HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	24 July 2020
Title:	Governance – Annual Report, Risk Register, Pension Fund Costs and Cash Management 2019/20
Report From:	*Deputy Chief Executive and Director of Corporate Resources*

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Purpose of this Report

1. The purpose of this paper is to introduce the 2019/20 draft Pension Fund Annual Report to the Panel and Board.

2. The report also provides details of updates made to the Risk Register since it was last reported to the Panel and Board and analysis of costs incurred in managing the Pension Fund during 2019/20.

3. An update is also provided on the Pension Fund's policy for managing its cash balance.

Recommendations

4. That the Panel and Board notes the contents of the draft Annual Report for 2019/20, including the amendments to the Risk Register, and approves its publication.

5. That the Deputy Chief Executive and Director of Corporate Resources is authorised to make any necessary minor amendments to the Annual Report prior to publication as detailed in paragraph 19.

6. That the Panel and Board notes the total cost of managing the Fund.

7. That the outturn report on the Pension Fund's cash management in 2019/20 is approved by the Panel and Board.

Executive Summary

8. 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.

9. The draft Annual Report for 2019/20 has been prepared and is presented to the Panel and Board for review and approval for publication, with further information provided in paragraphs 14 to 21.

10. The Annual Report includes the latest updates to the Pension Fund's Risk Register, including amendments to operational, investment, and administrative risks.

11. 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 alternative investments like Private Equity and Infrastructure.
    - 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.

12. The Fund is required to report on the costs and savings achieved through pooling; paragraphs 22 to 32 provide further detail on this as well as the three elements of the Pension Fund's management costs described above.

13. This report also provides an annual review of the policy for managing the Hampshire Pension Fund's cash balance in paragraphs 33 to 48. 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.

Annual Report

14. 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.

15. The Annual Report includes details of the Fund's governance, administration, and investments, as well as the Fund's accounts. The annual report now also includes additional information on pooling, including:
    - details of the ACCESS pool's annual report
    - an update on progress with investment pooling
    - updates to sections of the report including investment performance and the risk register to reflect the impact of pooling.

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

Table 1 – Updates to the Risk Register		
Risk	**Description**	**Change**
Employer risk	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.	The mitigation has been updated to include a statement to say that the Administering Authority has a written policy on how it would exercise its discretion to defer pension contributions in exceptional circumstances
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyberattack), either affecting the Pension Fund directly or one of its key suppliers.	The description of the risk has been amended to specifically reference the risk of a pandemic. The mitigation has been updated to include a statement to confirm that arrangements in the described scenarios will include the ability to continue to deliver

Table 1 – Updates to the Risk Register		
Risk	**Description**	**Change**
		key services remotely should this be necessary. The likelihood of this happening has been increased from Low to High
Investment risk	Environmental, social and governance (ESG) factors – that these factors materially reduce long-term returns.	The description of the risk has been expanded to specifically reference the impact of climate change. The mitigation has been updated to specifically state that any negative contribution to climate change and the overall risk from the impact of climate change will be considered by the Pension Fund's external investment managers in making investment decisions

17. The current draft Annual Report is attached and has been reviewed by officers and the Deputy Chief Executive and Director of Corporate Resources.

18. 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.

19. Amendments due to be made include:

- The confirmation of details of the ACCESS pool's annual report
- Minor corrections including grammatical, typographical, and formatting errors and the finalisation of page numbering

20. In addition, 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. The audit process normally concludes in time for the accounts to be signed off by the end of July. This year, however, the current exceptional circumstances mean that the audit deadline has been extended.

21. The final version of the Annual Report, excluding the final statement from the auditors, will therefore be available for publication at the end of July 2020. Any changes resulting from the audit will be highlighted to the Panel and Board at a future meeting and will also be published alongside the Annual Report on the Pension Fund's website.

