Individual Executive Decision Day in the order received (after the Minutes) and the total time for all deputations in any Meeting or Individual Executive Decision Day shall not exceed one hour in duration;

12.2.7 the total time taken by a deputation in addressing a Meeting or Individual Executive Decision Day shall not exceed 10 minutes provided that where the number of deputations in any Meeting or Individual Executive Decision Day would otherwise mean that the maximum time for deputations would be exceeded, the time allowed per deputation will be reduced on a proportional basis;

12.2.8 any deputation which has appeared before a Meeting of the County Council, the Executive, a Individual Executive Decision Day or any Committee or Standing Panel of County Council, shall not reappear at any such Meeting or any other Meeting or Individual Executive Decision Day within a period of six months on the same or similar topic (except in the case of a deputation to the Regulatory Committee when it is exercising a regulatory function, in which case a deputation may reappear where an item is adjourned, or when there is another similar application submitted in respect of the same site);

12.2.9 for the avoidance of doubt a deputation to a Meeting of the Executive, a Committee or Standing Panel or an Individual Executive Decision Day must relate to an item on the Agenda for that Meeting or Individual Executive Decision Day;

12.2.10 no discussion shall take place with the presenters of a deputation but the Chairman of the Meeting or the Executive Member may inform the deputation how, if at all, the matter will be dealt with by noting, action or referral. At a Meeting of the County Council, the Chairman may invite the Leader or appropriate Executive Member or Committee Chairman to give this information to the deputation.

12.2.11 Deputations in respect of Individual service concerns will not be received where, in the opinion of the Chief Executive in consultation with the Monitoring Officer, the subject matter of the deputation relates to issues which are more properly dealt with through the County Council's Corporate Complaints Procedure, or which might cause the County Council to breach confidentiality rules.

12.3 Deputations at Meetings of the County Council, Committees, Standing Panels and Cabinet will be received in person at the Meeting.

12.4 Where an Individual Executive Member Decision Day is open to the public remotely in accordance with the provisions of Part 3, Chapter 2, Paragraph 4 of the Constitution, or is open to the public both in person or remotely by way of hybrid meeting room technology, then deputations will be received in person or remotely.

NB: The Purpose of Standing Order 12 is to give members of the public an opportunity to address the County Council, the Executive, its Committees or Standing Panels. Elected Members of other Councils, political parties, trade unions and members of staff have other opportunities to bring matters to the County Council's attention and will not be received under the provision of Standing Order 12.

Arrangements with regard to Non-Committee Members speaking at meetings of Committees of the County Council are contained within Standing Order 40. Arrangements for Non-Executive Members speaking at meetings of Cabinet and Individual Executive Member Decision Days are contained within Executive Procedures at Part 3, Chapter 2, Paragraph 4.

Additional arrangements apply in respect of Regulatory Committee or when the County Council is otherwise exercising a function within the Functions Regulations and in respect of the Pension Fund Panel and Board. In respect of Regulatory Committee, these arrangements are set out within the Local Protocol on Planning, Rights of Way and Commons Registration, Paragraph 9, contained at Appendix B and in respect of the Pension Fund Panel and Board, the additional arrangements are set out in the Pension Fund Panel and Board's Terms of Reference at Part 1 Chapter 8.

Appendix 2

# Part 1: Chapter 8

# Pension Fund Panel and Board

**The Pension Fund Panel and Board**

**Terms of Reference**

**1. Introduction**

1.1. Hampshire County Council has appointed a combined Pension Fund Panel and Board for Hampshire and delegated to it responsibility for its statutory functions as the administering authority for the Hampshire Pension Fund and its responsibilities in respect of operating a Pension Fund Board for Hampshire.

**2. Composition**

2.1. The Pension Fund Panel and Board for Hampshire includes within its membership*:*

- Nine elected members from the Administering Authority.
- Three employer representatives appointed in accordance with the Hampshire Pension Panel and Board Representation Policy approved by the Pension Fund Panel and Board from time to time.
- Three scheme Member representatives appointed in accordance with the Hampshire Pension Panel and Board Representation Policy approved by the Pension Fund Panel and Board from time to time.

2.2. The Administering Authority members will be appointed by Hampshire County Council. The nomination process for the employer and scheme member representatives is contained in the Representation Policy and they will be appointed by the County Council in accordance with that Policy.

2.3. Employer representatives and scheme member representatives should remain as members of the Pension Fund Panel and Board during their appointed term of office unless in the opinion of the County Council they are not adequately performing their role, they become incapable of acting, they cease to represent their constituency, they resign by giving written notice to the Proper Officer of the County Council, a replacement member is nominated by their relevant nominating body or they are removed from the Panel and Board pursuant to Paragraph 6.8.

2.4. Each employer and scheme member representative should endeavour to attend all Panel and Board meetings during the year and are required to attend at least 2 meetings each year.

## 3. Appointment of Substitute Members

3.1. **Allocation** - As well as allocating seats on the Pension Fund Panel and Board, the County Council will at the Annual General Meeting of the County Council in each year appoint a designated Substitute Member for each Scheme and Employer member of the Pension Fund Panel and Board.

3.2. **Powers and duties** - Substitute Members will have all the powers and duties of the designated Scheme and employer Members of the Board.

3.3. **Substitution** - Substitute Members may attend meetings in that capacity only:

a. to take place of the designated Scheme and Employer Member for whom they are the designated substitute;

b. where the Member for whom they are the designated substitute will be absent for the whole of the meeting; and

c. after notifying Democratic and Member Services (on behalf of the Chief Executive) before the scheduled start of the meeting of the substitution.

## 4. Voting rights

4.1. All members of the Panel and Board, including all the Employer and Scheme Member representatives shall have full voting rights.

4.2. Any independent advisers appointed by the Panel and Board are invited to attend all meetings of the Pension Fund Panel and Board but independent advisers will not be a member of the Pension Fund Panel and Board and have no voting rights.

## 5. Role of the Pension Fund Panel and Board

5.1. In its role as the Pension Fund Panel for the Hampshire Pension Fund the Pension Fund Panel and Board is responsible for the County Council's statutory functions as administering authority of the Hampshire Pension Fund under the Local Government Pension Scheme Regulations and associated legislation under sections 7, 12 and 24 of the Superannuation Act 1972. This includes dealing with all matters arising that relate to the Hampshire Pension Fund, including the management and investment of the Fund.

5.2. In its role as the Pension Board for the Hampshire Pension Fund the Pension Fund Panel and Board is responsible for assisting Hampshire County Council as the administering authority of the Hampshire Pension fund to secure compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Local Government Pension Scheme (‘LGPS), for securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator and for ensuring the effective and efficient governance and administration of the Hampshire Pension Fund.

5.3. When acting in its capacity as the Pension Fund Board the Pension Fund Panel and Board shall have the power to do anything which is calculated to facilitate or is conducive or incidental to the discharge of any of its functions.

**6. Conflicts of Interest**

6.1. In addition to the obligations on Members of the Pension Fund Panel and Board under the County Council’s Member’s Code of Conduct arising out of their position as either members or co-opted members of the County Council the following provisions apply.

6.2. No member of the Panel and Board may participate in any business of the Panel and Board if they have a financial or other interest which is likely to prejudice a person’s exercise of functions as a member of the Panel and Board (this does not include a financial or other interest arising merely by virtue of membership of the Scheme or any connected Scheme) (‘Conflict of Interest’).

6.3. All Panel and Board members must before becoming a member of the Panel and Board declare any potential Conflict of Interest to the Monitoring Officer of the County Council.

6.4. After appointment all Panel and Board members must within 14 days of becoming aware of any new potential Conflict of Interest declare that potential Conflict of Interest to the Monitoring Officer of the County Council.

6.5. A member of the Panel and Board must at any time provide the Monitoring Officer of the County Council with such information as he or she requires for the purpose of establishing whether or not the Panel or Board member has a Conflict of Interest.

6.6. A Panel and Board member should disclose any Conflict of Interest in any business of the Panel and Board either at the commencement of the meeting, the commencement of the consideration of the item or when the Conflict of Interest becomes apparent.

6.7. If a Panel and Board member has a Conflict of Interest in any business of the Board then that Member may not participate in any discussion of, vote on or discharge any function in relation to the matter. In addition the Panel and Board member should withdraw from the room where the meeting is being held.

6.8. Any alleged non-compliance with this paragraph 5 shall be referred to the County Council’s Conduct Advisory Panel for consideration and in the event that the Conduct Advisory Panel find that a member of the Panel and Board has failed to comply with the provisions of this paragraph then the Conduct Advisory Panel may recommend to the County Council that the Member is to immediately cease to be a member of the Panel and Board or take such other action as the Conduct Advisory Panel regard as appropriate which can include but is not limited to requiring the member to apologise or requiring the member to undertake such training as the Panel believe is appropriate.

## 7. Knowledge and Skills

7.1. A member of the Panel and Board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in Regulations.

7.2. The County Council has therefore adopted the requirements of the CIPFA Pensions Finance Knowledge and Skills Framework recognising the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Hampshire Pension Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

7.3. Members of the Pension Fund Panel and Board are required to acquire and maintain the appropriate level of expertise, knowledge and skills as set out in the CIPFA Pensions Finance Knowledge and Skills Framework in order to remain members of the Panel and Board.

7.4. A formal training plan for the Pension Fund Panel and Board is prepared every year to identify and meet the training needs for the Panel and Board as a whole and for individual members. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Framework.

## 8. Publication of Pension Fund Panel and Board information

8.1. Details of the Pension Fund Panel and Board are published on the County Council's website, including:

- The names and details of the members of the Pension Fund Panel and Board
- How the Scheme members are represented on the Panel and Board
- The responsibilities of the Panel and Board as a whole
- The Terms of Reference and policies of the Panel and Board and how they operate
- The appointment process for the Employer and Scheme members of the Panel and Board
- Who each Employer and Scheme member represents

- Any specific roles and responsibilities of individual Board Members

8.2. The procedure for the publication of Pension Fund Panel and Board meeting information and reports is contained in Part 3 Chapter 4 Paragraph 2 of the County Council's Constitution.

## 9. Reporting Breaches

9.1. Any potential or actual non-compliance with a duty relevant to the administration of the LGPS which is likely to be of material significance to the Pensions Regulator in the exercise of any of its functions that comes to the attention of the Panel and Board shall be dealt with in accordance with the Protocol for Reporting Breaches agreed from time to time by the Panel and Board.

## 10. Deputations

10.1. Deputations to the Pension Fund Panel and Board or to a sub-committee of the Pension Fund Panel and Board will be permitted in accordance with the following procedures:

10.1.1. Deputations shall consist of not more than four people who shall be local government electors for the administrative area of Hampshire County Council, or who shall be active, deferred or pensioner members of the Local Government Pension Scheme.

10.1.2 Officers of the County Council shall not be permitted to make a deputation under 10.1.1 unless their deputation is being made in their personal capacity as an active, deferred or pensioner member of the Local Government Pension Scheme and not as an officer of the County Council.

10.1.3 Save as set out in 10.1.1 and 10.1.2, all rules and procedures set out in the County Council's Standing Orders at Part 3 Chapter 1 of the Constitution shall apply to all deputations to the Pension Fund Panel and Board or a sub-committee of the Pension Fund Panel and Board.

May 2021

**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker:** | Pension Fund Panel and Board |
| **Date:** | 28 July 2022 |
| **Title:** | Updates to the Responsible Investment (RI) policy |
| **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 recommended amendments to the Pension Fund's Responsible Investment (RI) policy recommended to the Panel and Board following consultation with Local Government Pension Scheme (LGPS) stakeholders.

## Recommendations

2. That the Pension Fund Panel and Board notes the responses to the consultation and approves the proposed updates to the Responsible Investment policy.

## Background

3. The Pension Fund's RI policy forms part of its Investment Strategy Statement and is a requirement of the LGPS Investment Regulations 2016.

4. The Pension Fund's RI policy was substantially rewritten in 2019 following Members' review through the RI working group and the advice of Dr Rupert Younger who had chaired Oxford University's Socially Responsible Investment Review.

5. The RI policy includes proposed updates which have been discussed by the RI sub-committee and approved for consultation by the Panel and Board in March 2022. The changes proposed in the policy are based on feedback received from the ACCESS pool's RI consultants, Minerva, and key areas that have been brought out in Members' discussions and representations from scheme

members. The proposed policy is attached in full at Annex 1 with proposed changes highlighted.

6. Updates to the policy are proposed where Minerva have suggested that further clarification would be beneficial. In particular a section on the Fund's RI beliefs that form the basis of the policy have been included. Of these, the most significant areas that the Pension Fund has not previously documented are:

   - the Pension Fund supports the objectives of the Paris Agreement, and believes that keeping a global temperature rise this century to well below 2ºC relative to pre-industrial levels is entirely consistent with securing strong financial returns, and
   - to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a *Just Transition.*

7. The proposed policy includes a statement that the Pension Fund 'commits to the aim for its investments to have net-zero greenhouse gas emissions by 2050'. This aim reflects the advice of Minerva that setting a strategic goal will assist the Pension Fund in focusing its activities and also reflects the views that the Pension Fund has heard from scheme members, including a number of deputations.

8. The updated RI policy contains amendments to explain why the Pension Fund believes not disinvesting and continuing to engage with any fossil fuel companies it holds is important:

   - If the Pension Fund's shares in fossil fuel companies are sold, it will lose its ability as a Responsible Investor to engage with those companies, to hold them to account and to influence and support them in their move towards a lower-carbon economy. The investors that would buy these shares from us may not do this.
   - The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition – this means that the benefits of a low carbon economy transition are shared widely, ensuring that the areas of society who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.
   - Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example in developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.

9. An exception to this, as explained in the RI policy, is thermal coal which is the greatest challenge for the Fund's RI policy and the proposed aim for net-zero by 2050 due to the very high carbon emissions and lack of possible transition to lower carbon alternatives. The Fund's RI policy therefore includes working with the Fund's investment managers to remove thermal coal from the Fund's

portfolios, which is consistent with the agreements reached at the recent global COP26 summit.

10. The updated policy includes the following further RI standards that the Pension Fund sign up to, to further the approach to RI; Just Transition, Transition Pathway Initiative (TPI) and Institutional Investors Group on Climate Change (IIGCC). The IIGCCis the leading European membership body enabling the investment community to drive significant and real progress by 2030 towards a net zero and resilient future. There are 360 members representing €50 trillion of assets under management (including six of Hampshire's investment managers and two other ACCESS authorities). There are three clear areas of focus: policy, investor practices and corporate engagement reflecting the key investor levers for change. Scheme member communication and consultation.

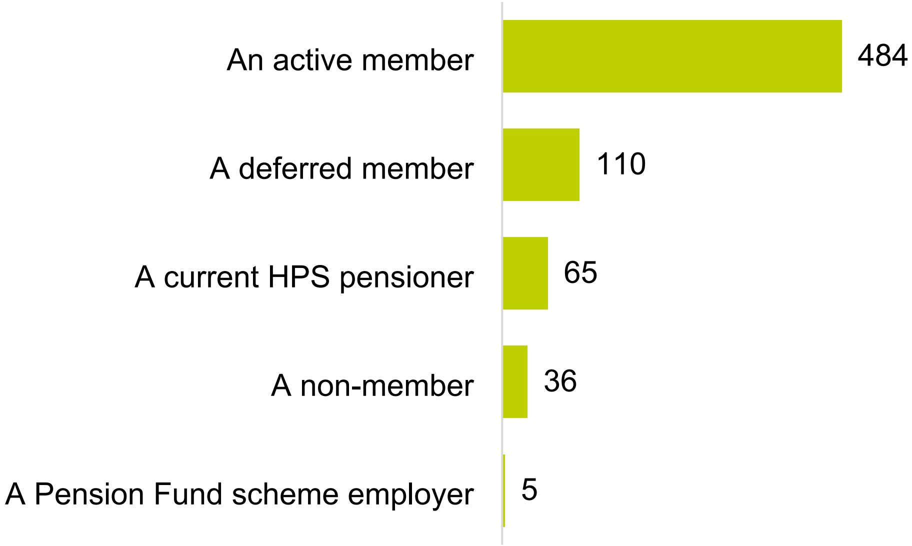
**Consultation**

11. The Pension Fund has undertaken its most extensive open consultation exercise to date and received by far its highest level of response.

12. Every effort to give every scheme member and employer the opportunity to respond was made through the following actions:
    - The RI Update was printed with the remaining paper payslips sent to pensioners in April 2022, which highlighted the consultation.
    - All pensioners who receive an electronic payslip via the member portal received an email reminding them their payslip was available, which also included notification of the consultation.
    - The consultation was available via the Pension Fund's website and was highlighted via a webpage banner for any scheme members logging onto the member portal.
    - All active and deferred scheme members (that Pension Services held email addresses for) were sent an email with a link to the consultation.
    - All of the Pension Fund's employers were sent an email highlighting the consultation and asking them to respond and share the consultation with their staff.
    - The Director of Corporate Operations wrote to all the local authority Chief Financial Officers encouraging their organisations to respond.

13. The consultation ran from 4 April to 31 May 2022 and 701 responses were received. This is a huge improvement from the Fund's last consultation on its RI policy in 2019, when less than 30 responses were received. The consultation was produced in conjunction with the County Council's Insight and Engagement team, who have produced a full report on the consultation responses, which is included in Annex 2. The chart below shows the breakdown of responses across the Fund's membership groups and shows a majority of respondents came from the Fund's active members.

**Number of respondents by type**

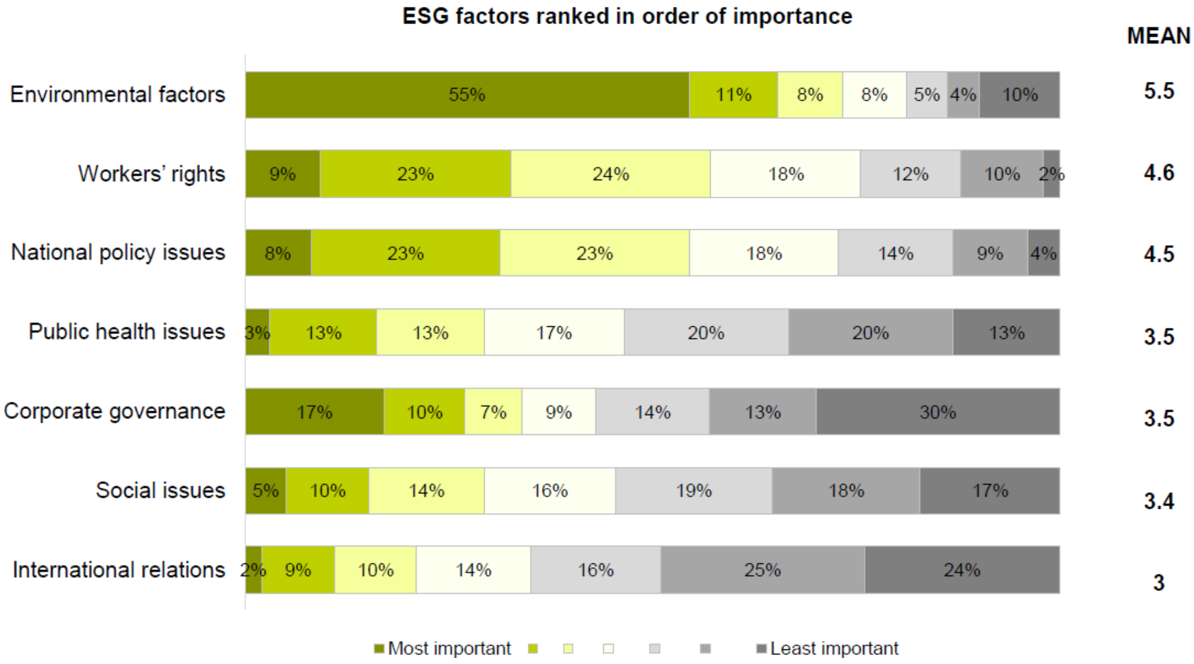



14. The consultation asked a number of questions to test whether the Fund's proposed policy on its climate change aim and approach to fossil fuel companies was clear and understood by respondents:

    - At least 92% of respondents were aware of the 2021 United Nations Climate Change Conference (COP26), the UK Government's strategy for decarbonising (net-zero by 2050) and the 2015 Paris Agreement.
    - 83% understood the rationale to aim for investments to have net-zero greenhouse gas emissions by 2050.
    - 67% understood the rationale for not disinvesting from fossil fuel companies at this time.
    - 85% understood the rationale for continuing to reduce the climate impact of the Fund's investments by disinvesting from Thermal Coal.

15. The responses showed that the Pension Fund's focus on Climate Change as its highest priority within the Environmental, Social and Governance (ESG) issues to be managed, is supported by being a clear priority for the majority of Pension Fund members.