Pension Fund costs 2019-20

22. The total cost of managing the Pension Fund is shown in the Table 2 below and also as a percentage of the average value of the Pension Fund in 2019/20 (2018/19 and 2017/18 costs are shown as a comparison):

Table 2 – Pension Fund management costs

	2019/20		2018/19		2017/18	
	£'000	%	£'000	%	£'000	%
Investment management	47,780	0.64	37,576	0.54	38,186	0.59
Administration	2,196	0.03	2,417	0.04	2,000	0.03
Oversight and governance	722	0.01	632	0.01	546	0.01
Total	50,698	0.68	40,625	0.59	40,732	0.63

Investment management costs

23. As part of the updated statutory CIPFA guidance on preparing the Pension Fund Annual Report additional data is provided, most notably about investment pooling. Investment management costs are separated between costs incurred from investments held through the pool and those that continue to be held directly.

24. Table 3 shows the actual cost of investment management for 2019/20, as well as providing a meaningful comparison by presenting the costs in terms of basis points.

25. The data in Table 3 is based on data provided by the Pension Fund's investment managers who have all completed the Cost Transparency Initiative template. The Fund's investment management costs shown in Table 3 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, as well as costs associated with property transactions for the Fund's directly held property portfolio.
- 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.

Table 3 – Investment management costs 2019/20

	Pooled		Non-pooled		Total	
	£'000	% bps	£'000	% bps	£'000	% bps
Direct fees	550	0.01	7,150	0.24	7,700	0.10
Indirect fees	4,876	0.11	26,144	0.88	31,020	0.41
Transaction costs	2,382	0.05	6,244	0.21	8,626	0.12
Custody and other costs	-	-	435	0.01	435	0.01
Total	7,807	0.17	39,538	1.33	47,780	0.64

26. 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.

27. Investment management fees in 2019/20 increased in comparison to the previous year as a result of additional costs for maintaining and improving the Fund's investment properties, as well as an increase in fees paid to the underlying managers of the Fund's alternative investment portfolios as investments in this area increased bringing the Fund's alternative investments closer to their target allocations.

28. Table 1 in the exempt appendix provides a breakdown of the investment management costs for 2019/20 by investment manager.

29. 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 4.

Table 4 – Pool costs and savings

	Hampshire	
	2019/20	Cumulative
	£'000	£'000
Pool setup and on-going costs	(117)	(396)
Transition costs	-	(403)
Investment management fee savings	826	1,478
Total net savings / (costs)	709	679

30. During 2019/20, Hampshire's involvement in ACCESS moved from a net cumulative cost to a net cumulative saving. This saving was achieved through the following activity in the year:

- The pool setup and on-going cost during 2019/20 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 exercises carried out in year, the cost of any advice received from consultants, as well as the Member Support service provided by Kent County Council;
- All of Hampshire's investments that have transitioned into the ACCESS pool transitioned prior to 2019/20, and therefore Hampshire has gained a full year of savings on these investment management fees compared with part year savings in 2018/19;
- No further investments transitioned into the ACCESS pool for Hampshire in 2019/20, and therefore Hampshire did not have any transition costs in 2019/20.

Administration costs

31. Administration costs during 2019/20 were lower in percentage terms at 0.03% in comparison to 2018/19 (0.04%), but in line with 2017/18 (0.03%). The increase in administration costs in 2018/19 were in part due to the investment in the new Member Portal. Administration is becoming increasingly complex and the costs of administration reflect the resource implications, however investment in technology has helped to produce efficiencies.

Oversight and governance costs

32. Oversight and governance costs during 2019/20 were in line with both 2018/19 and 2017/18 in percentage terms.

Pension Fund Cash – Annual Report 2019/20

33. The Pension Fund receives cash each month from contributions made by employees and employers, and from investment income. The Pension Fund requires a cash balance to be able to pay pensions and other costs. Cash is also required for the following investment reasons:
    - if the UK property manager CBRE Global Investors purchases additional properties;
    - to finance drawdowns of private equity and private debt limited partnerships and co-investments; and
    - to finance drawdowns of infrastructure investments.

34. Dividends from shares and interest receipts from bonds are retained by the external investment managers for reinvestment but rent income from the Pension Fund's direct property portfolio is credited to the Fund's cash balance. Distributions from the Fund's private equity, private debt and infrastructure investments are also paid out into the Fund's cash balance.