**ESG factors ranked in order of importance**




16. The consultation included the opportunity for respondents to share their individual views on RI. The following table highlights some of the key comments that were made alongside the Pension Fund's proposed response.

| Comment | No. received | Response |
|---|---|---|
| Disinvest from fossil fuels now / sooner than 2050 / or by 2030 | 132 (19%) | The Pension Fund has attempted to clearly articulate why it believes that disinvesting from fossil fuel companies is not appropriate now. The Fund is commissioning advice on how it can plan to meet the aim of net zero by 2050 and what will be possible in the interim. The Fund's aim will be clarified that it wants its investments to be net zero by 2050 at the latest. |
| Change the Fund's investment belief to limiting temperature rises to 1.5 deg C, not below 2 deg C | 16 (2%) | In confirming its support for the Paris Agreement, the Pension Fund believes that there is no distinction between its intention between limiting temperature rises to not 'below 2 deg C' or 1.5 deg C. However for clarity, it is proposed that the Fund's RI policy be amended to state that the Fund intends its adoption of the Paris Agreement is the aim to limiting temperature rises no more than 1.5 deg C. What will be the Fund's priority is checking that the companies in its investment portfolios also support the Paris Agreement, and if they do not, what are the Fund's |

| | | |
|---|---|---|
| | | investment managers doing to support those companies in changing their policies. |
| Join the Net Zero Asset Owner Alliance (NZAOA) | 23 (3%) | The Fund's amended policy includes a support for a number of additional initiatives, in particular the IIGCC. The Pension Fund's RI policy aligns to the NZAOA - transitioning its investment portfolios to net-zero Greenhouse Gas (GHG) emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels. Joining the NZAOA requires the commitment to establish intermediate targets every 5 years. The Pension Fund will consider intermediate goals as part of the external advice it has commissioned on how to achieve its 2050 aim. Joining the NZAOA would cost the Pension Fund EUR10,000 per annum (pa.) and the Pension Fund will consider if there is value in additional costs of joining further initiatives. |
| Ban investments in Russia/ Belarus | 5 (1%) | As of February 2022 the Pension Fund had approximately £9m (<0.1%) invested in Russian companies. The Pension Fund is monitoring the situation with its investments managers, discussing the practicalities of exiting these current positions and does not expect its investment managers to make any new investments in Russian or Belarussian companies. |

**Climate Change Impact Assessments**

17. 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℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

18. 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.

19. 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. The key document for the Pension Fund in this respect is the Responsible Investment (RI) policy which is the subject of this paper.

## 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 disproportionally 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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# Investment Strategy Statement

## Introduction

Hampshire County Council is the administering authority for the Hampshire Pension Fund (the “Fund”), which covers employees of the County Council, two unitary councils, 11 district councils, and 326 other scheduled and admission bodies. The total number of contributors is 59,000 and there are 78,834 deferred members and 45,576 pensioners (all as at 31 March 2021).

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require pension fund administering authorities to prepare and review, from time to time, an Investment Strategy Statement.

This Statement has been drafted to comply with these regulations in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.

## Investment Strategy

The Fund has three main aims:

- To manage the employers’ liabilities to achieve long-term solvency. Accordingly, employers’ contributions will be set to ensure that 100% of the liabilities can be met over the long term.
- To enable primary contribution rates to be kept to nearly as constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike.
- Seek returns on investment within reasonable risk parameters.

In compiling the Fund’s 2019 Actuarial Valuation, the Fund’s Actuary, Aon advised that the Pension Fund requires the assets to deliver a long-term return of above the discount rate of 4.4%, which is set out in the Fund’s Funding Strategy Statement.

The Pension Fund Panel and Board have prepared a set of investment beliefs based on their experience of the workings of the Fund and the nature of the underlying investments held, which are contained in Annex 1.

## Variety of investments

In order to achieve the return in its Funding Strategy, the Investment Regulations require the Pension Fund to invest money in a wide variety of investments and state the maximum percentage that it will invest in particular investments or classes of investment.

The strength of the majority of the Fund’s employers’ covenants and the present positive annual cashflows allow the Fund to have set a long-term deficit recovery period and to take a corresponding long-term view of investment strategy. For the purpose of setting maximum limits the Pension Fund has done this at a strategic level. The total is deliberately greater than 100% to allow flexibility between the categories. The allocation below favours growth assets as the Fund believes that participation in economic growth is a major source of long-term equity returns, which will be required to meet its long-term investment return target and mean that employer contributions can be kept lower.

| | Minimum | Maximum |
|---|---|---|
| **Growth assets** – To deliver sufficient return to meet the funding target and maintain the affordability of the target level of contributions (assets such as equities and hedge funds) | 40% | 70% |
| **Income assets –** Structuring the assets to meet the Fund's income requirements or increase the confidence of achieving required returns through a more stable and observable return stream (assets such as property, infrastructure, loans and alternative credit) | 10% | 45% |
| **Protection assets -** Employing investment strategies that provide some downside protection or diversification benefit to maintain stability in the level of contributions (assets such as traditional gilts and index-linked gilts) | 10% | 30% |

**Suitability of investments and receipt of investment advice**

The Pension Fund has access to the necessary skills, expertise and resources to manage the whole Fund. When making investment decisions the Pension Fund Panel and Board will take advice from appropriate specialist investment professionals including officers, consultants and independent advisers. The Panel and Board have appointed a permanent independent adviser (currently Investment Trustee and Adviser Ltd) to provide advice on all investment decisions.

The Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The members of the Panel and Board annually complete a training needs analysis based on CIPFA's Knowledge and Skills Framework for pension funds, which includes investments, and a training plan is prepared to meet the requirements identified. To fulfil the training needs of officers and members the Pension Fund will access training from a variety of investment professionals, including both companies that it does and does not currently contract with, in order to gain exposure to a wide variety of views.

**Strategic Asset Allocation**

To implement the Pension Fund's Investment Strategy the Pension Fund Panel and Board sets a Strategic Asset Allocation with the aim of achieving the Fund's overall long-term target return without exposing the Fund to excessive risk. In setting the Strategic Asset Allocation advice was commissioned from Hymans Robertson on the options for the Fund's asset allocation and the most effective allocation for achieving the Fund's target return with the degree of certainty specified in the Funding Strategy Statement.

| Investment sector | Interim % of Fund | Long Term % of Fund |
|---|---|---|
| **Growth** | 48.0% | 43.0% |
| **Income** | 30.0% | 40.0% |
| **Protection** | 22.0% | 17.0% |
| **Total Fund** | **100.0%** | **100.0%** |

In line with the Regulations, the Fund's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with the County Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Strategic Asset Allocation was agreed in 2017 following the Fund's last triennial actuarial valuation and the Panel and Board has agreed an implementation plan in order to move to the new allocation. The Fund's Asset Allocation will be reviewed from time to time by the Panel and Board and at least every 3 years following the actuarial valuation.

To manage the portfolios in the Fund's asset allocation the Pension Fund contracts with specialist external investment managers. No assets are managed internally, with the exception of the Fund's cash balance. Since the implementation of the Strategic Asset Allocation the Pension Fund has taken advice from MJ Hudson on the appointment of investment managers and transition management. The Fund's current investment managers are shown in Annex 2.

At the 2019 valuation 1.6% of the Fund's liabilities were orphan liabilities. The Administering Authority's policy is to minimise the risk to the participating employers in the Fund by matching the value of the orphan liabilities to an equal amount of index-linked gilts from the Fund's investments. The Administering Authority currently operates a single investment strategy as outlined above, so the Fund Actuary notionally allocates index linked gilts to the orphaned liabilities within the valuation calculations, with the balance of the Fund's investment returns credited to the participating employers.

**Approach to risk**

The Pension Fund has identified a number of risks on its risk register that may impact its funding and investment strategies, contained in Annex 3, which is reviewed at least annually by the Panel and Board. The Pension Fund maintains a risk register to identity key risks, consider and assess their significance, likelihood of occurrence and potential impact of the risk.

The Panel and Board is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. The Fund's appetite for risk is to minimise the overall portfolio risk while delivering the target returns through a diversified portfolio.

## Approach to pooling

Hampshire is a member of the ACCESS pool along with the following 10 other pension funds:

| | |
|---|---|
| Cambridgeshire | Kent |
| East Sussex | Norfolk |
| Essex | Northamptonshire |
| Hertfordshire | Suffolk |
| Isle of Wight | West Sussex |

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter-Authority Agreement to underpin their partnership. The first investments that were pooled are passively managed investments, and Hampshire also now has four active equity mandates invested through the pool operator, Link Fund Solutions. The Operator is currently working to launch further sub-funds throughout 2021/22 and ACCESS has commissioned further work to facilitate the pooling of other asset classes.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS' website http://www.accesspool.org/

All 11 ACCESS funds are working in the expectation that all investments will be pooled apart from a minority of investments where there is no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Hampshire will not be pooling its allocation to directly held UK property (10% of its Strategic Asset Allocation). As set out by the ACCESS funds in their July 2016 submission to the Government, there is a dis-economy in pooling direct property investments due to the cost (principally tax) of making changes to portfolios and the limited anticipated savings available from pooling.

In addition, Hampshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

## Responsible Investment Policy

### 1. Rationale, definition and beliefs

The Pension Fund's investment principles include:

i. that it has a long term focus and must make investment returns to meet pensions liability (currently calculated by the Fund's actuary as 4.4%pa), and

ii. a belief in the importance of Responsible Investment (RI), including consideration of social, environmental and corporate governance (ESG) factors, which can both positively and negatively influence investment returns.

Therefore, 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. This document sets out how the Fund's RI responsibilities are delivered in line with these principles.

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

This policy is based on the following key RI beliefs:

- RI considerations are important, particularly over the longer term to both protect and enhance long-term investment return and maintain alignment to stakeholders' values.
- RI considerations apply to all asset classes, but different asset classes may mean the management and implementation is different.
- Responsible management of RI Issues is a reputationally important issue.
- The Pension Fund expects the consideration of ESG factors to be incorporated into the portfolio construction process of all investments made by our investment managers.
- The Pension Fund views climate risk - and the issues which contribute to it - as a key risk to the Fund and of significant concern to all stakeholders (and understands that many have called this a Climate Emergency),
- As a result the Pension Fund supports the objectives of the Paris Agreement, and believes that keeping a global temperature rise this century to well below 2ºC (which we take to be 1.5ºC) relative to pre-industrial levels is entirely consistent with securing strong financial returns, which is its most prominent area of focus for responsible investment.
- To address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a *just transition*.
- The Pension Fund believes in engagement over divestment as the means to promote RI beliefs – however, choosing not to own an asset remains an option if the Pension Fund believes that ESG issues are not suitably addressed and that this would be supported by a significant majority of scheme members and employer
- Exercising ownership rights through voting is an important plank of implementing this RI policy and this can be enhanced working collaboratively with other like-minded investors.

The Pension Fund commits to the aim for its investments to have **net-zero greenhouse gas emissions (which includes Scope 1, 2 and 3 emissions) by 2050 at the latest**. This is in line with the UK Government's own target for net-zero emissions by 2050, and a number of employers in the Hampshire Fund declaring Climate Emergencies. The Pension Fund's aim is set in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met. The Pension Fund is working with its specialist RI advisor to develop a plan and trajectory for how it can achieve its Net-Zero aim.

## 2. Investment Strategy

These factors, whilst not exhaustive, provide a baseline of ESG factors that are actively taken into account as part of the Pension Fund's overall investment strategy; as part of the Fund's selection of its investment managers, how the Fund will scrutinise its investments and how it will transparently report on its investments based on these factors. This approach has been communicated to the Fund's investment managers who have confirmed they conform to this policy. The ability to consider and manage ESG issues will be part of the evaluation of investment managers and other suppliers to the Pension Fund, and forms part of the specification and contracts for services.

Stock/Sector Exclusions and Social Impact investments

The Pension Fund's primary policy is not to disinvest and prohibit its investment managers from investing in any particular company or sector. Where investment managers select companies either as part of active portfolios or passively as they are part of an index, the Pension Fund expects its investment managers to use the Pension Fund's influence as an investor to achieve the best outcome for investors on ESG issues.

The Pension Fund is aware that the issue of whether to disinvestment is particularly relevant to Climate Change and investment in companies involved with fossil fuels. The Pension Fund does believe that Climate Change is of significant concern but that disinvesting from fossil fuel companies at this time is not the solution:

- If the Pension Fund's shares in fossil fuel companies are sold, it will lose its ability as a Responsible Investor to engage with those companies, to hold them to account and to influence and support them in their move towards a lower-carbon economy. The investors that would buy these shares from us may not do this.
- The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition – this means that the benefits of a low carbon economy transition are shared widely, ensuring that the areas of society who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.
- Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example in developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.

- The economy still relies on many carbon-intensive industries, for example manufacturing, mining, chemicals, cement and transport, and many people rely on products that are derived from fossil fuels for example plastic containers, synthetic clothes, and medicines. In the short to medium term, there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy, such as producing the steel to build wind turbines. However, by investing in and engaging with these companies the Fund can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

This also reflects the Government's policy1 to 'encourage stewardship rather than disinvestment'. Government continues to believe this [disinvestment] would be the wrong approach – engagement with high carbon companies, when done effectively, can reduce the climate risk to which the scheme is exposed. At the same time, stewarding these firms to set a plan for the transition can have a greater impact on climate change than simply selling assets to others who might not hold investee firms to account'.

The Pension Fund's focus is on measuring and reducing the carbon footprint of all the companies it invests in, not just fossil fuel companies, and working with its investment managers to find ways to reduce the overall carbon footprint in line with its aim to have net-zero emissions by 2050, whilst continuing to achieve the investment returns that are required to pay pensions.

The PFPB will consider disinvestment or exclusion of a particular stock, industry or country or investment in specific 'social' investments where, based on an evaluation of ESG factors including the points above, it believes that the decision would be supported by a significant majority of scheme members and employers; the PFPB may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

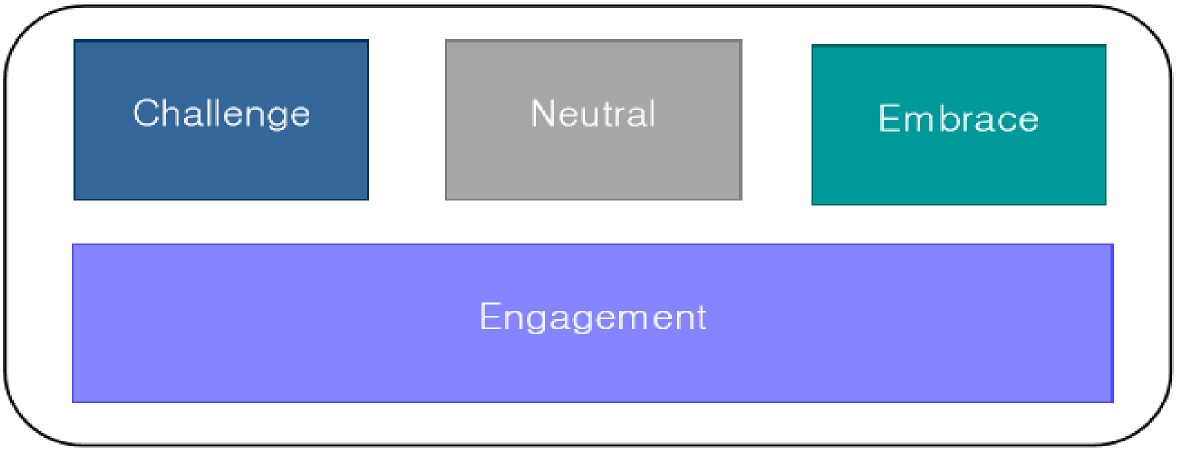
Although the PFPB believes that most fossil fuels are still required currently to support the economy and the transition to a low-carbon world, this is with the exception of Thermal Coal. This is the coal that is used to generate electricity, for which there are cleaner alternatives and therefore which is not necessary for the transition to a low-carbon economy. This is consistent with the agreement of more than 40 countries at the United Nations' recent COP26 summit in Glasgow to shift away from the use of coal. The Pension Fund will work with its investment managers to remove this exposure from its investment portfolios.

[1] Local Government Pension Scheme investments, House of Commons Library CBP-7309.pdf (parliament.uk)

## 3. Framework and Approach

Consideration of ESG in Investment Decisions

The Pension Fund delegates its investment decisions to its current and future appointed investment managers, who are a combination of specialist external active investment managers and passive investment managers. The PFPB engages in responsible stewardship with its investment managers and will review and monitor investments based on the following model:




- **Challenge** – where the underlying investment/company delivers less than a net neutral contribution to a sustainable society with a high barrier to transformation, the Fund will challenge its investment manager (where appropriate) on their decision to hold the investment.
- **Neutral** – underlying investments/companies that have potential to transform their operations and/or business model to fit in a sustainable future.
- **Embrace** – where underlying investments/companies are delivering a positive contribution with an undebatable fit in a sustainable future, the Fund will be in dialogue with its investment managers to understand what it can learn from these investments and its investment managers' decisions to invest.
- **Engagement** – in all situations the Fund expects its investment managers to engage with companies that they have invested in, as described in more detail below.

The Fund recognises that there are different expectations for its investment managers in the context of this Policy as follows:

**Passive investment managers**

These managers are employed to mirror the stocks in various indices, and the PFPB accept that in making investments for the Pension Fund through an index, passive managers are unable to actively take ESG factors into account.

However, the PFPB does expect its passive investment managers to act in the best interests of the Pension Fund to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the PFPB 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 (see separate section below on Exercising Voting rights).

**Quantitative investment managers**

These investment managers employ particular automated techniques to select stocks as opposed to individual judgement (used by 'traditional' active investment managers), but unlike passive investments are not constrained by any index. The Pension Fund would 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.

Similarl 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 PFPB delegates responsibility for making individual investment decisions (non passive) to its active investment managers. All of the Pension Fund's active equity managers are invested in via the ACCESS pool, and over time, the Fund would expect that active managers for all asset classes are invested in via ACCESS. Investment managers in the ACCESS pool will be subject to ACCESS's RI guidelines, which accord with Hampshire's policy requiring 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 PFPB 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 invests in closed ended limited partnerships and has let a number of discretionary contracts to investment managers for investments in private equity and infrastructure in these types of investments. The Pension Fund requires that its investment managers 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 the Fund has committed its investment it cannot control the underlying 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 the 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.

<u>Responsible Investment Sub-Committee</u>

The Pension Fund Panel and Board (PFPB) take their responsibilities for Responsible Investing and the consideration of ESG issues very seriously, and have established a Responsible Investment sub-committee, which meets at least twice a year, to review ESG issues and support implementation of the Responsible Investment Policy.

The Terms of Reference of the sub-committee are as follows:

To make recommendations to the PFPB on ESG issues having completed the following activities:

a. to review regularly 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
b. to provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it;

c. to engage in responsible stewardship with its investment managers and to provide a forum for the review and monitoring of investments in the context of the Policy;

d. to receive any relevant training on ESG issues;

e. to review investment managers' company engagement and voting decisions and when necessary engage directly and indirectly with investment managers (and where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate;

f. to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate;

g. to report annually on the Pension Fund's Responsible Investment activities to demonstrate progress to the Pension Fund's stakeholders.

**Conflicts of interest**

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.

The Pension Fund expects the investment managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, 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 County 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 County Council members are maintained and monitored on a Register of Member Interests. These are published on the County Council's website under each member's name and updated on a regular basis.

**4. Exercise of rights attaching to investments**

Each of the Pension Fund's investment managers is asked to 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. This includes requiring investment managers to exercise the Fund's responsibility to vote on company resolutions wherever possible.

The Fund believes that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of stakeholders including shareholders, company employees and consumers. 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 equities are available for Stock Lending, via the programme agreed as part of the ACCESS pool. The programme includes the provision for investment managers to recall stocks from the lending programme, should this be necessary voting at company meetings.

## 5. Monitoring, Reporting and Next Steps

Reporting

Scheme members were consulted on the original version of this RI policy in 2019. Any comments on ESG issues are reported to the RI sub-committee as a standing item at each meeting.

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 these guidelines. The reports of the investment managers on their consideration of ESG factors, their company engagement and collective engagement and shareholder voting will be viewed by the Pension Fund's officers, the Responsible Investment Sub-Committee and Pension Fund Panel and Board.

The following table shows how the Pension Fund sets its policy and reviews its progress including complying with the various standards it has adopted.

| | **Frequency** | **Where to find it** |
|---|---|---|
| Strategies and policies | | |
| Investment Strategy Statement | Reviewed annually | Policies \| Hampshire County Council (hants.gov.uk) |

| | **Frequency** | **Where to find it** |
|---|---|---|
| Responsible Investment Policy | Reviewed annually | Policies \| Hampshire County Council (hants.gov.uk) |
| External Reports | | |
| Annual Report and Annual RI Update | Annual | Annual reports and accounts \| Hampshire County Council (hants.gov.uk) |
| TCFD Report | Annual | Responsible Investment \| Hampshire County Council (hants.gov.uk) |
| UK Stewardship Code Report | Annual | Responsible Investment \| Hampshire County Council (hants.gov.uk) |
| PRI report | Annual | Results published in 2022 |
| GRESB report | Annual | Tbc |
| Internal reports | | |
| Stewardship report to the RI sub-committee | Bi-annual | Committee details - Hampshire Pension Fund Responsible Investment Sub-Committee \| About the Council \| Hampshire County Council (hants.gov.uk) |
| Investment manager voting reports | Quarterly | Responsible Investment \| Hampshire County Council (hants.gov.uk) |

RI Standards

<u>The Pension Fund supports and/or is a member of the following initiatives that aim to promote RI for investors and positive changes in management of ESG factors:</u>

- UK Stewardship Code 2020 – The Pension Fund has been accepted as a signatory of the 2020 Code (one of only six initial LGPS signatories), which sets high stewardship standards for those investing money on behalf of UK savers and pensioners. The Fund has produced a Stewardship Code statement that sets out on a ‘apply or explain’ basis how it meets the 12 principles of the Code UKStewardshipcodecompliancestatement.pdf (hants.gov.uk)
- Principles of Responsible Investment (PRI) – The Fund is a signatory to the PRI, which was founded by the United Nations and is the world’s leading proponent of responsible investment. In becoming a signatory the Pension

Fund has committed to the PRI's six principles for RI. More information can be found here: About the PRI | PRI Web Page | PRI (unpri.org)

- Taskforce on Climate-Related Financial Disclosure (TCFD) – the Pension Fund supports TCFD which aims to develop recommendations for more effective climate-related disclosures that could promote more informed investment decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. The Pension Fund reports in line with recommendations of TCFD TCFD-report.pdf (hants.gov.uk)
- Institutional Investors Group on Climate Change (IIGCC) - The Fund is a member of the IIGCC. The Fund has made a public net zero commitment. As part of its membership the Fund benefits from educational materials, webinars, and the net zero framework, which will help the Fund achieve the target of net zero by 2050. More information can be found here: https://www.iigcc.org/
- Transition Pathway Initiative (TPI) - The Fund publicly supports TPI, which is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. The TPI tool assesses progress against companies and sectors to measure the level of management quality and carbon performance, to aid in risk assessment. More information can be found here: https://www.transitionpathwayinitiative.org/
- Just Transition - A "just transition" means not transitioning to a low carbon economy at any cost, but doing so whilst also ensuring that this is done in a socially responsible way. The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science have put together a comprehensive guide as to what this means for investors, and what action can be taken. The Fund has signed a statement of support, and uses the guide to help embed this goal within the Fund's policies, and help hold our investment managers to account. More information is available at the following link: Investing in a just transition - global project - Grantham Research Institute on climate change and the environment (lse.ac.uk)

The Pension Fund will consider signing up to other investor standards and initiatives where the Pension Fund Panel and Board believes it will enhance Hampshire's RI policy.

RI Priorities for the Coming Year

The following topics have been identified as specific priorities for the coming year:

- Repeat of external assessment of the ESG risks and issues across the Pension Fund's portfolio.
- Improvement of the Pension Fund's RI webpage.
- Continuation of expanding the availability of carbon data for the Pension Fund's investments

## Annex 1 – Investment Beliefs

**Belief: Clear and well-defined objectives are essential to achieve future success**

The Pension Fund Panel and Board is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due. The Panel and Board have considered their own priorities and believe that setting clear objectives for the Fund is key in providing focus for the way the investment strategy is implemented.

**Belief: Strategic asset allocation is a key determinant of risk and return**

The Panel and Board understands that having the appropriate strategy in place is a key driver of the Fund's future success and thus is typically more important than manager or stock selection.

**Belief: Funding and investment strategy are linked**

The Panel and Board understands that a number of funding related aspects feed into investment strategy decisions, including maturity and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Panel and Board.

**Belief: The Panel and Board will take an appropriate level of investment risk**

As a long term LGPS Fund the Panel and Board acknowledge the need to take investment risk to ensure the affordability and sustainability of the Fund. However, the level of risk will be set which is aligned to the long-term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.

**Belief: Long term investing provides opportunities for enhancing returns**

The Panel and Board believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long-term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

**Belief: Equities are expected to generate superior long-term returns**

The Panel and Board believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Panel and Board is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

**Belief: Government bonds provide liquidity and a degree of liability matching**

Government bonds have characteristics that are similar to the assumptions used in valuing pension liabilities e.g. sensitive to changes in interest rates and (for index linked) to changes in market-implied inflation. This makes them a suitable asset for reducing the Fund's funding risks. In addition, this asset class has proven to be highly liquid at times of market stress, enabling it to be used for rebalancing and to help meet any outflows that may fall due. Given this, the Fund hold a proportion of its assets in this asset class.

**Belief: Alternative investments provide diversification**

The Panel and Board believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Panel and Board believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, infrastructure and property) will provide the Fund with diversification benefits.

**Belief: Fees and costs matter**

The Panel and Board recognises that fees and costs reduce the Fund's investment returns. The Panel and Board considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. The Panel and Board will consider paying higher fees to access the strategic opportunity or where the Fund can achieve better or more consistent net of fees returns.

**Beliefs: Market inefficiencies will provide opportunities to add value over time**

The Panel and Board belief that at times relative market movements or dislocations will provide opportunities to generate additional returns for the Fund. However, the Panel and Board do not believe that they are best placed to capitalise on these opportunities. The Panel and Board will therefore set mandates with the flexibility for specialist external investment managers to add value through allocation decisions where deemed appropriate. Alongside this the Panel and Board will assess the position of the Fund against the long-term strategic benchmark and any requirements to rebalance back toward the long term target.

**Belief: Active management can add value**

The Panel and Board recognises that certain asset classes can only be accessed via active management. The Panel and Board also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Panel and Board will therefore use active management selectively and when doing so will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance may arise, the Panel and Board seeks to minimise the additional risk from active management.

**Belief: Passive management has a role to play in the Fund's structure**

The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

**Belief: Responsible Investment is important to the Panel and Board and can have a material impact on the long-term performance of its investments**

The Panel and Board recognises that Responsible Investment issues incorporating all forms of Environmental, Social and Governance (ESG) issues can impact the Fund's returns. Given this, the Panel and Board aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Pension Fund is a signatory of the Principles of Responsible Investment with a Responsible Investment policy and a RI Sub-Committee.

## Annex 2 – Current investment management arrangements

| Portfolio | Investment Manager | Benchmark | Annual target performance gross/net of fees |
|---|---|---|---|
| High-performance global equities | Link Fund Solutions (Acadian Asset Management) | MSCI World Index | +1.5-2.5% net |
| | Link Fund Solutions (Baillie Gifford) | MSCI ACWI | +1.5-2.5% net |
| | Link Fund Solutions (Dodge & Cox). | MSCI ACWI | +1.5-2.5% net |
| | Link Fund Solutions (Baillie Gifford) | MSCI ACWI | +1.5-2.5% net |
| Passive Global Equities | UBS Asset Management | FTSE All World Equity Index | |
| | | FTSE RAFI All-World 3000 | |
| | | MSCI World Min Vol | |
| | | MSCI World Quality | |
| Private equity | abrdn | | +9%-11.5% net |
| Hedge funds (legacy portfolio) | Morgan Stanley | | +5.5%-8% net |
| Infrastructure | Grosvenor Capital Management | | +7.5%-10% net |
| Private debt | JP Morgan Alternative Asset Management | LIBOR | +4% net |
| Multi-asset Credit | Alcentra | LIBOR | +3% net |
| | Barings | LIBOR | +3% net |
| Passive UK index-linked bonds | UBS Asset Management | FT British Government Over Five Years Index-Linked Gilts Index | |

| Portfolio | Investment Manager | Benchmark | Annual target performance gross/net of fees |
|---|---|---|---|
| UK property | CBRE Global Investors | Retail Price Index (RPI) | +3.5% net |
| Asset Backed Securities | Insight Investment | LIBOR | +2% gross |
| | TwentyFour Asset Management | LIBOR | +2% gross |

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# Hampshire Pension Fund

# Responsible Investment Consultation

## Key findings – June 2022



Hampshire County Council

Insight. Marketing. Communications.

# Background and response

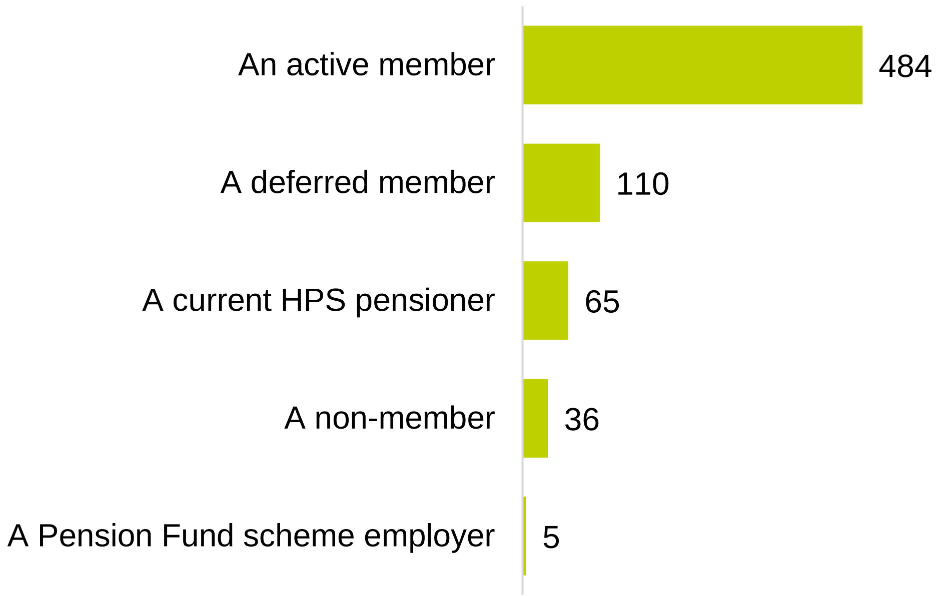
The Hampshire Pension Fund is part of the Local Government Pension Scheme (LGPS). It is responsible for paying the pension benefits of 183,000 current and future pensioners.

The Pension Fund Panel and Board (PFPB), who are responsible for the management of the Pension Fund, undertook a consultation from **4 April until 31 May 2022**, which sought to establish whether the rationale for key aspects of its Responsible Investment (RI) Policy were clearly understood. This included a new commitment to aim for investments to have net-zero greenhouse gas emissions by 2050 and a commitment to disinvest from thermal coal.

The consultation was highlighted via website updates and banners and disseminated to pensioned, active and deferred fund members using emails and payslips. Pension Fund Scheme employers were asked to bring the consultation to the attention of their employees, in addition to responding themselves.

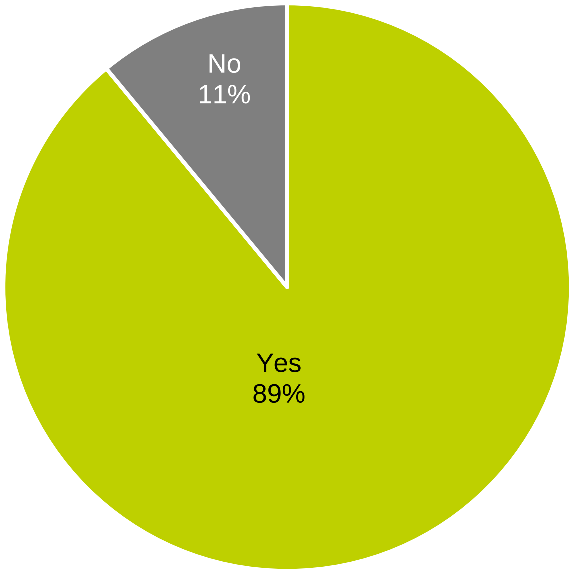
A total of **701 responses** were received.

**Number of respondents by type**

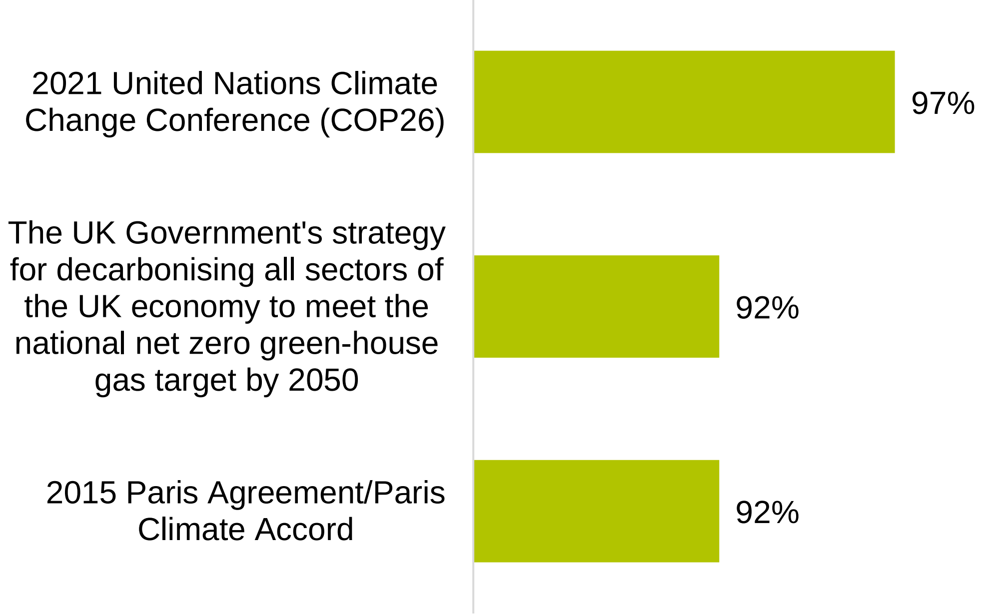


**Contextual Understanding:** Almost all respondents were aware of the contextual and political landscape within which the Fund was operating.

**It is clear that the Fund must make the required investment returns?**



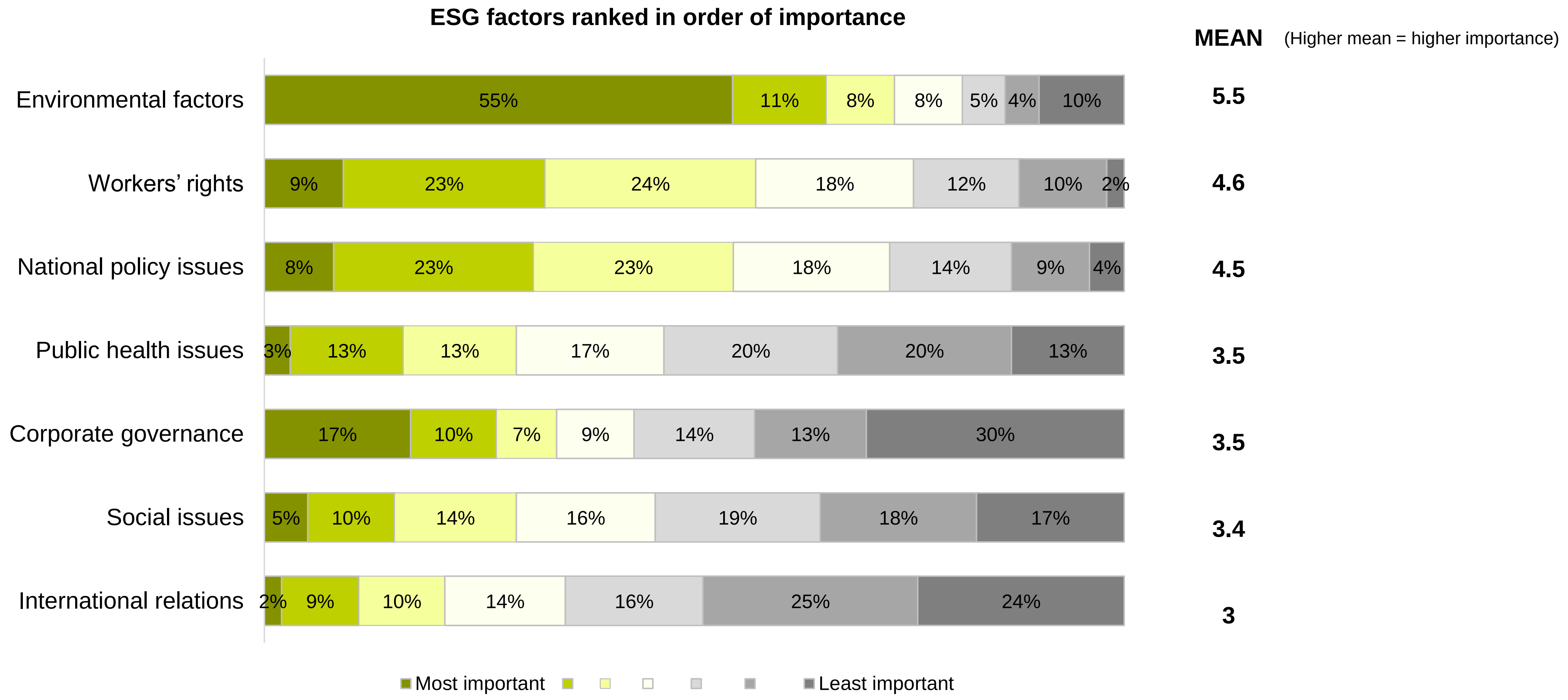

**Awareness of. . .**






*Q: Is it clear from the information provided that the Fund must make the required investment returns (currently 4.4% per annum) in order to pay pensions, both now and in the future? Respondent Base: 688*
*Q: Are you aware of the following? Respondent base 672*

**Importance of ESG Factors:** Environmental factors were ranked as the most important factor for the Fund to have regard to when investing in companies, followed by workers rights and national policy issues.




*Please rank the following seven Environmental, Social and Governance (ESG) factors in order of importance for the Fund to have regard to when investing in companies from most to least important. Respondent Base: 700*



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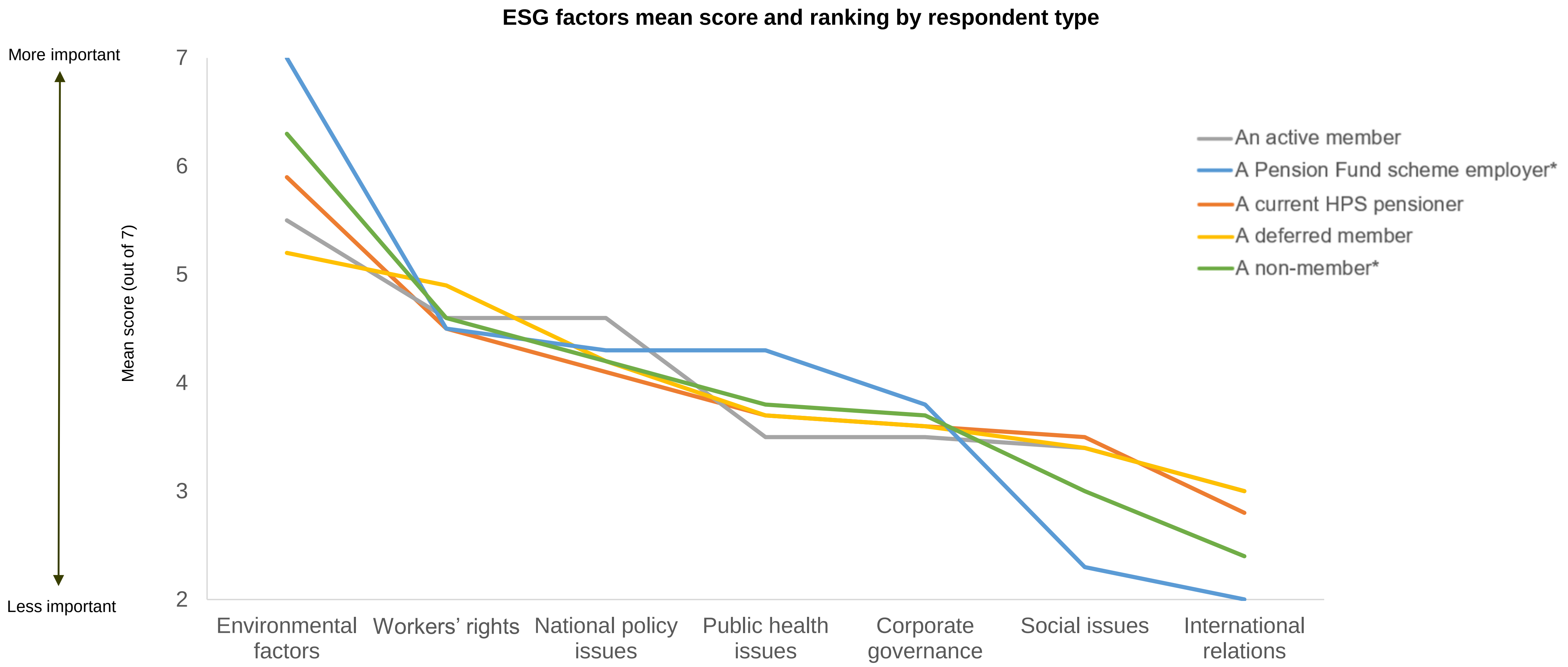
**Importance of ESG Factors:** Although all respondent groups ranked the ESG factors in the same order, relatively speaking, employers and non-members gave notably more weight to environmental factors, whilst active members highlighted national policy issues and deferred members flagged workers' rights.






*Please rank the following seven Environmental, Social and Governance (ESG) factors in order of importance for the Fund to have regard to when investing in companies from most to least important.*
*Respondent Base: 483, 4*, 65, 110, 35* (*NB: low base)*

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**Importance of ESG Factors:** Some respondents also highlighted that multiple factors should be given equal importance.



*Very difficult to rank the above, as several merit 'first place'.*

*They are all important. All effort should be made to consider all these factors when investing. Asking members to choose between them is not a valid reason to invest in dubious companies.*

*I understand why you ask to rank these as 1-7, but my honest belief is that responsible investment means taking all of these factors seriously.*

*There isn't an order to these - they are all minimum standards*

*Just to say that 5,6,7 I felt needed to be ranked the same - at the very bottom of the list.*

*You can do all of these at the same time, they are not mutually exclusive.*

*Are there any other ESG factors that you think should be taken into consideration?*
*Verbatim. Respondent Base: 30*

**Other ESG Factors:** A small number of respondents proposed other ESG factors that should be taken into consideration, such as those that should / should not be included in investments.