35. The Pension Fund's investment managers aim to be fully invested, and generally do not plan to hold cash as a matter of investment policy. All of the Fund's active investment managers will have some cash balances as a result of trading between stocks and from dividend and interest income pending investment. With the increasing use by the Pension Fund of pooled funds from ACCESS or for multi-asset credit, most of this cash will be held within the pooled fund rather than directly by the Pension Fund's Custodian bank, JP Morgan, which now only holds cash for the two remaining directly held equity portfolios.

36. There are rigorous procedures in place to ensure the security of all cash deposits which are managed by the County Council in separate investment accounts for the Pension Fund. These include criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty as set out in the Pension Fund's Annual Investment Strategy for 2020/21 for cash, which was approved by the Pension Fund Panel and Board on 13 December 2019. In addition, the County Council's treasury advisers, Arlingclose, provide advice to the Deputy Chief Executive and Director of Corporate Resources in undertaking treasury management activities.

Investment activity

37. Security of capital remains the Fund's main investment objective for the management of the cash balance. This was maintained during 2019/20 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 14 December 2018 and updated on 27 September 2019. Investments during the year included:

    - Investments in AAA-rated Money Market Funds
    - Investments in UK Government Treasury Bills and Gilts
    - Call accounts, notice accounts and certificates of deposit with banks and building societies with a minimum credit rating of A-, or equivalent

38. 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.

39. Based on these factors and advice from the Treasury Management advisers, Arlingclose, the Director of Corporate Resources on behalf of the Pension Fund has varied investment duration limits for new investments according to the assessment of credit risk and has suspended investing with individual counterparties when it is felt to be necessary to protect the Pension Fund's capital.

40. The Pension Fund's current counterparty limits are shown in Appendix 2. The limits are the agreed maximum values and duration of investments per counterparty, which shows the full range of counterparties the Fund could potentially invest with. 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. For example, most of the foreign banks listed do not offer instant access accounts that the Pension Fund can access.

41. The UK Bank Rate was cut from 0.75% to 0.25% and then 0.10% in March 2020 due to the effect of the coronavirus pandemic on the economy. Rates had been historically low even prior to these cuts, impacting the Pension Fund's ability to generate income on cash investments. The Fund's average cash investment balance was £159.1m during 2019/20 (2.3% of the total Pension Fund based on the average value during the financial year), and interest earned was £1.176m, leading to an average yield of 0.74%. The

Fund’s cash investments at 31 March 2020 and 30 June 2020 are shown in the exempt appendix.

42. As at 31 March 2020 the Pension Fund’s cash balance was higher than previous cash balances due to the Pension Fund’s decision in September 2019 to rebalance the portfolio as the Fund works towards implementing its investment strategy. Cash will be used to fund illiquid investments as required, and the cash management strategy was adjusted in September 2019 to allow the appropriate management of this higher cash balance.

Cash inflows and outflows from dealings with members

43. 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. Up until 2011/12 the Fund’s historic average was a surplus of around £50m. However due to austerity in the Public Sector and the reductions in scheme employers’ workforces that took place beginning in 2012/13, the surplus reduced at that time.

44. The Pension Fund Panel and Board monitors the surplus or deficit on an annual basis and the draft statement of accounts for 2019/20 show that it made a surplus of £72.1m from its dealings with members, which is an increase from a £55.0m surplus in 2018/19.

45. A more accurate view of the Fund’s cash flow can be achieved by removing the effect of the transfer of scheme members, which can vary significantly from year to year, and which the Fund has no control over. Removing the impact of transfers brings the net figure to £75.2m in comparison to 2018/19’s net figure of £56.3m, as shown in Table 5.

Table 5: Net additions from dealing with members

	2018/19 £’000	2019/20 £’000
Net additions from dealing with members	54,985	72,094
Net total transfers	1,313	3,141
	56,298	75,235

46. The overall increase of £18.9m in net additions from dealing with members is for the main part due to the stepped increase in employer pension contributions in 2018/19 from 15.1% to 16.1%. Overall employers’

contributions increased by 11.9% (£28.8m) in 2019/20 in comparison to 2018/19, whilst the number of active contributors to the Fund increased only very slightly to 58,913 (58,055 in 2018/19).

47. 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.