## Don't invest in

| | |
|---|---|
| Fossil fuels | 17 |
| Arms and armaments | 16 |
| Things that are harmful to the environment | 11 |
| Companies that endanger animals | 11 |
| Things that are harmful to workforce/population (i.e. slavery, extortion, ethnocide, human rights) | 9 |
| Russian companies | 4 |
| Companies that contribute to political parties | 3 |
| Pharmaceutical companies | 2 |
| Countries governed by dictatorship | 2 |
| Companies who undermine the public sector's existence | 1 |
| Israel | 1 |
| Companies which have links to the UK's foreign policy partners | 1 |

## Do invest in

| | |
|---|---|
| Fair trade/sustainability/human rights | 7 |
| Green Focus / Power | 7 |
| UK companies, those who pay fair UK tax | 5 |
| Decent / ethical companies | 4 |
| Local and community initiatives | 3 |
| Companies who look after their workforce | 2 |
| B Companies | 2 |
| Defensive weapons | 1 |
| Companies that align with HCC values | 1 |
| Meets minimum risk on the risk register | 1 |
| Fossil fuel companies that invest heavily in renewables as well | 1 |

## Also consider

| | |
|---|---|
| Animal rights / welfare | 12 |
| Maximum investment returns | 9 |
| Climate change / in the interest of the planet | 7 |
| Inclusion and diversity | 5 |
| Broadening definition of public health/ social issues | 5 |
| Separate biodiversity and climate change | 3 |
| Situation in Ukraine | 2 |
| Make amendments as suggested by Unison | 2 |
| Short term v long term focus | 1 |
| Positively screen companies to invest in | 1 |
| Gender equality | 1 |
| National resilience | 1 |
| Solvency of fund | 1 |
| National energy security whilst pursuing net zero (2050) | 1 |
| Too many ESGs already | 1 |
| All investments should be secular in nature | 1 |

*Are there any other ESG factors that you think should be taken into consideration?*
*Verbatim question: topics and number of comments shown*
*Respondent Base: 64, 24, 54*

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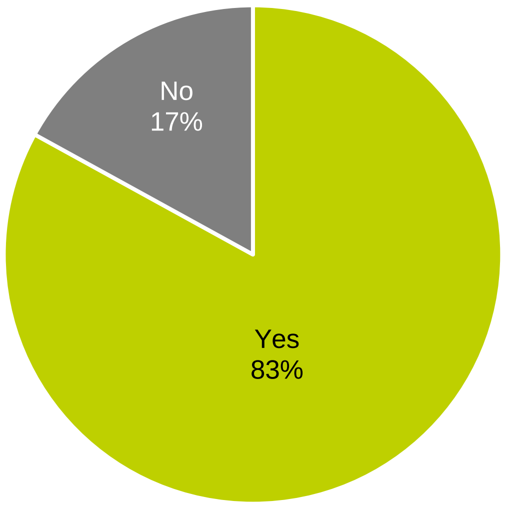
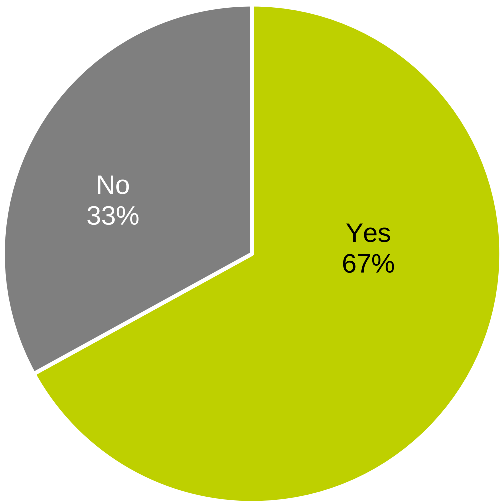
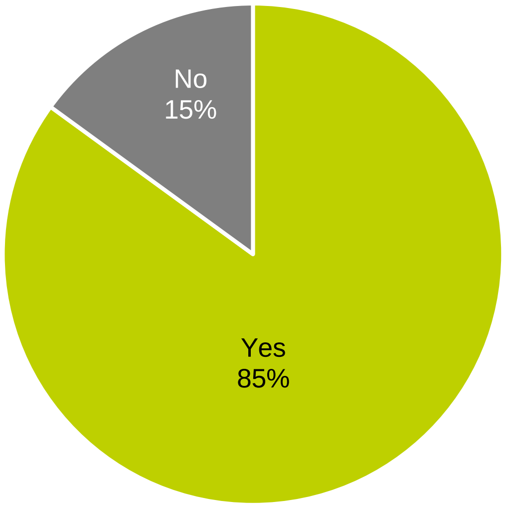
**Understanding of rationale:** Most respondents were clear as to the Fund's rationale for targeting net-zero emissions and disinvesting from Thermal Coal. However, one in three didn't understand why the Fund would not disinvest in fossil fuel companies at the current time.

From the information provided, do you understand the Fund's rationale to:






*Respondent Base: 696, 695, 697*

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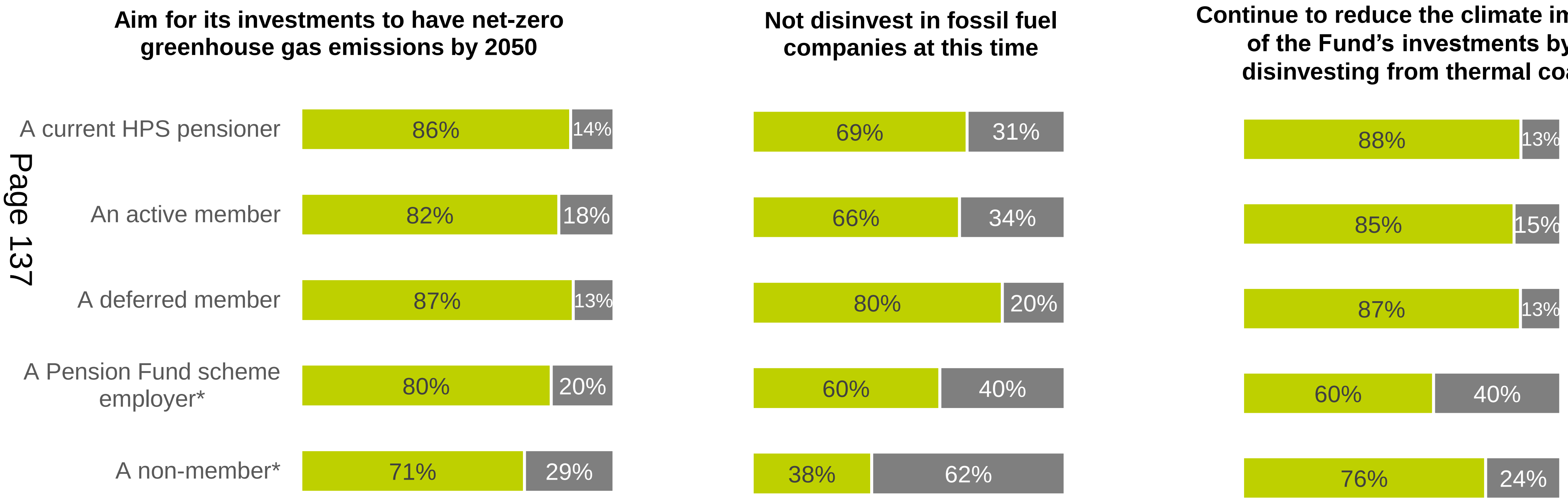
**Understanding of rationale:** As a general trend, non-members and Pension Fund employers were less understanding of the Fund's rationale than current, active and deferred members. Understanding of the rationale for continued fossil fuel investment was lower amongst all respondent groups.

From the information provided, do you understand the Fund's rationale to:






**NB: low base*
*Respondent Base: 65, 484, 110, 5*, 35**

**Understanding of rationale:** However, as some respondents pointed out – just because they understood the Fund's rationale, didn't mean that they necessarily agreed with it.

*I understand your rationale for continued investment in fossil fuel but i disagree with your rationale*

*I understand the rationale - I do not agree with it.*

*Questions asking if the respondent 'understands' the rationale for the Investment Policy are not helpful. A respondent will often understand but might not agree with the policy.*

*there is a difference between understanding and agreeing to principles. it might be beneficial to gain information on if we agree with them.*



*the word "understand" is ambiguous in the previous question. it carries the implication of "agree with". I understand what you've said about the fund's approach to fossil fuels, but i would like to be asked if i agree with it (i don't), but selected "yes" to understanding it, i worry that it's seen as implicit agreement with the policy.*

*the questions asked are based on whether we understand the rationale. I would find it more consultative to ask if we agree with the rationale.*

*Q: Do you have any further comments about Hampshire Pension Fund's Responsible Investment Policy?*
*Verbatim question: 23 comments made suggestions regarding question wording, including one submitted as an unstructured response*

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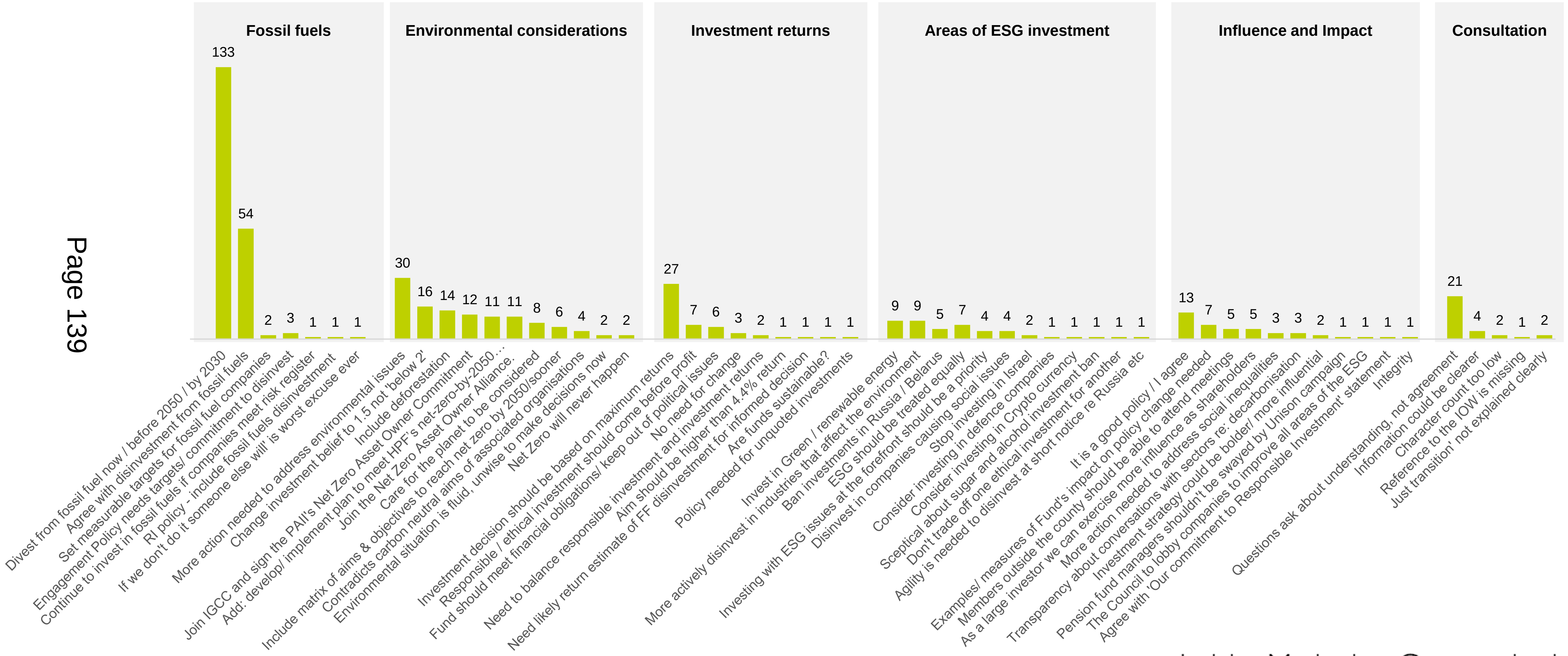
**Further comments:** Broadly fell into one of six groups, with the main suggestions relating to disinvestment in fossil fuels and further consideration of the environmental factors that could be influenced by the investment policy.

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Do you have any further comments about Hampshire Pension Fund's Responsible Investment Policy?
*Base = 260. Number of mentions shown.*

**Fossil fuels:** Although comments often reflected agreement that the Fund should disinvest from fossil fuels, there was a desire amongst some respondents to see an earlier transition and a clearer pathway.

*Ultimately, there's no point in having a pension pot in 2051 if the world is toast by 2049. a more reasonable goal would be something like to disinvest as soon as possible but no later than 2050.*

*Renewable energy is becoming a prominent part of the national grid. divestment before 2030 is needed if the pension fund wants to ensure that it is making sustainable investments as whilst the country currently relies on fossil fuels, this will not be the case in the future.*

*I understand the funds aims for continuing to invest in fossil fuels; however, there could be greater clarity over how it intends to do this in a responsible way*

*Divestment from fossil fuels should happen sooner than 2050, by 2030 at the latest based on latest ipcc report this is the just transition*

*The Hampshire Pension Fund currently invests £136m in fossil fuels, this needs to be reduced to zero by 2030 at the latest*

*Fossil fuel companies have had time to change and won't do so until required to by legislation or driven by investors.*

*The pension fund should set more ambitious targets for investments being net zero sooner than 2050 as there is a time lag between making an investment and achievement of a decarbonisation response.*

*The pension sector has a strong role to play in sending the message that the use of fossil fuels are no longer a valid way forward.  please reconsider this position.*

*The 2050 timescale is greenwashing.*

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*Do you have any further comments about Hampshire Pension Fund's Responsible Investment Policy?*
*Sample of comments relating to fossil fuels shown. All comments submitted have been provided to the project team*

**Environmental considerations:** Respondents emphasised the need for urgent action on the environment, underpinned by scientific evidence. It was felt that the Fund could better support this and their own returns by investing in 'green' industries.

*There are no pensioners on a dead planet*

*I would like to see another clause included to ensure that we only invest in companies that have set carbon reduction targets or are actively developing sustainable energy technologies, preferably both*

*You need a more pro-active approach to finding investments that are biodiversity and climate positive.*

*Net zero by 2050 is considered by scientists to be too late to tackle the climate crisis. significant reductions in carbon emissions needs to be at a swift pace. do not invest in companies which cause climate change through deforestation for example.*

*If not us, who, and if not now, when? the clear scientific evidence shows that we need to stick to the agreements limiting the temperature increase to 1.5 degrees c not 2 degrees*

*Climate scientists warn that we are already perilously close to tipping points that could lead to cascading and irreversible climate impacts. cheaper, renewable solutions provide green jobs, energy security and greater price stability.*

*change the new investment belief to 1.5 not "below 2" degrees.  add "developing and implementing a plan to meet the hpf's net-zero-by-2050 commitment" to the ri priorities.  either join the institutional investor group on climate change and sign the paris aligned investment initiative's net zero asset owner commitment, or join the net zero asset owner alliance instead.  add deforestation*

*There are a lot of 'green' companies out there that need investment and with that investment they can grow and increase their returns*

*I cannot see a mechanism for how fund managers successfully influence strategic objectives (low-carbon, transition)*

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*Do you have any further comments about Hampshire Pension Fund's Responsible Investment Policy?*
*Sample of comments relating to environmental considerations shown. All comments submitted have been provided to the project team*

**Investment returns:** There was some concern over how responsible investment may impact returns, with reassurance required that the policy would not be detrimental to fund growth.

*Outcomes for your customers should be your overriding concern. invest our money where it will grow fast and be safe.*

*It's all well and good investing 'responsibly', but not at the cost of my retirement*

*I am not really worried about any of this if I'm honest, all i worry about is a good rate of return*

*Please do not let ESG criteria take precedence over the wider investment strategy. it is just a small consideration when investing which has been over stated by too many fund managers and commentators.*

*There should be a balance and obviously it is commendable to invest in more sustainable companies but not totally at the detriment to an optimum investment return.*

*They should only invest in what is best for the employer paying into the pension fund to ensure the employee gets a good return by the time they retire*

*More decisive action is needed, which in my considered view can be just as, if not more, effective in terms of responsible investment.*

*Given the cost of living crisis, there should be a very clear focus on maximising investment returns, to enable increased payments to current and future pensioners*

*I hope the returns and the responsible investment policy will co-relate each other when the time comes for me to draw my pension fund.*

*Do you have any further comments about Hampshire Pension Fund's Responsible Investment Policy?*
*Sample of comments relating to investment returns shown. All comments submitted have been provided to the project team*

**Influence and Impact:** Respondents also requested further evidence of the Fund's impact on the activities of the companies it invests in.

*The fund should be more transparent about the conversations it is having with sectors to encourage decarbonisation.*

*As it is deemed necessary to continue to invest in fossil fuels to hold influence. can the fund measure the positive impact it has had on changing the policies and procedures of companies causing the climate emergency?*



*Thank you for moving, albeit slowly, in the right direction*

*We have power to make companies change their approaches in line with national and local policies. use it wisely*

*Your rationale is that as an investor you will have a say to reduce carbon emissions in relevant companies. but are you doing this? can you give examples of when you have pressured these companies to reduced their carbon footprint? if not, disinvest. that will send a message too.*

*If you are going to keep fossil fuel investments i want to see evidence of genuine financial engagement with the fossil fuel companies. how are you using your influence to encourage development of green technologies and reduce carbon output*

*I understand the rationale and believe that Hampshire pension fund will continue to do what they feel necessary to obtain the best returns on investment..*

*I believe that this all sounds sensible, and hope that influence can be bought to bear to help reduce these risks.*

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*Do you have any further comments about Hampshire Pension Fund's Responsible Investment Policy?*
*Sample of comments relating to influence and impact shown. All comments submitted have been provided to the project team*

**Pension Fund Employers:** Comments relating to the investment policy submitted by the four responding pension fund employers are displayed below.



**Winchester City Council**

Most of the ESG factors seem equally important and should all be given equal ratings

The IPCC report makes it clear that rapid divestment from fossil fuels is required - within the next 3 years - and I would like to see the fund survey their members as to what their own targets are (for example WCC's is to the carbon neutral by 2024) and adjust the 2050 date to be much sooner.

**Basingstoke and Deane Borough Council**

The 2050 target and returns are key drivers.  However, HPF should set some interim, or more-stretching targets, so that it may present itself as a leader, to try and change the agenda so that the 2050 target can either be changed or achieved early. the approach is too passive. could show a preference (where a choice exists) for 'green' or ESG investment and new technology.

**Test Valley Borough Council**

All seven factors are important and need to be balanced alongside other considerations including the return on investment. For environmental factors, while climate change is a key topic, there are other matters we should be considering, such as nature & biodiversity, some of which are outlined in the Principles for Responsible Investments examples of ESG considerations.

An appropriate balance needs to be struck in the approach to investment accounting for esg factors & the imperative to maintain stable contribution rates for both employer & employee contributions, by achieving returns on investment commensurate with those in the main aims of the investment strategy. please implement as soon as practical.

**Eastleigh Borough Council**

In May 2019 the Council agreed a response to the Hampshire Pension Fund consultation at that time; please see the attached committee report and appendices. Please note the position that the investments where a significant proportion of business activities relate to fossil fuel extraction, including Fracking (Unconventional Gas/oil extraction) should be excluded from the scheme. This remains the position of the Council, with the following additional comments.

1. EBC favours a policy of divestment over engagement (laid out in our previous response).
2. Whilst a net zero target of 2050 is welcome in the policy these targets need to be aligned to the Paris agreement with companies stating short-, medium- and long-term carbon targets with clear trajectories and action plans externally verified.
3. Investments should be in Companies which monitor emissions across the whole value chain covering scope 1, 2 and 3 emissions, not just selecting certain areas to report on.
4. Fossil fuel companies should not be relying on carbon offsetting or carbon capture and storage to meet their climate objectives. Carbon capture and storage is not developed at a scale and therefore presents a risk. They should be seeking to change their business model.
5. If the pension fund follows a path of engagement then there needs to be a system of monitoring and a policy position taken to divest if companies are not performing to an agreed and independently verified trajectory of reducing or eliminating greenhouse gases, emissions, or environmental damage through their business activities. advocating disinvestment or at least engagement that has tight control to ensure companies actively pursue and achieve any stated climate ambitions.

**Gosport Borough Council**

Gosport Borough Council supports the aim for investments to have net-zero greenhouse gas emissions by 2050.  The Council also acknowledges the benefits of a faster transition, while appreciating the complexities involved. However, the Council would like to see this aim defined more clearly in the Responsible Investment Policy.

Understanding of the role that fossil fuel companies will play in the transition to a net-zero economy, and of the potential for assets in which these companies are investing to become stranded, is still evolving.  Given this, the Council also hopes that the Pension Fund Panel and Board will continue to engage with key stakeholders on these issues on an ongoing basis.

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**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker:** | Pension Fund Panel and Board |
| **Date:** | 28 July 2022 |
| **Title:** | Investments: Pension Fund Cash – Annual Report 2021/22 |
| **Report From:** | *Director of Corporate Operations* |

**Contact name:** Alan Kitcher

**Tel:** 0370 779 6597 **Email:** Alan.Kitcher@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 2021/22 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 Investment Management 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 in the pooled vehicles that they manage, 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 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 that they manage.

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 each year in the Pension Fund's Annual Investment Strategy for cash. The latest strategy for 2022/23, was approved for immediate implementation by the Pension Fund Panel and Board on 10 December 2021. 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 2021/22 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 4 December 2020 and updated on 28 September 2021 and 10 December 2021. 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 Operations 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. 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 £48.18m and £142.90m due to timing differences between income and expenditure. The year-end cash position and the year-on year change are shown in Table 1.

| **Table 1 – Cash investment position** | **31/03/21 Balance** | **Net movement** | **31/03/22 Balance** | **31/03/22 Income return** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **%** |
| Banks and building societies: | | | | |
| - Unsecured | 24.16 | (6.85) | 17.31 | 0.25 |
| Money market funds | 12.59 | 44.05 | 56.64 | 0.53 |
| Local authorities | 56.00 | (56.00) | 0.00 | 0.00 |
| Treasury bills | 5.00 | (5.00) | 0.00 | 0.00 |
| **Total** | **97.75** | **(23.80)** | **73.95** | **0.46** |

12. As at 31 March 2022 the Pension Fund's cash balance was £73.95m compared to £97.75m as at 31 March 2021. This reduction in cash is due to cash balances being managed more closely to the £60m minimum balance. This is the result of an increase in capital calls from underlying investments of the alternative investment portfolios where investment managers have worked towards investing up to their strategic asset allocations.

13. The Fund's average cash investment balance was £79.2m during 2021/22 (0.82% of the total Pension Fund based on the average value during the financial year), and interest earned was £58,000, leading to an average yield of 0.07%.

14. In delivering cash investment returns, the Fund has operated against a backdrop in which the UK Bank Rate was 0.10% in March 2021 rising to 0.25% in December 2021, 0.50% in February 2022, and 0.75% in March 2022, in order to meet the Monetary Policy Committee's (MPC) 2% inflation target. Returns have been at or around 0%-1% 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 remain historically low, impacting the Pension Fund's ability to generate income on cash investments.

**Pension Fund cashflow**

15. 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.

16. In recent years the Fund has generated a surplus from dealing with members. However, for 2021/22 the Fund had a deficit of £88.8m compared to a surplus of £225.7m in 2020/21. This was due to the impact of employers choosing to pay 3 years' worth of pension contributions in advance on 1 April 2020. Due to the uneven impact of employers making 3-year prepayments, the Pension Fund should be able to get a clearer picture of its net position from dealing with members at the end of 2022/23 at the end of the 3-year contribution period.

17. 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, there is an additional factor of the Pension Fund's illiquid portfolios (Private Equity, Infrastructure, Private Debt and Property), which are being built towards the targets in the Fund's strategic asset allocation and has required more cash to be drawn down.

18. In general through 2021/22 the cash required to fund new investments has been greater than the cash returned from income and maturing investments.

Therefore the Pension Fund has been disinvesting from investments where they are above the strategic allocation set by the Panel and Board (passive equities and assets-backed securities) to fund the monthly shortfall from contributions and the net outgoings for illiquid investments, to keep its cash balance at the agreed £60m minimum.

**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℃ 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**

**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 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 disproportionally 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:** | 28 July 2022 |
| **Title:** | Governance – Risk Register |
| **Report From:** | *Director of Corporate Operations* |

**Contact name:** Andrew Boutflower

**Tel:** 0370 779 6896 **Email:** andrew.boutfower@hants.gov.uk

**Purpose of this Report**

1. The purpose of this paper is to reintroduce the Pension Fund's Risk Register, which forms part of the Fund's Business Plan.

**Recommendations**

2. That the Panel and Board approves the amended 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 Pension Fund's Risk Register is part of the Fund's Business Plan which was approved by the Panel and Board in December 2021 but is reviewed biannually. Risks are identified and considered by officers with the assistance of the Fund Actuary.

5. Since the last presentation of the Risk Register its format has been reviewed in line with best practice. Risks were previously reported by theme and rated high, medium and low. A more detailed approach has now been implemented with risks identified individually, linked to the Pension Fund's aims from its Business Plan and rated on a scale of 1 to 5. The updated

Risk Register is contained in Appendix 1. Separation of risks allows clearer focus on those most current and important to the Fund, in particular:

- failure to correctly implement the McCloud remedy,
- failure to meet the statutory deadlines for connectivity to the Pensions Dashboard,
- cybercrime activities impacting on integrity,
- assets not growing sufficiently to meet pensions liabilities, and
- the failure of officers to maintain sufficient levels of competence and/or resource.

6. Further amendments are planned for the next iteration of the Risk Register to be included in the 2022/23 Business Plan for December 2022:

   - Risks will be separated into strategic and operational, to help identify the greatest threats to the Pension Fund's operation.
   - The evaluation of risk prior to implementation of mitigating actions will be included to highlight the effectiveness of those actions.

**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℃ 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)].

**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.)**

| 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 disproportionally 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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| No | Aim | Risk Event, to include:<br>- the area of uncertainty in terms of the threat | Current Mitigating Actions / Controls | Post-mitigation assessment<br>Likelihood | Impact | Rating | Owner |
|---|---|---|---|---|---|---|---|
| 1 | Governance - robust and well based governance framework | That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.<br>Could result from turnover in Pension Fund Panel and Board Memebers and/or senior officers; or lack of training and development.<br>A failure of governance arrangements to meet statutory requirements and recommended best practice could lead to ineffective working relationships, financial loss and reputational damage. | Documented Terms of Reference for the Pension Fund Panel and Board.<br>Reporting of the Business Plan, Risk Register and Training Plan to the Panel and Board.<br>Knowledge and Skills checklist completed by Panel and Board members and used to identify training needs.<br>Induction information and training needs analysis sent to all new members of the Panel and Board.<br>Progress against training plan reported as part of the Pension Fund's Annual Report.<br>Advice taken from advisors. | 1 | 4 | 4 | CFO to the Pension Fund |
| 2 | Governance - act with integrity and be accountable for decisions made | Failure to disclose material facts, or the disclosure of incorrect or incomplete information in the Annual Report and Accounts or during the audit, leads to incorrect or incomplete information published in the Annual Report and Accounts, leading to reputational damage and financial loss | Hampshire Pension Fund follows the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance and Code of Practice for the Annual Report and Accounts content.<br>Programme of works from internal and external audit. | 2 | 2 | 4 | Head of Pensions |
| **3** | Governance - a well based governance framework which considers risk management, compliance and appropriate resourcing. | The failure of officers to maintain sufficient levels of competence and/or resource to discharge their duties could lead to retention of inefficient staff, therefore, relying on key officers impacting on the wellbeing of staff and a reduced work rate for the Pension Fund. | Confirmation each year from the Head of Pensions that the budget containts sufficient resources.<br>Pension Services follow the County Council's process for staff development and training.<br>Officer scheme of delegation in place to ensure appropriate decision making.<br>Budget is available that if specialist resource is required for consultancy and advice it can be procured. | 1 | 3 | 3 | Head of Pensions |
| 4 | Governance - act with integrity and be accountable for decisions made | Failure to recognise, disclose, monitor and prevent conflicts would lead to conflicts of interest resulting in ineffective governance processes, reputational damage and financial loss | The Pension Fund ensures that interests are recorded in the Conflicts Register.<br>Advice is provided to Members to enable them to recognise potential conflicts.<br>Members adhere to Hampshire County Council's code of conduct and Conflict of Interest Policy. | 1 | 3 | 3 | Head of Pensions |
| 5 | Governance - a well based governance framework which considers risk management, compliance and appropriate resourcing. | Due to insufficient knowledge, there could be a failure of effectively letting or managing contracts for the supply of services to the Pension Fund, leading to reputational damage, potential legal challenge, disruption of services and financial loss | The Pension Fund follows Hampshire County Council's Contract Standing Orders.<br>Where appropriate advice is taken from Hampshire legal and procurement officers and external legal support.<br>The Pension Fund monitors all contracts via perforamnce measures and contract fulfilment checks. | 1 | 3 | 3 | Head of Pensions |
| 6 | Governance - a well based governance framework which considers risk management, compliance and appropriate resourcing. | Failure to implement a policy to identify risks and arranged for these to be managed or mitigated and have sufficient internal controls | Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board. | 1 | 3 | 3 | Head of Pensions |
| 7 | Governance - to put stakeholders at the centre of everything we do, act with integrity and be accountable for decisions made. | Non-compliance with regulations caused by lack of knowledge by staff, changes in government policy/Local Government Pension Scheme (LGPS) reforms and systems not kept up-to-date, leading to reputational damage and financial loss. | The Pension Fund monitor the current and new regulations and correspondence from the Ministry of Housing, Communities and Local Government<br>(MHCLG) and Local Government Association (LGA).<br>Systems are monitored and kept up to date.<br>Officers keep up to date through particiaption in various scheme and industry groups and collaboration with other funds.<br>The Pension Fund makes use of its Independent Advisor and external consultants to keep abreast of changes.<br>The Pension Fund Panel and Board recieve reports on regulatory developments and applicable consultations as appropriate. | 1 | 4 | 4 | Head of Pensions |
| 8 | Governance - to put stakeholders at the centre of everything we do | Failure to undertake business as usual service due to events outside of the Pension Fund's control resulting in loss of service provision | The Pension Fund follows Hampshire County Council'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.<br>Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities. | 3 | 2 | 6 | Head of Pensions |
| 9 | Governance - to put stakeholders at the centre of everything we do, act with integrity and be accountable for decisions made | Due to cybercrime activities impacting on integrity, there is a risk of inability to carry out day-to-day business functions, which would result in reputational damage and financial loss | The Pension Fund's IT systems are hosted by Hampshire County Council who have a Cyber Security policy in place, which includes mandatory training for staff.<br>The Pension Fund has a Cyber Compliance statement and improvement plan, and training has been provided to the Pension Fund Panel and Board.<br>The Pension Administration's key supplier, CIVICA mitigations for Cyber Crime have been incorporated within their Business<br>Continuity Response Plan and have a Cyber liability clause within their contract with Hampshire Pension Fund. | 1 | 4 | 4 | Head of Pensions |
| 10 | Investments and Funding - an investment strategy that balances risk and return | Investment management underperformance – from the Fund’s investment managers failing to outperform their benchmark returns for prolonged periods of time resulting in a decrease in the Pension Fund's funding level | The Fund’s investment managers’ performance is reviewed regularly by the Fund’s officers and reported regularly to the Panel and Board.<br>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. | 3 | 2 | 6 | Head of Investments & Borrowing |

| No | Aim | Risk Event, to include:<br>- the area of uncertainty in terms of the threat | Current Mitigating Actions / Controls | Post-mitigation assessment<br>Likelihood | <br>Impact | <br>Rating | Owner |
|---|---|---|---|---|---|---|---|
| 11 | Investments and Funding- to make the best us of resources | Ineffective monitoring of 3rd party service providers could lead to their failure to maintain their obligations in respect of investments which could result in potential loss of return or liquidity or ability to access or control investment | The Pension Fund's assets are not included on Custodian's Balance Sheet.<br>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.<br>Within the ACCESS Pool environment the Depository has liability for safekeeping of Pool investments. | 2 | 3 | 6 | Head of Investments & Borrowing |
| 12 | Investments and Funding - an investment strategy that balances risk and return | Assets do not grow sufficiently to meet pensions liabilities as a result of:<br>- fluctuations in market prices (which is particularly relevant for investments in equities)<br>- Interest rates (which can affect the prices of investments that pay a fixed interest rate)<br>- fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)<br>- as a result of 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, based on specialist advice, which limits exposure to any one particular market.<br>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 risk as they see fit.<br>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.<br>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. | 3 | 2 | 6 | Head of Investments & Borrowing |
| 13 | Investments and Funding - an investment strategy that balances risk and return | Due to delays in the implementation of decisions and the availability of suitable solutions within the ACCESS Pool, there is a risk of reduction in the effectiveness of the decision, which would result in loss of potential return. | 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.<br>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. | 1 | 3 | 3 | Head of Investments & Borrowing |
| 14 | Investments and Funding - an investment strategy that balances risk and return | Due to insufficient knowledge and/or resources could lead to a lack of consideration of all financial and non-financial risks relating to Environmental, Social and Governance (ESG) issues, including the risk of Climate Change, resulting in poor investment returns, increased employer contribution rates and reputational damage. | The Pension Fund has a Responsible Investment Policy,which includes setting out how 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 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.<br>The Pension Fund takes advice on the appointment and monitoring of its investment managers, which includes their ability of assess ESG issues and act as steward of investmetns on the Pension Fund's behalf.<br>The Pension Fund is a signatory to the UK Stewardship Code, UN PRI and reports based on the | 2 | 3 | 6 | Head of Investments & Borrowing |
| 15 | Investments and Funding - minimise the long-term cash contributions which employers need to pay to the Fund | Due to a Failure to set and collect contributions, there is a risk of there not be sufficient to achieve a fully funded ongoing position in the timescales determined by the Funding Strategy Statement, which could cause financial loss or reputational damage | At each triennial valuation, assess funding position and progress made to full funding.<br>Quarterly interim updates to enable consideration of the position.<br>Work with Employers to ensure they understand their responsibilities.<br>Year-end reconciliations of Member data. | 2 | 3 | 6 | Head of Pensions |
| 16 | Investments and Funding - minimise the long-term cash contributions which employers need to pay to the Fund | Due to continually improving Mortality rates, there is a risk they will exceed the allowances built into the evidence-based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions | Longevity analysis is conducted by the Actuary at each triennial valuation. | 2 | 3 | 6 | Head of Pensions Administration |
| 17 | Investments and Funding - minimise the long-term cash contributions which employers need to pay to the Fund | Failure to monitor the demographic experience of Fund's population is not in line with actuarial assumptions as in the Funding Strategy Statement and could result in increases required in Employer contributions which could cause complaints and damage to reputation | The Pension Fund ensures Employers pay the rates set at each valuation.<br>The Actuary provides a prudent assessment to allow for ill-health cases within the calculations.<br>Employer Ill Health and Death in Service Policy is in place and contained within the Funding Strategy Statement (FSS), which is kept under regular review.<br>Any change in demographics are reviewed at subsequent valuations, and any underfunding will be addressed. | 1 | 3 | 3 | Head of Pensions Administration |
| 18 | Investments and Funding - minimise the long-term cash contributions which employers need to pay to the Fund | Due to failure to apply or lack of accurate information, and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant could lead to underpayments or employers unable to meet their obligations and, therefore, financial loss and under-investment | The Pension Fund's Funding Strategy<br>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 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.<br>The Administering Authority has a written policy on how it would exercise its discretion to defer pension contributions in exceptional circumstances. | 3 | 3 | 9 | Head of Pensions Administration |
| 19 | Investments and Funding - minimise the long-term cash contributions which employers need to pay to the Fund | Due to the nature of actuarial assumptions, there is a risk that pay and price inflation are significantly different, which would result in increases due from to employers' contributions | Discussions with employers over affordability and pay policy are held.<br>Employer Flexibilities Policies have been developed and are in place, and are kept under regular review.<br>Discretions Policy to control discretionary costs. | 2 | 3 | 6 | Head of Pension Administration |

| No | Aim | Risk Event, to include:<br>- the area of uncertainty in terms of the threat | Current Mitigating Actions / Controls | Post-mitigation assessment Likelihood | Impact | Rating | Owner |
|---|---|---|---|---|---|---|---|
| 20 | Investments and Funding - recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return | There is a risk that failure to monitor and align the Funding strategy with the Investment strategy could lead to over or underfunding, resulting in reputational damage or financial loss | An Asset Liability Study is undertaken on a triennial basis as part of reviewing the Fund's Investment Strategy.<br>The Funding Strategy and Investment Strategy are reviewed on at least and annual basis. | 2 | 3 | 6 | Head of Investments & Borrowing |
| 21 | Investments and Funding -to make the best use of our resources | Due to ineffective monitoring of the Fund's cashflow, resulting in the failure to set aside sufficient funds each month to pay pensioners, which could lead to extreme hardship for pensioners and reputational damage to the Fund | The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available.<br>The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments. | 2 | 2 | 4 | Head of Investments & Borrowing |
| 22 | Investments and Funding - minimise the long-term cash contributions which employers need to pay to the Fund | As a result of failing to adopt or implement a funding strategy, there is a risk that this results in the Fund failing any of the Government Actuary's Department (GAD) s13 tests or be named in the GAD s13 report would cause reputational damage | In consultation with the Actuary, the Pension Fund determines an appropriate funding strategy that meets s13 requirements.<br>Any relevant measures and scores from GAD 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 reported to the Pension Fund Panel and Board with proposed mitigations. | 2 | 3 | 6 | Head of Pensions |
| 23 | Administration and Communication - to continue to deliver a high-quality administration service to all stakeholders. | Due to failure to administer scheme correctly in line with all relevant Regulations and policies owing to circumstances such as, but not limited to:<br>- lack of regulatory clarity;<br>- system issues;<br>- insufficient resources<br>would result in reputational damage and the possible risk that pensions are not paid at the right time to the right people | The Administration Strategy is the agreement between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to certain principles, including:<br>- to provide a high quality pension service to members<br>- to take responsibility to provide accurate and timely information<br>- that the results are reported to the Panel & Board twice a year.<br>The annual returns exercise is completed each year and employer performance is monitored with processes in place to help improve this where necessary.<br>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. | 2 | 3 | 6 | Head of Pension Administration |
| 24 | Administration and Communication - to continue to deliver a high-quality administration service to all stakeholders. | Due to human error and/or system failure, there is a risk of failing to collect pension contributions in line with regulatory guidelines leading to loss of income to the Pension Fund | All contributing Employers are provided with deadlines for payments and clear guidelines for providing associated information.<br>The Pension Fund monitors receipt of contributions to ensure compliance.<br>The Pension Fund follows its Administration Strategy in relation to late payments | 1 | 2 | 2 | Head of Pension Administration |
| 25 | Administration and Communication - to continue to deliver a high-quality administration service to all stakeholders. | Due to lack of training and/or experience, there is a risk of failing to deal with concerns, complaints and Internal Dispute Resolution Procedures (IDRPs) appropriately, resulting in poor customer satisfaction, further time spent resolving issues, potential compensation payments and reputational impact, particularly if escalated to the Pensions Ombudsman | A process is in place to ensure concerns and complaints are dealt with promptly.<br>Complaint levels and reasons are monitored, and process issues are identified and corrected.<br>Complaint levels and IDRP's are reported twice a year as part of Administration updates to the Pension Fund Panel and Board. | 1 | 2 | 2 | Head of Pension Administration |
| 26 | Administration and Communication - to continue to deliver a high-quality administration service to all stakeholders. | Failure to administer the scheme correctly due to circumstances such as, but not limited to:<br>- Poor employer data;<br>- Unable to clearly articulate what is required from employers; and<br>- Unable to clearly articulate what is required from the Fund itself in order to deliver the Fund's administrative functions could cause the fund reputational damage and financial loss | There is a Communications Policy and Customer Charter on the Pension Services website, which details the service our scheme members can expect.<br>The Pension Fund communicates to Employers regularly on all aspects of provision, which includes training sessions and guidance notes.<br>The Pension Fund ensure all staff adheres to the training requirements set for their posts through regular performance monitoring. | 1 | 3 | 3 | Head of Pensions Administration |
| 27 | Administration and Communication - to continue to deliver a high-quality administration service to all stakeholders. | Due to the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.<br>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. | The Administering Authority requires the other participating employers to communicate regularly with it on such matters.<br>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<br>any changes, including any necessary changes to the Funding Strategy Statement, with the Fund's Actuary. | 1 | 2 | 2 | Head of Pensions Administration |
| 28 | Administration and Communication - to continue to deliver a high-quality administration service to all stakeholders. | Failure to meet the statutory deadlines for connectivity to the Pensions Dashboard and unable to provide required information to members. | Attendance at the Pension Dashboard Programme (PDP) webinars, liaison with system supplier and and keeping abreast of other professional body information on the PDP requirements. | 3 | 3 | 9 | Head of Pension Administration |

| No | Aim | Risk Event, to include:<br>- the area of uncertainty in terms of the threat | Current Mitigating Actions / Controls | Post-mitigation assessment | | | Owner |
|---|---|---|---|---|---|---|---|
| | | | | Likelihood | Impact | Rating | |
| 29 | Administration and Communication - to continue to deliver a high-quality administration service to all stakeholders. | Failure to correctly implement the McCloud remedy due to circumstances such as, but not limited to:<br>- delayed or incomplete legislation<br>- system limitations<br>- lack of knowledge | Engagement with DLUC/ LGA through attendance at technical meetings and keeping up to date with published information. Engagement with system provider to ensure system is developed in line with legislation and delivered to time/budget. | 2 | 3 | 6 | Head of Pension Administration |
| 30 | Administration and Communication - to continue to deliver a high-quality administration service to all stakeholders. | Inability to complete the GMP reconcilation and rectification project leading to reputational damaage and potential ongoing under and over payment of pension amounts. | Ongoing project with a third party provider through existing system to reconcile and rectify GMP over and under payments. Project governance in place with project plan and regular meetings to check progress. | 2 | 3 | 6 | Head of Pension Administration |

Define pre-mitigation

Definitions

| Likelihood | Impact |
|---|---|
| 1 | 1 |
| 2 | 2 |
| 3 | 3 |
| 4 | 4 |
| 5 | 5 |

Strategic/Operational

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**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker:** | Pension Fund Panel and Board |
| **Date:** | 28 July 2022 |
| **Title:** | Governance – Annual Report and Pension Fund Costs 2021/22 |
| **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 2021/22 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 2021/22.

## Recommendations

3. That the Panel and Board notes the contents of the draft Annual Report for 2021/22 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 13-14.

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 2021/22 has been prepared and is presented to the Panel and Board for review and approval for publication, with further information provided in paragraphs 10 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 26 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 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. An update on the Fund's approach to measuring and capturing risks and the current version of the risk register is included in a report elsewhere on this agenda.

13. The current draft Annual Report is attached and has been reviewed by officers and the Director of Corporate Operations. 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.

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 Corporate 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 2021-22**

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 2021/22 (2020/21 and 2019/20 costs are shown as a comparison):

**Table 1 – Pension Fund management costs**

| | 2021/22 | | 2020/21 | | 2019/20 | |
|---|---|---|---|---|---|---|
| | £'000 | % | £'000 | % | £'000 | % |
| Investment management | 60,722 | 0.63 | 50,799 | 0.60 | 47,780 | 0.64 |
| Administration | 2,455 | 0.03 | 2,306 | 0.03 | 2,196 | 0.03 |
| Oversight and governance | 779 | 0.01 | 766 | 0.01 | 722 | 0.01 |
| Total | 63,956 | 0.66 | 53,871 | 0.63 | 50,698 | 0.68 |

**Investment management costs**

16. As part of the 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 2021/22, 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.
    - Transaction and alternative investment 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 on tax and legal where they specifically relate to investments.