48. Projecting the Pension Fund’s annual surplus or deficit from dealings with members in the future is challenging given the number of variables involved, such as membership numbers, investment returns and inflation. The Fund’s cash position will continue to be monitored by officers, with the assistance of the Fund’s actuary, Aon, where necessary, and reported to the Panel and Board.

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.

Appendix 1 – Risk Register

Changes are highlighted in blue

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

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

Risk	Description	Likelihood	Impact	Mitigation
Administration risk (continued)	you that your records are complete and accurate?			between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to certain principles, including: - to provide a high quality pension service to members - to take responsibility to provide accurate and timely information - that the results are reported to the Panel & Board twice a year. The annual returns exercise is completed each year and employer performance is monitored with processes in place to help improve this where necessary. 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.
	- Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated?			Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.
	- Member communication: are these always accurate, timely and clear?			There is a Communications Policy and Customer Charter on the Pensions Services website, which details the service our scheme members can expect.
	- Internal disputes: do these indicate wider problems in the Fund?			The full complaint process, going all the way though to the Pensions Ombudsman, is detailed on the Pension Services website.

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

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			that the Pension Fund should have a significant proportion of its assets denominated in Sterling, thereby removing the currency risk. The Panel and Board keep their view of the long term nature of currency movements under review and will seek specialist advice if they believe that this might change or there is likely to be an event that might crystallise the effect of particular currency movements. Where investment returns in particular asset classes are at risk of disproportionate currency effects (such as Multi-asset Credit and Private Debt) the investments are hedged back to Sterling. In addition having taken advice to mitigate the overall currency impact on the Pension Fund, the passive global equity investments is hedged back to Sterling.
	Credit risk – the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.			The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment, with further limits set in the Investment Strategy Statement to limit the Fund's exposure to particular vehicles or assets. The Pension Fund's stock lending programme is protected by collateral managed by the Fund's custodian.
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial			The Fund contracts with specialist external investment managers and as a general principle aims to make their portfolios 'ever-green' so

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

Risk	Description	Likelihood	Impact	Mitigation
	Fund Panel and Board's fiduciary duty.			Government, including responding to consultation, on any issues affecting the management and investment of Pension Fund monies.
	Illiquidity – that the Fund is unable to meet its immediate liabilities			The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available. The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	M	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.
Funding risk	The Government Actuary's Department (GAD) has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of the LGPS has been carried out. Their report must cover: - whether the fund's valuation is in accordance with the scheme regulations - whether the fund's valuation has been	M	H	Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2016 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.

Risk	Description	Likelihood	Impact	Mitigation
Funding risk (continued)	carried out in a way which is not inconsistent with the other fund valuations within the LGPS - whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund. These requirements will have statutory force with effect from the 2016 valuations in England and Wales. Funds will be assessed against a number of measures and scored as: Red – potentially a material issue that might contribute to a recommendation for remedial action to ensure solvency Amber – highlights a possible risk Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency. GAD will then engage with Funds with any amber or red flags.			
Regulatory and compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is	M	L	The Pension Fund Panel and Board has documented Terms of

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

Appendix 2 - Current Bank and Building Society investment limits

Country / Domicile	Counterparty	Maximum investment	Maximum duration
UK	Barclays Bank PLC / Barclays Bank UK PLC	£25m	35 days
UK	HSBC Bank PLC / HSBC UK Bank PLC	£25m	35 days
UK	Lloyds Bank PLC / Bank of Scotland PLC	£25m	35 days
UK	National Westminster Bank PLC / Royal Bank of Scotland PLC / Ulster Bank Limited	£25m	35 days
UK	Nationwide Building Society	£25m	35 days
UK	Santander UK PLC	£25m	35 days
UK	Standard Chartered Bank	£25m	35 days
Australia	Australia & New Zealand Banking Group	£25m	35 days
Australia	National Australia Bank	£25m	35 days
Finland	Nordea Bank	£25m	35 days
Germany	DZ Bank	£25m	35 days
Germany	Landesbank Baden-Wuerttemberg	£25m	35 days
Netherlands	Cooperative Rabobank	£25m	35 days
Singapore	DBS Bank Ltd	£25m	35 days