**Table 2 – Investment management costs 2021/22**

| | Pooled | | Non-pooled | | Total | |
|---|---|---|---|---|---|---|
| | £'000 | % | £'000 | % | £'000 | % |
| Management fees | 11,931 | 0.21 | 13,883 | 0.87 | 25,814 | 0.27 |
| Transaction costs | 1,217 | 0.02 | 33,472 | 1.05 | 34,689 | 0.36 |
| Custody and other costs | - | - | 219 | 0.00 | 219 | 0.00 |
| Total | 13,148 | 0.23 | 47,574 | 1.92 | 60,722 | 0.63 |

19. The investment management costs of pooled investments 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 2021/22 increased in comparison to the previous year, from £50.8m to £60.7m which as a proportion of the total asset value is a move from 0.60% to 0.63%. Although this is an increase this is a reduction in comparison to 2019/20 where on average investment management fees cost the fund 0.64%. During 2021/22 the total asset value of the Fund rose from £9,073m to £9,627m (6.1%) 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. In the final quarter of 2021/22 the Pension Fund's equity holdings were negatively affected by high inflation, resulting interest rate rises, global supply issues and a commodities crisis which were all exacerbated by the Russian invasion of Ukraine, and therefore the investment management fees associated with these investments also reduced in comparison to previous quarters.

21. By comparison the value of the Pension Fund's alternative investment portfolios increased significantly during the year due to the investment managers working hard towards investing the full strategic asset allocation assigned to them by the Panel and Board. As a result of both the reduction in value of equities and the investment managers investing towards the asset allocation targets, the alternative investment portfolios became a greater proportion of the overall Pension Fund. As mentioned in paragraph 19 the costs of these portfolios attract significantly higher costs than those portfolios that are pooled, and therefore as a result the overall investment cost for the Fund rose in 2021/22.

22. Table 1 in the exempt appendix provides a breakdown of the investment management costs for 2021/22 by investment manager. Total fees include management fees and transactions fees.

23. 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 | |
|---|---|---|
| | 2021/22 | Cumulative |
| | £'000 | £'000 |
| Pool setup and on-going costs | (94) | (553) |
| Transition costs | 0 | (539) |
| Investment management fee savings | 1,260 | 3,681 |
| Total net savings / (costs) | 1,166 | 2,589 |

24. During 2021/22, 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 2021/22 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;
- Hampshire has benefited from a full year of savings on investment management fees on its ACCESS investments during 2021/22 as no investment portfolios transitioned into the pool part-way through the year.

**Administration costs**

25. Administration costs during 2021/22 were in line in percentage terms at 0.03% in comparison to 2020/21 (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**

26. Oversight and governance costs during 2021/22 were in line with both 2020/21 and 2019/20 in percentage terms at 0.01%.

## Climate Change Impact Assessments

27. 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℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

28. 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).

29. For the investment portfolios that can report carbon footprint data, the Pension Fund collates and reports this to the RI sub-committee, an 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.)**

| 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 disproportionally 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

# Annual report and accounts

# 2021/22



Hampshire
County Council

hants.gov.uk

# Contents

Interactive links to be added once page numbers confirmed

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

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

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

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

Section 1

# Introduction

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# Foreword

Page 180

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

**Councillor**
Mark Kemp-Gee

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

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

However just as we were proceeding to overcome one cataclysmic event in world history, Russia invaded Ukraine. This abhorrent, outrageous and cruel event has provided another profound set of complicated and worrying circumstances for us all to contend with.

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

As responsible investors we continue to believe in the importance of stewardship and engagement and this year we were accepted as signatories to the UK Stewardship Code 2020 – we were pleased to be accepted within the first intake as one of only six Local Government Pension Scheme (LGPS) funds. We have also made our annual Task Force for Climate-related Financial Disclosures (TCFD) report. We have taken further steps to actively limit the carbon emissions from our investments by making changes to an additional two investment portfolios, which brings the total to six of our investment portfolios that have limited carbon emissions over recent years. Our investment managers have been willing and able to help us to promote this initiative whilst also providing assurance that investment returns will not be negatively affected. This work has resulted in a meaningful reduction of 69% in carbon footprint in 2 years, for the Pension Fund's equities investments and further information is provided at page X of this annual report. This year culminated in the Pension Fund consulting on its draft updated RI policy, which I am proud to say included a commitment to the aim for the Pension Fund's investments to have net-zero greenhouse gas emissions by 2050, as well as a commitment to remove thermal coal from the Pension Fund's investment portfolios.

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

# Foreword continued

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

Investment pooling has continued to be a focus for the Fund and all of our listed equity investments and our index linked bonds portfolio are managed through pooled arrangements, which equates to about two thirds of our investments: an excellent achievement. Going forward the focus is now on pooling the non-listed asset classes and investment portfolios covering our multi-asset credit exposure will move into ACCESS during 2022/23. I look forward to providing you with a further update on the ACCESS pool's progress next year. Additionally, I continue to serve as the Chairman of the ACCESS pool's Joint Committee, having been elected to that position by the chairpersons of the 11 constituent LGPS funds. A full update on investment pooling is provided on page xx.

Investment pooling has helped us to deliver savings in the costs we pay to our investment managers, but such savings are only meaningful if the Fund's investments perform to expectations and deliver the returns we need to meet the Fund's liabilities. After financial markets across the globe fell in March 2020 the Pension Fund experienced a strong recovery for 2020/21 and the first three quarters of 2021/22. Unfortunately, the final quarter of the year saw the impact of high inflation, resulting interest rate rises, global supply issues and a commodities crisis which were all exacerbated by the Russian invasion of Ukraine; these all impacted negatively on the total value of the Pension Fund's assets. Bearing this in mind I am pleased to say the final quarter of 2021/22 didn't undo all of the good work of the investment managers as the value of the Pension Fund's assets grew over 2021/22 and the total value has grown by 7% to just over £9.6bn.

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

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

# Foreword continued

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

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



I hope you find the following report helpful.

Signature to go here

**Councillor Mark Kemp-Gee**
Chairman, Pension Fund Panel and Board
July 2022

# Summary report

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



## Governance

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

The Panel and Board meets regularly and has 15 members, made up of 9 County Councillors, 3 scheme member representatives and 3 employer representatives. These membership arrangements have been designed to allow all key stakeholders to have the opportunity to be represented on the committee. During 2021/22 there was a County Council election where some members of the Panel and Board chose to not stand again, others were given different duties and one member lost their seat. As a result of the election, Cllr Christopher Carter, Cllr Andrew Gibson, Cllr Peter Latham, Cllr Bruce Tennent and Cllr Stephen Barnes-Andrews left the Panel and Board, and new members were Cllr Alex Crawford, Cllr Dominic Hiscock, Cllr Derek Mellor, Cllr Rob Mocatta and Cllr Rob Harwood.

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

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

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

# Summary report continued

## Investment pooling

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

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

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

Over recent years the Pension Fund has worked with its ACCESS colleagues to transfer its investment assets to the pool, and as at 31 March 2022 has pooled £6.0bn (62.6%) of its investments. This is a slight decrease in comparison to the position reported at 31 March 2021, due to the relative changes in the market value of investments. The number of portfolios that the Pension Fund invests through ACCESS has not changed in 2021/22.

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

The action of pooling has saved the Pension Fund £2.6m since pooling began, as the savings achieved on investment management fees have outweighed the costs of setting up and maintaining the pool, as well as the transition of moving investment assets into the pool. More details can be found on page X of this annual report.

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

## Investments

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

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

# Summary report continued

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

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

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

Each of the Pension Fund's investments is measured against a benchmark. The average benchmark return in 2021/22 (weighted to reflect the relative sizes of the Pension Fund's different investments) was 8.6%. The Pension Fund's investments achieved returns of 7.1% and so performed slightly below the benchmarks on average. More details can be found in the investment Performance Report on page xx.

## Responsible Investment

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

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

## Administration

The Hampshire Pension Fund provides pensions for employees of Hampshire County Council, the unitary authorities of Southampton and Portsmouth and the 11 district / borough councils in the county area. These are 'scheduled bodies', which means their employees have a statutory right to be in the Scheme.

# Summary report continued

Other scheduled bodies include the Office of the Police and Crime Commissioner and the Chief Constable for Hampshire, Hampshire and Isle of Wight Fire and Rescue Authority, the University of Portsmouth, Southampton Solent University and other colleges that were part of the County Council. Town and parish councils that have opted to join the Fund are known as resolution bodies.



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

Responsibility for the administration of the Pension Fund is delegated to Hampshire Pension Services (HPS), part of the Corporate Operations department of the County Council. Administration of the scheme includes administering all casework, handling all member queries, paying pensioners, working with employers (including new and exiting employers) and providing employer training and support. HPS performs these aspects to an extremely high standard, complying with the requirements for the national standard for excellence in customer service (CSE) which has been held and retained since 2009.

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

Further information on the administration of the Hampshire Pension Fund can be found starting on page X of this annual report.

## Financial performance and Pension Fund accounts

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

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

# Who's who

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## Administering authority and scheme manager

Hampshire County Council

## Treasurer

Rob Carr, Director of Corporate Operations

## Independent adviser

Carolan Dobson

## Asset Pool

ACCESS

## Pool Operator

Link Fund Solutions

## Custodian

JP Morgan

## Actuary

Aon

## Bankers

The National Westminster Bank plc

## External auditor

EY

## AVC providers

Zurich, Prudential, Utmost

## County Council contacts

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

Legal adviser: Paul Hodgson

## Investment managers

abrdn, Alcentra, CBRE Investment Management, J.P.Morgan Asset Management, Baillie Gifford, Dodge & Cox Investment Focus, TwentyFour Asset Management, Acadian, Barings, GCM Grosvenor, Insight Investment, UBS

Section 2

# Governance of the Hampshire Pension Fund

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# Pension Fund Panel and Board

Membership at 31 March 2022

## County Council members

**Cllr Mark Kemp-Gee**
(Chairman)

17 years' membership

**Cllr Tom Thacker**
(Vice-Chairman)

13 years' membership

**Cllr Alex Crawford**

1 year's membership

**Cllr Alan Dowden**

5 years' membership

**Cllr Jonathan Glen**

5 years' membership



**Cllr Dominic Hiscock**

1 year's membership

**Cllr Andrew Joy**

9 years' membership

**Cllr Derek Mellor**

1 year's membership

**Cllr Rob Mocatta**

1 year's membership

# Pension Fund Panel and Board continued

## Employer representatives

**Cllr Rob Harwood**
Unitary Council representative
1 year's membership


**Cllr Paul Taylor**
District Council representative
3 years' membership


**Neil Wood**
Active scheme member representative
6 years' membership


**Lindsay Gowland**
Deferred scheme member representative
3 years' membership

### County Council deputies

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

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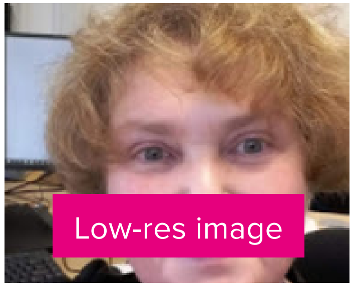
## Member representatives




**Liz Bartle**
Other employer representative
3 years' membership

**Cllr Cal Corkery**
Substitute employer representative
3 years' membership


**Cliff Allen**
Pensioner scheme member representative
9 years' membership

**Sarah Manchester**
Substitute scheme member representative
4 years' membership

# Pension Fund Panel and Board continued

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

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The Panel and Board's objectives are:

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

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

## Membership of the Panel and Board

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

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

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

# Pension Fund Panel and Board continued

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

All full members of the Panel and Board have voting rights. Substitute or deputy members may attend all meetings and will have voting rights when other members for whom they are substitutes are not present. An independent adviser to the Panel and Board attends all Panel and Board meetings but does not have voting rights.



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

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

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

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

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

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

# Pension Fund Panel and Board continued

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



All Panel and Board members take part in a full training programme covering the range of knowledge and skills required for their membership of the Panel and Board. The Training and Development Report provides more details on **page XX**.

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

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

# Pension Fund Panel and Board continued

It should be noted that internal training sessions, including sessions provided by ACCESS, have greater weight as they cover topics on which the most Panel and Board members have identified a training need.

For Pension Fund Panel and Board and Responsible Investment Sub-Committee meetings, the number of meetings attended is shown against the number of possible meetings for that member.

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

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

# Panel and Board report

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

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

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

| Meeting | Agenda |
|---|---|
| **27 July 2021** | • Appointments to the Responsible Investment Sub-Committee<br>• Annual internal audit opinion<br>• Administration performance update<br>• Communication Policy Statement<br>• Communication review<br>• Risk Register review<br>• ACCESS fiduciary duty legal advice<br>• Cash management<br>• Pension Fund Annual Report<br>• Pension Fund investment management costs<br>• Investment update |
| **28 September 2021** | • Responsible Investment (RI) Sub-Committee minutes<br>• Training in 2021/22<br>• ACCESS draft responsible investment guidelines<br>• Actuary contract extension<br>• UBS Factor Investing portfolio – options for carbon reduction<br>• Property investment portfolio<br>• Alternative investment portfolio<br>• Investment update |
| **10 December 2021** | • ACCESS Joint Committee minutes<br>• Internal Audit progress report<br>• Administration performance update<br>• Business Plan including Budget, Risk Register and Training Plan<br>• Good Governance Review update<br>• Conflicts of Interest Policy<br>• Funding Strategy Statement<br>• Employer Policy<br>• Administration Strategy Statement including Decision Matrix<br>• Investment Strategy Statement<br>• Representation Policy<br>• Communication Policy Statement<br>• Governance Policy and Compliance Statement<br>• Cash management and Annual Cash Investment Strategy 2022/23<br>• Cyber security and business continuity<br>• Investment update |
| **25 March 2022** | • Responsible Investment (RI) Sub-Committee minutes<br>• ACCESS Joint Committee minutes<br>• ACCESS Business Plan<br>• Pension Fund Panel and Board meetings<br>• ACCESS Joint Committee observer arrangements<br>• Update to the Responsible Investment Policy<br>• Responsible Investment Policy consultation<br>• Annual Responsible Investment update<br>• Responsible Investment review of the Pension Fund's investment portfolios and plan for meeting the 2050 net-zero aim<br>• Pension Fund's Custodian performance report<br>• Investment update<br>• Alternative Investments portfolio update |

# Panel and Board report continued

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



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

- Scheme member communication
- Stewardship highlight reports
- Climate change scenario analysis
- ACCESS draft Responsible Investment Guidelines
- Changes to the UBS and Barings portfolios
- UK Stewardship Code
- Task Force on Climate Related Financial Disclosures
- Updates to the Responsible Investment Policy

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

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

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

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

# Scheme member reports

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

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

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## Neil Wood

**Active scheme member representative**
**nwood@fareham.gov.uk**

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

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

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

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

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

# Scheme member reports continued

## Lindsay Gowland

**Deferred scheme member representative**
**clerklindsay@yahoo.co.uk**

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

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

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

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

# Scheme member reports continued

## Dr Cliff Allen

**Pensioner scheme member representative**
**cliffallen203@aim.com**

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

*In the short term the economy is going through a tough time. However, the medium to long term outlook is set to improve and our investments can benefit from the long term outlook. The Pension Fund is invested for the long term and managed efficiently by the Pension Fund Panel and Board, advised by its Officers. The Hampshire LGPS is one of only two joint pension committee and governance boards adopting this efficient system. It drives one of the lowest costing administration and governance processes while maintaining a high level of quality service delivery. In other parts of the annual report you will see reported in more detail the performance of our investment strategy. In essence we have balanced risk and reward by investing in a diversified portfolio. There are investment managers with different investment strategies invested in diverse investment sectors, selecting a diversified range of investments across a global geography. Investment managers operate according to a mandate set by the Panel and Board governed by leading policy and practice that includes scrutiny of performance and environmental, social and governance risk factors.*

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

# Training and Development Report

## Training Policy

As an administering authority of the Local Government Pension Scheme (LGPS), Hampshire County Council recognises the importance of ensuring that all officers and members charged with financial management and decision making for the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.



It therefore seeks to appoint individuals who are both capable and experienced and will provide and arrange training for relevant officers and members. This training is designed to enable officers and members to acquire and maintain an appropriate level of expertise, knowledge, and skills. A formal training plan is prepared each year to identify and meet the training needs of the Pension Fund Panel and Board, both as a group and as individuals, and is based upon the recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Finance Knowledge and Skills Framework.

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

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

## Training received in 2021/22

During the year four internal training sessions were arranged by the Hampshire Pension Fund for Panel and Board members and officers and held virtually. The topics covered in these sessions were focused on delivering training to increase knowledge based on the Panel and Board members' self-assessment of their training requirements, as well as to enhance the Panel and Board's knowledge of the risk to the Pension Fund of inadequate cyber security, and how the County Council's IT Services department mitigates those risks. The training programme included an introductory session on Hymans Robertson's LGPS Online Learning Academy training modules which all Panel and Board members, as well as senior officers, have been provided access with. The modules have been designed to cover the requirements of the Scheme Advisory Board's Good Governance review.

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

# Training and Development Report continued

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

The internal training sessions followed a similar programme of in-house training in previous years which has been designed to cover the full range of knowledge and skills required by Panel and Board members and staff. In 2020/21 the coronavirus pandemic gave the Panel and Board the opportunity to try things differently and completed all of their internal training sessions online in succinct sessions that allowed more members of Panel and Board to take part, as the sessions were more accessible than in person meetings. As a result the Panel and Board decided to conduct each of the 2021/22 training sessions online, and going forward will make a decision on virtual versus in person training sessions on a case by case basis.

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

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

# Training and Development Report continued

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

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

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

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

# Training and Development Report continued

## Evaluation of training

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

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

## Training in 2022/23

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

The Training Needs Analysis is designed around the CIPFA Pensions Finance Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector, and the CIPFA Technical Knowledge and Skills Framework for Local Pension Boards and helps to ensure the Panel and Board meet the requirements set out in the guidance referenced in the regulations. The Training Needs Analysis is also completed by all new Panel and Board members to enable them to identify any training requirements.

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

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

# Risk Management Report

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

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

An assessment of each risk is conducted by the staff of Director of Corporate Operations with assistance from the Fund Actuary. This involves assessing the likelihood and impact of each risk, then identifying appropriate mitigation to manage these risks.

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

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

Risks are categorised as follows:

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

# Governance Compliance Statement

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

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| 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 |
| **B. Representation** | | | |
| a. | That all key stakeholders have the opportunity to be represented within the main or secondary committee structure.<br>These include:<br>- employing authorities (including non-scheme employers, e.g. admission bodies)<br>- scheme members (including deferred and pensioner scheme members)<br>- where appropriate, independent professional observers, and<br>- expert advisers (on an ad-hoc basis). | Full compliance. | The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members. The Fund's independent adviser attends Joint Pension Fund Panel and Board meetings. Independent professional observers are not regarded as appropriate. |

# Governance Compliance Statement continued

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

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

# Governance Compliance Statement continued

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

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

# The Pension Fund's statutory statements

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

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

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

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

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

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

- Representation Policy
- Conflicts of Interest Policy

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

Section 3

# Investment pooling

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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:**

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

The Hampshire Pension Fund is a member of the ACCESS pool (A Collaboration of Central, Eastern and Southern Shires) with 10 other Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire, East Sussex, Essex, Hertfordshire, Isle of Wight, Kent, Norfolk, West Northamptonshire, Suffolk, and West Sussex. The following paragraphs describe Hampshire's individual pooling progress. ACCESS' annual report, highlighting the progress of the pool overall is contained in the following section.

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

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

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

## Value of pooled and non-pooled investments

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

# Progress on investment pooling continued

## Pooled costs and savings

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



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

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

# Progress on investment pooling continued

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

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



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

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

## ACCESS Annual Report

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

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

The report can be found **here.**

Section 4

# Hampshire Pension Fund investments

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# 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.

PRI Principles for Responsible Investment

Signatory of: UK STEWARDSHIP CODE | 2021

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

# Investment Policy including Responsible Investment continued

## Responsible Investment Policy and ESG considerations

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

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The Pension Fund's investment principles include:

**i)** that it has a long-term focus, and

**ii)** a belief in the importance of Responsible Investment, including consideration of social, environmental and corporate governance (ESG), which can both positively and negatively influence investment returns.

The UN PRI provides the following examples of ESG factors:

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

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

The Hampshire Pension Fund Panel and Board has created a dedicated Responsible Investment Sub-Committee that meets at least twice a year to consider emerging ESG issues and support the implementation of the Responsible Investment Policy.

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

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

# Investment Policy including Responsible Investment continued

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

- the Pension Fund supports the objectives of the Paris Agreement, and believes that keeping a global temperature rise this century to well below 2$^0$C relative to pre-industrial levels is entirely consistent with securing strong financial returns,
- to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a **Just Transition**,
- the Pension Fund commits to the aim for its investments to have net-zero greenhouse gas emissions by 2050, and
- working with the Fund's investment managers to remove thermal coal from the Fund's portfolios due to its very high carbon emissions and lack of possible transition to lower carbon alternatives.

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

## Custody of assets

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

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

- historic tax reclamation services
- historic filing of US-based class action lawsuits
- foreign exchange settlement to enable the Pension Fund to buy and sell assets in foreign currencies
- reporting on the value of the Pension Fund's assets and the investment performance of the Fund's investment managers.

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

## Matters relating to implementation of the Funding Strategy Statement

Employers paid the rates certified for the second year from the 2019 triennial valuation in 2021/22. No bonds or other secured funding arrangements were entered into during the year.

All admission bodies were managed in accordance with the Funding Strategy Statement and Employer Policy, which can be found on the **Pension Fund's website.**

# Investment Performance Report

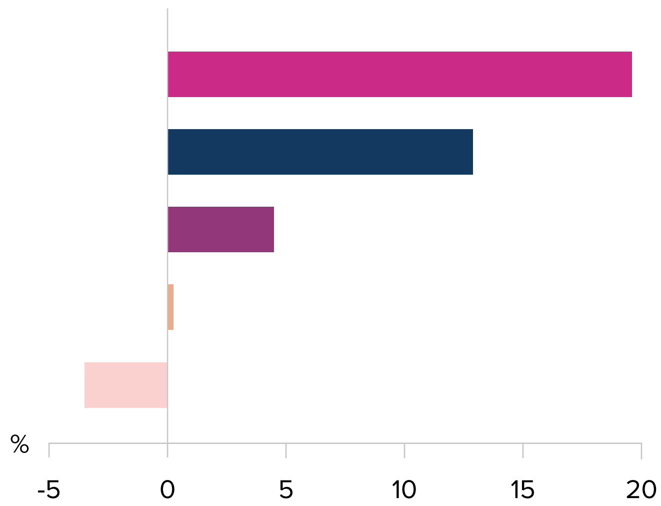
## Economic context

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

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

### Market returns in 2021/22

| | % |
|---|---|
| UK property | 19.6 |
| Global equities | 12.89 |
| UK index-linked bonds | 4.48 |
| SONIA (cash) | 0.25 |
| Emerging market equities | -3.50 |



# 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.

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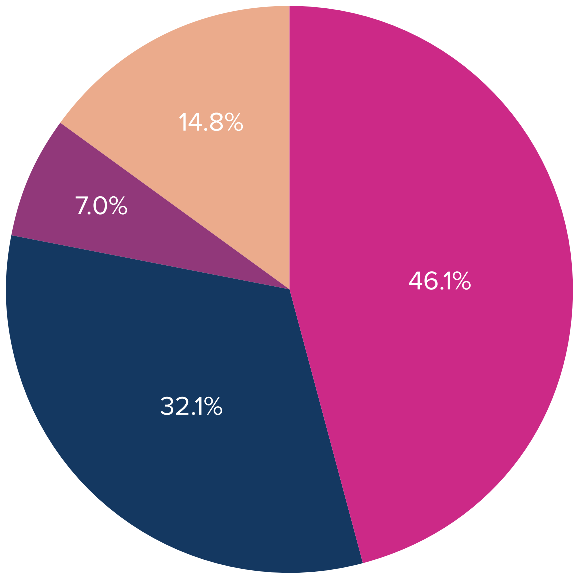
The majority of the Fund's investments are through pooled investment vehicles, both inside and outside of the ACCESS investment pool. The Fund also owns directly held property assets as well as investments in private equity, infrastructure and private debt through its portfolio of alternative investments.

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

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

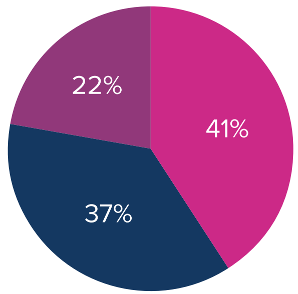



* Based on Note 11 of the Pension Fund's accounts showing total investment assets.

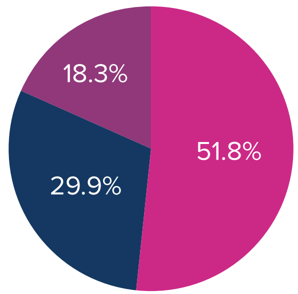
The Fund's Investment Strategy has been set to ensure that the Fund invests in assets with different characteristics. The maximum and minimum amounts allowed within the strategy and the current target and actual allocations at 31 March 2022 are shown in the table. More details can be found in the Investment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

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

### Target




### Actual



# Investment Performance Report continued

The Fund has appointed investment managers responsible for specialist portfolios with the aim of delivering the objectives set out in the Investment Strategy. The target portfolio size for each investment manager is shown alongside the actual size of each portfolio at the start and end of the year. The relevant performance benchmark for each manager is shown as well as the outperformance target where applicable. Just under two thirds of the Fund's assets are now invested through the ACCESS pool.

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## Pension Fund investment management structure

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

# Investment Performance Report continued

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

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# Investment Performance Report continued

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

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

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

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

# Investment Performance Report continued

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

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

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

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## Monitoring the performance of the investment managers

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

The Pension Fund Panel and Board will continue to monitor the investment managers' performance against their targets on a rolling three and five-year basis.

## Investment performance of the overall Pension Fund

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

# Investment Performance Report continued

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

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

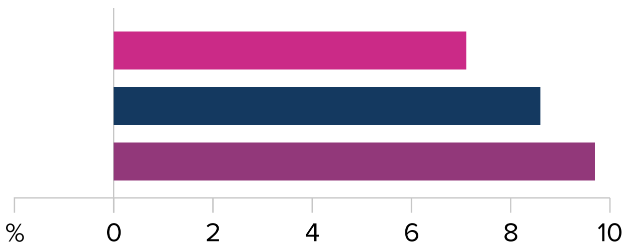
The total return was in line with the weighted target set for its investment managers.

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

## Total investment returns for the Fund

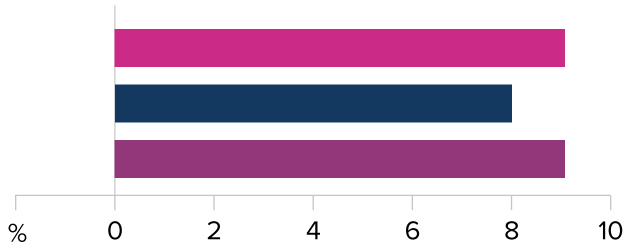
### 12 months to 31 March 2022

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



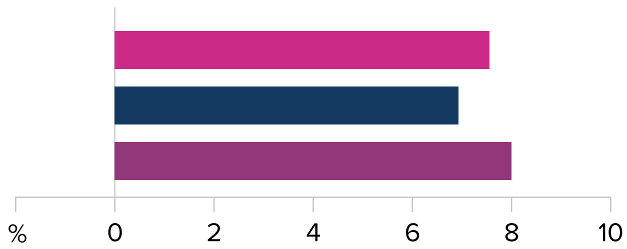

### Three years to 31 March 2022

| | % per annum |
|---|---|
| Total Fund return | 9.1 |
| Weighted benchmark indices | 8.0 |
| Weighted benchmarks plus targets | 9.1 |




### Five years to 31 March 2022

| | % per annum |
|---|---|
| Total Fund return | 7.7 |
| Weighted benchmark indices | 6.8 |
| Weighted benchmarks plus targets | 8.0 |



# Investment Performance Report continued

## Global equities

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

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

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

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

### Global equities (12 months to 31 March 2022)

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


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

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

# Investment Performance Report continued



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

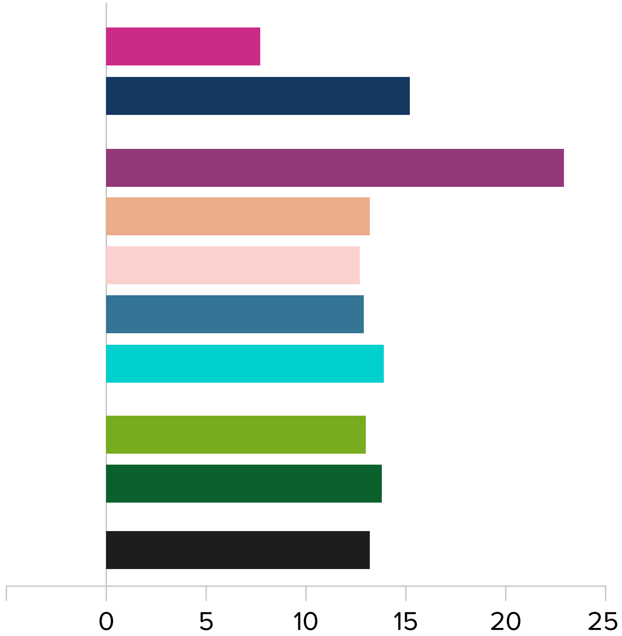
The Baillie Gifford Long Term Global Growth Fund has achieved very strong returns over this period, significantly outperforming the benchmark.

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

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

### Global equities (Three years to 31 March 2022)

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



# Investment Performance Report continued

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

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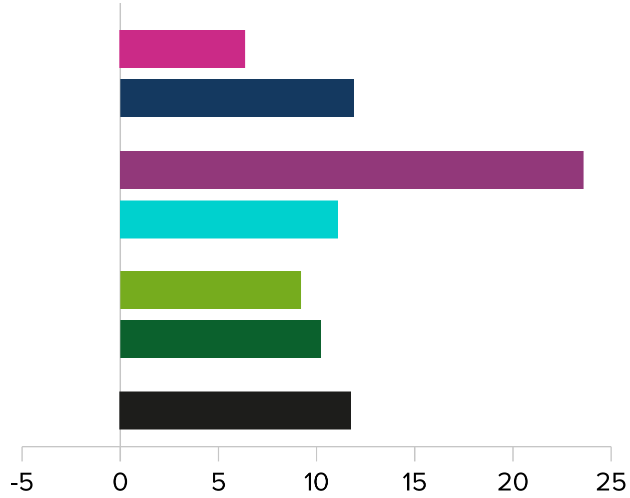
The table also shows the aggregate performance of the Fund's active global equity managers over the last 5 years including the Fund's previous managers and shows the Fund's managers have outperformed the benchmark.

**Global equities (Five years to 31 March 2022)**

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



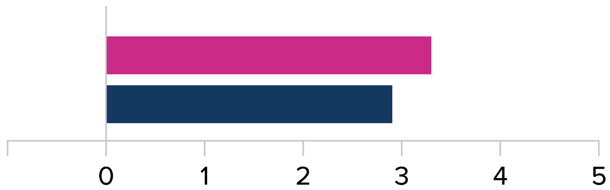
# Investment Performance Report continued

## Fixed income

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

### Index linked gilts (3 years to 31 March 2022)

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

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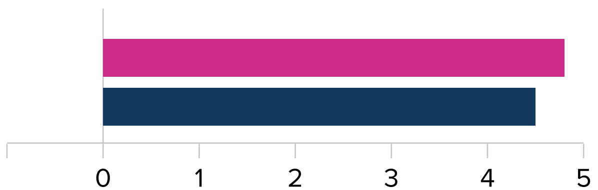
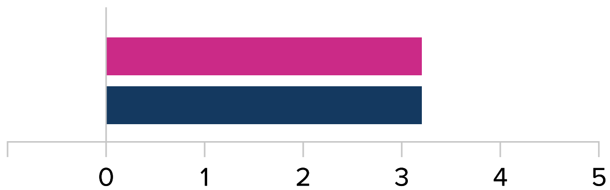
### Index linked gilts (12 months to 31 March 2022)

| | % |
|---|---|
| UBS | 4.8 |
| FTSE index linked gilts index | 4.5 |




### Index linked gilts (5 years to 31 March 2022)

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




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

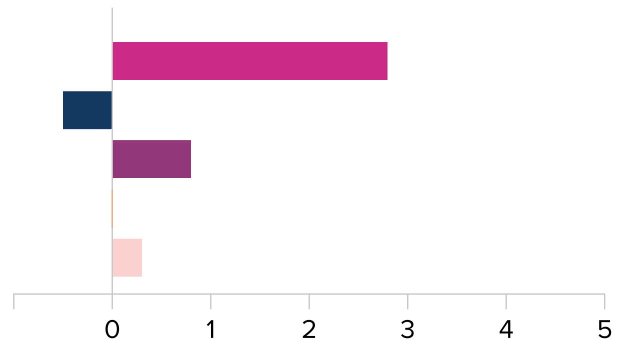
The Pension Fund appointed Insight and TwentyFour as its two Asset Backed Securities (ABS) investment managers during 2019/20. Due to the impact of increasing interest rates and the cost of living crisis both managers have performed below their performance target of SONIA +2% over the past 12 months.

# Investment Performance Report continued

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

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

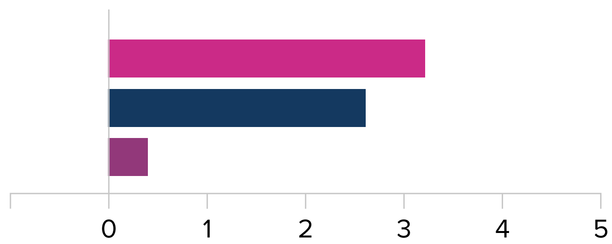
| | % |
|---|---|
| Alcentra | 2.8 |
| Barings | -0.5 |
| TwentyFour | 0.8 |
| Insight | 0.0 |
| 3 month average SONIA | 0.3 |




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

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

| | % per annum |
|---|---|
| Alcentra | 3.2 |
| Barings | 2.6 |
| 3 month average SONIA | 0.4 |



# Investment Performance Report continued

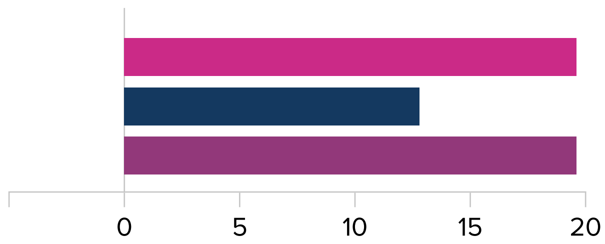
## Property

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

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

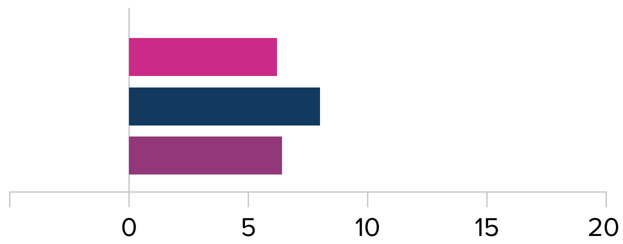
### Property (12 months to 31 March 2022)

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



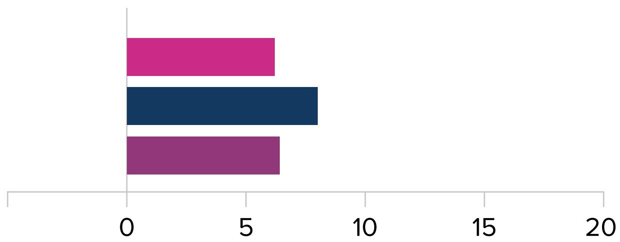

### Property (Five years to 31 March 2022)

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




### Property (Three years to 31 March 2022)

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



# Investment Performance Report continued

## Alternative investments

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

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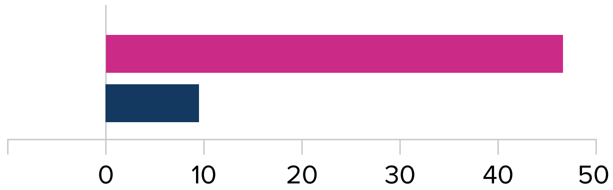
The performance of these portfolios are measured using the Internal Rate of Return (IRR), which gives an annualised effective interest rate for the investment, taking account of the timing of the cashflows.

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

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

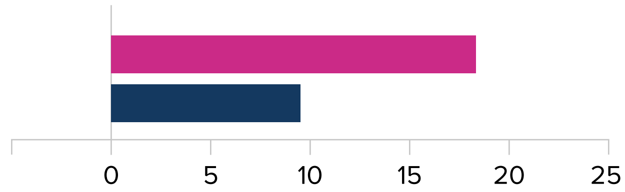
### Private equity and other (12 months to 31 March 2022)

| | % |
|---|---|
| abrdn | 46.6 |
| Absolute target 9.5% p.a. | 9.5 |



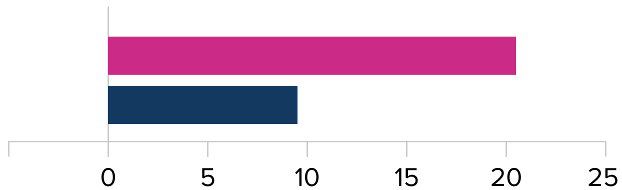

### Private equity and other (Five years to 31 March 2022)

| | % |
|---|---|
| abrdn | 18.4 |
| Absolute target 9.5% p.a. | 9.5 |




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

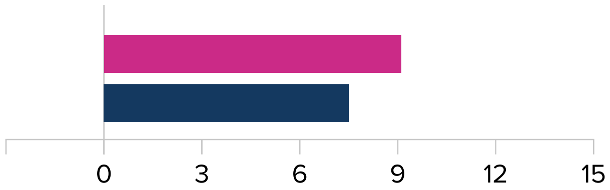
| | % per annum |
|---|---|
| abrdn | 20.5 |
| Absolute target 9.5% p.a. | 9.5 |



# Investment Performance Report continued

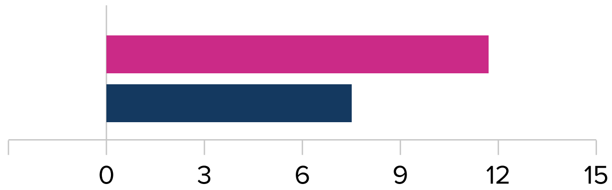
### Infrastructure (12 months to 31 March 2022)

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




### Infrastructure (Five years to 31 March 2021)

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

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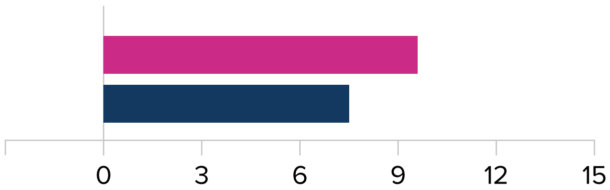
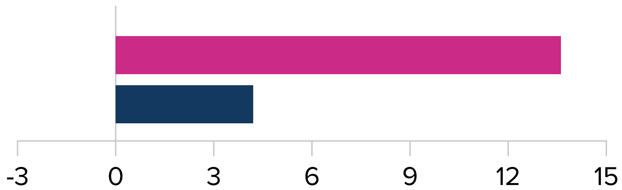
### Infrastructure (Three years to 31 March 2022)

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




### Private debt (12 months to 31 March 2022)

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



# Responsible Investment Activity 2021/22

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

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## Introduction

The Pension Fund:

- Has an RI policy, which is part of its investment strategy. This explains how Economic, Social and Governance (ESG) factors will be considered when making investment decisions for different asset classes and how the Pension Fund expects its investment managers to talk to companies about ESG issues and take part in shareholder voting.
- Has set up a group to focus on RI. The RI Sub-Committee was formed in September 2019 and is made up of members of the Pension Fund Panel and Board and makes recommendations to the Panel and Board.
- Is a signatory to the UN Principles for Responsible Investment (PRI) which sets out six principles for responsible investors to follow.
- Was one of only six LGPS funds accepted as a signatory to the revised UK Stewardship Code 2020 which is about how investors should act when making and owning investments.
- Provides training for the Panel and Board on RI to ensure members have relevant and up-to-date knowledge and understanding of this topic.
- Has produced a third annual update to report to scheme members specifically on RI activity and opened a consultation for scheme members and employers on proposed changes to the RI policy in April and May 2022.

## Responsible Investment Sub-Committee

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

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

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

# Responsible Investment Activity 2021/22 continued

## Addressing climate change concerns

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

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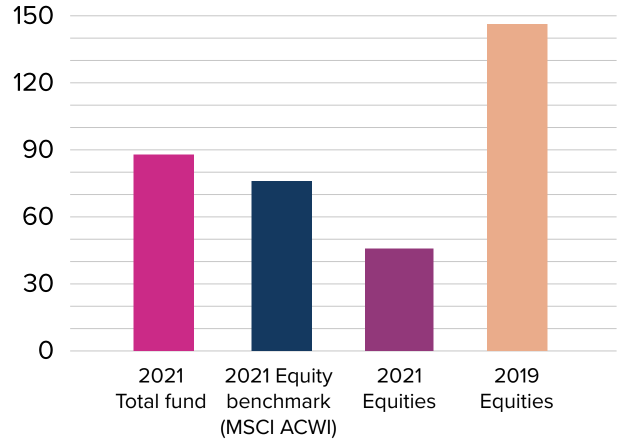
The carbon footprint of the Pension Fund's equities has reduced by 69% in comparison to the Fund's starting point in 2019 and is 40% below the current benchmark.

This reduction has been achieved through the focus of the Fund's RI policy; measuring and reducing the carbon footprint of all the companies it invests in, not just fossil fuel companies, and working with investment managers to find ways to reduce the overall carbon footprint. Of the seven portfolios where carbon data can be reported, six either already have very low emissions or the Pension Fund Panel and Board have agreed a limit to cap emissions below as follows:

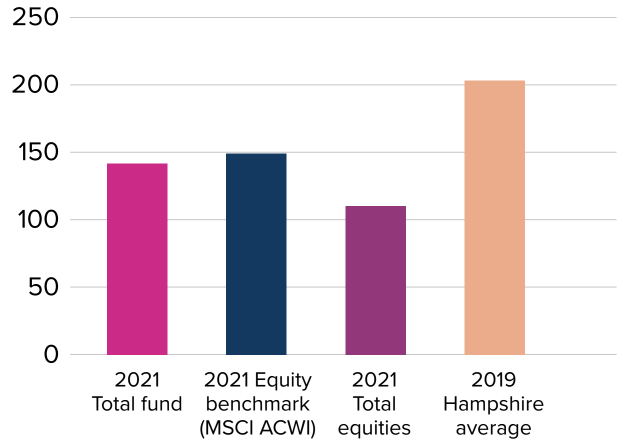
- Acadian Managed Volatility – carbon emissions limited to 50% of the benchmark
- Baillie Gifford Longterm Global Growth – carbon emissions are only 6% of the benchmark
- Baillie Gifford Global Alpha – moved to a Paris Agreement aligned strategy
- UBS passive global equities – moved to a climate aware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

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

**Carbon footprint ($tCO_2e$/£m invested) 31 Dec 2021**




**Weighted average carbon intensity ($tCO_2e$/£m revenue) 31 Dec 2021**



# Responsible Investment Activity 2021/22 continued

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

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

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- The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition – that the benefits of a low carbon economy transition are shared widely, ensuring that those who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.
- Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.
- If the Pension Fund sells its shares in fossil fuel companies, we will lose our ability as a Responsible Investor to engage with those companies, to hold them to account and to influence and support them in their move towards a lower-carbon economy. The investors that would buy these shares from us may not do this.
- In the short to medium term, there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy, such as producing the steel to build wind turbines. However, by investing in and engaging with these companies we can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

## The next steps on Climate Change

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

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

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

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

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

# Responsible Investment Activity 2021/22 continued

## Russia

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

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

## Stewardship activities

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

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

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

- nominees for company directors being not sufficiently independent,
- remuneration policies where the level of pay was felt to be excessive
- to improve the empowerment of investors, and
- the appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company was not clear.

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

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

# Responsible Investment Activity 2021/22 continued

## Feedback

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

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

## Summary Task Force on Climate-related Financial Disclosures Report 2021

The Hampshire Pension Fund supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks. The TCFD has support from over 2,600 organisations responsible for assets of US$194 trillion. The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners which is published **here.**

The following paragraphs summarise Hampshire's TCFD report.

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

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

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

# Responsible Investment Activity 2021/22 continued

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

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

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

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Section 5

# 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 and Isle of Wight Fire and Rescue Authority, the University of Portsmouth, Southampton Solent University and other colleges that were part of the County Council. Town and parish councils that have opted to join the Fund are known as resolution bodies.

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

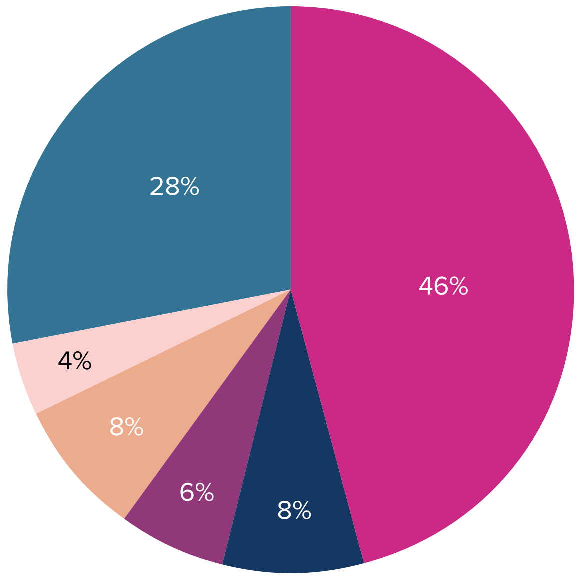
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years.

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

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

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

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



# Scheme Administration Report continued

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

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

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## How the service is delivered

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

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

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

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

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

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

# Scheme Administration Report continued

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

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

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

HPS have held the Customer Service Excellence (CSE) standard since 2009, and following a full assessment in April 2021, underwent a year 2 interim assessment in January 2022, with compliance plus passes in six areas:

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

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

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

# Scheme Administration Report continued



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

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

## Key performance data

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

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

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

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

Pension Savings Statements (PSS) were produced by the statutory deadline of 6 October for the 97 members who were identified as breaching the annual allowance limit in 2020/21. Of these 25 had a tax charge.

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

# Scheme Administration Report continued

## Timeliness of contributions

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

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



## Mortality screening and National Fraud Initiative

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

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

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

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

## Cost benchmarking

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

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

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

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

# Scheme Administration Report continued

## Value for money statement

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

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

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

## Summary of activity in 2021/22

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

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

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

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

# Scheme Administration Report continued



## What does membership cost and what are the benefits?

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

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

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

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

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

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

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

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

# Scheme Administration Report continued

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



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

## Benefits

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

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

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

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

The average annual pension paid in 2021/22 was £4,927 (£5,042 in 2020/21).

## Retirement age

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

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

# Scheme Administration Report continued

## Additional voluntary contributions

Scheme members can pay additional voluntary contributions (AVCs) if they wish to supplement their pension or get an extra tax-free retirement lump sum. The AVCs are invested separately from the Fund's main assets and are used to buy extra pension benefits on retirement.

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



## Membership information

A full listing of contributing employers to the Hampshire Pension Fund is available **here**.

| Year ending 31 March | No. of contributors | No. of deferred | No. of pensioners |
|---|---|---|---|
| 2013 | 46,319 | 48,970 | 33,449 |
| 2014 | 50,551 | 52,417 | 33,286 |
| 2015 | 54.679 | 55,787 | 34,364 |
| 2016 | 57,815 | 59,857 | 36,519 |
| 2017 | 57,781 | 64,060 | 38,216 |
| 2018 | 57,877 | 69,503 | 39,796 |
| 2019 | 58,055 | 72,050 | 41,714 |
| 2020 | 58,913 | 75,920 | 43,706 |
| 2021 | 59,000 | 78,834 | 45,576 |
| 2022 | 61,044 | 82,346 | 48,036 |

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

# Scheme Administration Report continued

## Complaints

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

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

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

## Appeals

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

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

The Fund considered one stage one Internal Dispute Resolution Procedure (IDRP) appeal against the Pension Fund during 2021/22. This was partially upheld.

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

Section 6

# Financial performance and Pension Fund accounts

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# Financial Performance Report – Budget Commentary

Shown below is the Pension Fund's budget for 2021/22 compared to actual expenditure, and the budget for the years 2022/23 to 2024/25. The budget for 2021/22 was agreed by the Pension Fund Panel and Board at its meeting of 4 December 2020 and revised on 10 December 2021.

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

# Financial Performance Report – Budget Commentary continued

## Management expenses

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

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

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

# Statement of the Actuary for the year ended 31 March 2022

## Introduction

**The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Hampshire Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.**



## Actuarial Position

**1.** The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £7,181.9m) covering 98.9% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.

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

- 17.8% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

**Plus**

- an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 of this statement, and monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 16 years from 1 April 2020, which together comprise the secondary rate

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

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

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

*increasing at 3.1% p.a.

# Statement of the Actuary continued

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

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

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

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

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

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

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

The assets were valued at market value.

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

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

# Statement of the Actuary continued

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

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

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

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations and reflected in the Funding Strategy Statement where appropriate, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

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

- **Increases to Guaranteed Minimum Pensions (GMPs):**
The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer term solution to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case. The response set out its proposed longer term solution, which is to extend the interim solution further to those reaching SPA after 5 April 2021.
The results of the 2019 valuation do not allow for the impact of this proposed longer term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

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

# Statement of the Actuary continued

on changes to the LGPS was issued in July 2020.

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

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs of the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and 2016 cost management process have been agreed.

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

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

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

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

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

Aon Solutions UK Limited

**May 2022**

Section 8

# Financial statements

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# Pension Fund Accounts

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

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# Pension Fund Accounts

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

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

# Notes to Pension Fund Accounts

## 1. Description of Fund

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

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the Scheme.



**a) General**

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

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

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

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

**b) Membership**

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

Organisations participating in the Hampshire Pension Fund include:

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

# Notes to Pension Fund Accounts continued

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

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

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**c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay in the Main Section, and 2.75% to 6.25% of pensionable pay in the 50/50 Section, for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2019. Employer contribution rates for most employers were a range from 16.7% to 25.2% of pensionable pay. A small number of employers also pay a past service deficit contribution.

**d) Benefits**

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

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

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

## 2. Basis of preparation

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

# Notes to Pension Fund Accounts continued

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

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The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 17.

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

## 3. Summary of significant accounting policies

### Fund Account – revenue recognition

**a) Contribution income**

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

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

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

# Notes to Pension Fund Accounts continued

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

**b) Transfers to and from other schemes**

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

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

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

**c) Investment income**

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

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

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

**iv)** Rental income from operating leases on properties owned by the Fund is recognised in the fund account when it is paid by the tenant according to the terms of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

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

## Fund Account – expense items

**d) Benefits payable**

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

**e) Management expenses**

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

## Administrative expenses

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

# Notes to Pension Fund Accounts continued

## Oversight and governance costs

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

## Investment management expenses

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2021/22 £2.3 million of fees is based on such estimates (2020/21 £3.4 million).

**f) Taxation**

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

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

## Net Assets Statement

**g) Financial assets**

All investment assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 11a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

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

# Notes to Pension Fund Accounts continued

**h) Freehold and leasehold properties**

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

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**i) Foreign currency transactions**

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

**j) Derivatives**

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

**k) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**l) Financial liabilities**

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

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

**m) Actuarial present value of promised retirement benefits**

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

**n) Additional voluntary contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Utmost, but only by legacy contributors (closed to new members).

# Notes to Pension Fund Accounts continued

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Note 20).

**o) Contingent assets and contingent liabilities**

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

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

## 4. Critical judgements in applying accounting policies

### Unquoted alternative investments

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

### Pension fund liability

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

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

# Notes to Pension Fund Accounts continued

## Directly held property

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

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

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## Wholly owned companies

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

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

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

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

# Notes to Pension Fund Accounts continued

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

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

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# Notes to Pension Fund Accounts continued

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## 6. Events after the reporting date

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

## 7. Contributions receivable

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

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

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

## 8. Benefits payable

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

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

## 9. Management expenses

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

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

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

# Notes to Pension Fund Accounts continued

## 9a) Investment Management Expenses

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

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

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

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

# Notes to Pension Fund Accounts continued

## 10) Investment income

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

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## 11) Investments

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

# Notes to Pension Fund Accounts continued

## 11a) Reconciliation of movements in investments and derivatives

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

# Notes to Pension Fund Accounts continued

## 11a) Reconciliation of movements in investments and derivatives



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

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

# Notes to Pension Fund Accounts continued

## 11b) Investments analysed by fund manager

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

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

# Notes to Pension Fund Accounts continued

## 11c) Property holdings

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

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

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

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

## 12. Analysis of derivatives

### Objectives and policies for holding derivatives

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

# Pension Fund Accounts continued

## Open forward currency contracts

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

| Settlements | Currency bought | Local value £000 | Currency sold* | Local value £000 | Asset value £000 | Liability value £000 |
|---|---|---|---|---|---|---|
| 1 to 6 months | GBP | 305,095 | USD | (401,5180) | 54 | 0 |
| 1 to 6 months | USD | 4,354 | GBP | (3,334) | 0 | (25) |
| 1 to 6 months | GBP | 3,340 | EUR | (3,958) | 0 | (15) |
| **Open forward currency contracts at 31 March 2022** | | | | | **54** | **(40)** |
| **Net forward currency contracts at 31 March 2022** | | | | | | **14** |

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## Prior year comparative

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

* List of currencies
EUR = Euro | GBP = British Pound | USD = United States Dollar

# Notes to Pension Fund Accounts continued

## 13. Fair value – basis of valuation

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

| Description of asset | Valuation hierarchy – level | Basis of valuation | Observable and unobservable inputs | Key sensitivity affecting the valuation provided |
|---|---|---|---|---|
| Market quoted investments | 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Spot foreign exchange contracts | 1 | Market exchange rates at the year end | Not required | Not required |
| Exchange traded pooled investments | 1 | *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 |

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## 13. Fair value – basis of valuation continued

| Description of asset | Valuation hierarchy – level | Basis of valuation | Observable and unobservable inputs | Key sensitivity affecting the valuation provided |
|---|---|---|---|---|
| Alternative Investments – Hedge funds | 3 | Closing price on the final day of the accounting period | NAV-based pricing set on forward pricing basis | Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |
| Alternative Investments – Private equity, infrastructure and private debt | 3 | Comparable valuation of similar companies in accordance with International Private Equity Venture Capital Valuation Guidelines where appropriate or use of third-party valuers such as Duff & Phelps. | EBITDA multiple<br>Revenue multiple<br>Discount for lack of marketability<br>Control premium<br>Loan to value multiple | Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |

# Notes to Pension Fund Accounts continued

## Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with the Fund's investment managers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges and has set below the consequent potential impact on the closing value of investments held at 31 March 2022.

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

## 13a) Fair value hierarchy

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

### Level 1

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

### Level 2

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

### Level 3

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

# Notes to Pension Fund Accounts continued

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

| Values at 31 March 2022 | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|---|---|---|---|---|
| Financial assets | Level 1 £000 | Level 1 £000 | Level 1 £000 | Total £000 |
| Financial assets at fair value through profit and loss | 6,571,829 | 950,642 | 1,408,541 | 8,931,012 |
| Non-financial assets at fair value through profit and loss | 0 | 577,600 | 0 | 577,600 |
| Financial liabilities at fair value through profit and loss | 0 | (40) | 0 | (40) |
| **Net investment assets** | **6,571,829** | **1,528,202** | **1,408,541** | **9,508,572** |

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

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

# Notes to Pension Fund Accounts continued

## 13b) Reconciliations of fair value measurements within level 3

| Period 2021/22 | Market value 31 March 2021 £000 | Purchases during the year and derivative payments £000 | Sales during the year and derivative receipts £000 | Change in market value during the year £000 | Market value 31 March 2022 £000 |
|---|---|---|---|---|---|
| Alternative investments | 932,407 | 381,802 | (161,548) | 255,881 | 1,408,542 |

| Period 2020/21 | Market value 31 March 2020 £000 | Purchases during the year and derivative payments £000 | Sales during the year and derivative receipts £000 | Change in market value during the year £000 | Market value 31 March 2021 £000 |
|---|---|---|---|---|---|
| Alternative investments | 645,310 | 228,392 | (120,298) | 179,003 | 932,407 |

# Notes to Pension Fund Accounts continued

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## 14) Financial instruments

### 14a) Classification of financial instruments

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

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

# Notes to Pension Fund Accounts continued

## 14b) Net gains and losses on financial instruments

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

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

## 15) Nature and extent of risks arising from financial instruments

### Risk and risk management

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

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

## 15a) Market risk

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

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

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

# Notes to Pension Fund Accounts continued

The Fund manages these risks in two ways:

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

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

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## Other price risk

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

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

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

## Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2021/22 reporting period based on a one standard deviation movement in the value of the Fund's investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

| Asset type | Potential market movements (+/-) |
|---|---|
| Overseas equities | 15.56% |
| UK bonds | 13.12% |
| Overseas bonds | 8.81% |
| Property | 5.09% |
| Alternative investments | 6.20% |
| Cash | 0.11% |

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

# Notes to Pension Fund Accounts continued

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

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

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## Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2022 and 31 March 2021 is set out on the following page. These disclosures present interest rate risk based on the underlying financial assets at fair value.

## Interest rate risk sensitivity analysis

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

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

# Notes to Pension Fund Accounts continued

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

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

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

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

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

# Notes to Pension Fund Accounts continued

## Currency risk

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

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

## Currency risk – sensitivity analysis

Following analysis of historical data, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 7.1% (as measured by one standard deviation).

A 7.1% fluctuation in the currency is considered reasonable based on the Pension Fund's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

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

## 15b) Credit risk

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

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

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

# Notes to Pension Fund Accounts continued

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

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

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

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

# Notes to Pension Fund Accounts continued

## 15c) Liquidity risk

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

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



Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. All financial liabilities at 31 March 2022 are due within one year.

### Refinancing risk

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

## 16. Funding arrangements

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

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 16 years from 1 April 2020 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

# Notes to Pension Fund Accounts continued

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

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

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

Contribution schedules for the period to 31 March 2023 have been agreed for all employers. The contributions for employers reflect the profiles of their membership (or profile of the group in which they participate); the approach taken to value the liabilities on exit; the covenant of the employer and take into account the recovery of any surplus or deficiency relating to their participation over an appropriate period. Where annual contribution amounts have been certified to an employer to remove a deficit these are expected to increase by approximately 3.1% p.a. until 31 March 2036 (or an earlier date in some cases depending on the employer's circumstances).

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

## Financial assumptions

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

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

The main actuarial assumptions that were used for the secure scheduled bodies in the March 2019 actuarial valuation were as follows:

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

The assets were valued at market value.

# Notes to Pension Fund Accounts continued

## Demographic assumptions

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

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## Commutation assumption

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

## 50:50 option

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

## 17. Actuarial present value of promised retirement benefits

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

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

The actuarial present value of promised retirement benefits at 31 March 2019 was £10,141million (31 March 2016: £7,595 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date.

As noted above the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2019 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

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

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

# Notes to Pension Fund Accounts continued

## 18. Current assets

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

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

## 19. Current liabilities

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

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

## 20. Additional voluntary contributions

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

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

## 21. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £8.475 million to the Fund in 2021/22 (2020/21 £233.465 million).

# Notes to Pension Fund Accounts continued

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

During the reporting period, the County Council incurred costs of £3.081 million (2020/21: £2.983 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.



The key management personnel of the Fund are the Director of Corporate Operations of Hampshire County Council, acting as Chief Finance Officer (CFO) to the Fund, and the Head of Pensions, Investments and Borrowing. Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council's charge for the administration of the Fund above. Details of the salary of the Director of Corporate Operations can be found in the main accounts of Hampshire County Council.

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

## 22. Contingent liabilities and contractual commitments

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

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

Section 9

# Other useful resources

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# Useful websites and document links

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## ACCESS pool website:

**accesspool.org**

## Hampshire County Council Constitution:

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

## Hampshire Pension Fund useful information:

- Business Plan: **hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies**
- Responsible Investment Policy: **hants.gov.uk/hampshire-services/pensions/responsible-investment**
- Task Force on Climate-related Financial Disclosures Report: **documents.hants.gov.uk/pensions/TCFD-report.pdf?_gl=1*1e35uhj*_ga*MT-cyOTUwNzE0LjE1OTc2NjgzMjQ.*_ga_8Z-VSPZWL5T*MTY1NjQ0MzA1OS4xLjAuM-TY1NjQ0MzA1OS4w**
- All policies: **hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies**
- Contributing employers to the Hampshire Pension Fund: **hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/annual-report**
- The report on the actuarial valuation at 31 March 2019: **hants.gov.uk/hampshire-services/pensions/local-government/employers/technical-information/finance/actuarial-valuation**
- Meetings of the Pension Fund Panel and Board: **democracy.hants.gov.uk/ieListMeetings.aspx?CId=189&Year=0**

## LGPS Scheme Advisory Board website:

LGPS Scheme Advisory Board – Home **(lgpsboard.org)**

## Principles for Responsible Investment (PRI) website:

PRI | Home **(unpri.org)**

## Task Force on Climate-related Disclosures website:

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

## UK Stewardship Code (FRC) website:

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

# Glossary

## ACCESS pool

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



## Actuary

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

## Added-years

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

## Administering Authority

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

## Admission bodies

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

## Alternative investments

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

## Asset Backed Securities

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

## AVCs

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

## Benchmark asset allocation

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

## Bonds

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

## Bulk transfer

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

# Glossary continued

## Cessation valuation

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

## Community admission bodies

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



## Commutation

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

## Contingent liability

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

## DCLG

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

## Deferred member

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

## Derivatives

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

## Discretionary

Allowable but not compulsory under law.

## Dividends

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

## DLUHC

The Department for Levelling Up, Housing and Communities.

## Economic exposure

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

## Emerging markets

The financial markets of developing economies.

## Equities

Shares in UK and overseas companies.

# Glossary continued

## ESG

Environmental, Social and Governance factors.

## Full Funding

100% of the Funding Target chosen.

## Funding Principle

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

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## Funding Success

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

## Funding Target

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

## FT

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

## Gilt-edged securities (or Gilts)

Fixed-interest stocks issued by the UK Government.

## Global custodian

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

## GMP

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

## Gross of fees

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

## Guarantors

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

## Hedge fund

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

## Income yield

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

# Glossary continued

## Index

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

## Index linked

Investments which generate returns in line with an index.



## Index return

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

## Informal valuations

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

## Interim valuations

Actuarial valuations carried out in between the triennial valuations.

## LIBOR

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

## LGPS

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

## MSCI ACWI

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

## MHCLG

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

## Myners

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

## Multi-Asset Credit

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

## Net of Fees

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

# Glossary continued

## Notional sub-funds

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

## Orphan liabilities

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

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## Pooled investment vehicle

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

## Private equity

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

## Private debt

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

## Projected unit actuarial method

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

## Quartile

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

## Recovery period

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

## Relaxation period

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

## Relevant Scheme Employer

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

## Responsible Investment

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

# Glossary continued



## Resolution bodies

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

## Roll forward

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

## Rolling three-year periods

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

## Scheduled bodies

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

## Scheme Advisory Board (SAB)

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

## Smoothing adjustment

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

## Soft commission

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

## Solvency

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

## SONIA

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

## Standard lifetime allowance

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

## Statutory

Controlled by the law.

## Subsumption

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

# Glossary continued

## TCFD

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

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

## Transfer value

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

## Transferee admission body

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

## Triennial valuation

The valuation carried out by the Actuary every three years.

## UN Principles for Responsible Investment

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

## UK Stewardship Code

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

## 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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# Agenda Item 18

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