

**UNIVERSITY OF SOUTHAMPTON  
PENSION AND ASSURANCE  
SCHEME FOR  
NON ACADEMIC STAFF**

**Trustees' Annual Report and Financial Statements**

**31 JULY 2017**

**Registered number:101150842**

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# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## ANNUAL REPORT – 31 JULY 2017

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# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## TRUSTEES AND INDEPENDENT ADVISERS

### Chairman

Mr A Gosden

### University Trustees

Ms S Pook

Prof. J Falkingham

### Employer Trustee

Mr T O'Brien (to 7/9/16)

Mr W Shannon (from 15/9/16)

### Active Member Trustees

Mr A Dilworth

Mrs J Shaw

### Pensioner Trustee

Mr N Burr

### Clerk to the Trustees

Ms L North

### Actuary

Mr P Hamilton

Barnett Waddingham

St James's House, St James's Square

Cheltenham, GL50 3PR

### Auditor

Mazars LLP

The Pinnacle

160 Midsummer Boulevard

Milton Keynes

Buckinghamshire

MK9 1FF

### Bankers

Lloyds Bank Plc

City Office Branch

Bailey Drive, Gillingham Business Park

Gillingham

Kent, ME8 0LS

### Solicitors

Squire, Patton Boggs (UK) LLP

Rutland House

148 Edmund Street

Birmingham, B3 2JR

### Administration Office

Finance Department

University of Southampton

Highfield

Southampton, SO17 1BJ

### Investment Advisor

Mr M Tickle

Barnett Waddingham

St James's House, St James's Square

Cheltenham, GL50 3PR

### Investment Managers

BlackRock Investment Management Limited

33 King William Street

London, EC4R 9AS

Barings Asset Management Limited

155 Bishopsgate

London, EC2M 3XY

Hermes Investments Funds plc

Georges Court

54-62 Townsend Street

Dublin 2

Ireland

Newton Investment Management Limited

BNY Mellon Centre

160 Queen Victoria Street

London, EC4V 4LA

Longview Partners (Guernsey) Limited

PO Box 559

Mill Court

St Peter Port

Guernsey, GY1 6JG

### Custodian (BlackRock and Longview)

BNY Mellon

One Canada Square

London, E14 5AL

### Custodian (Newton)

BNY Mellon

160 Queen Victoria Street

London, EC4V 4LA

### Custodian (Barings and Hermes)

Northern Trust Fiduciary Services (Ireland) Ltd.

George's Quay House

43 Townsend Street

Dublin 2 Ireland

# **UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF**

## **REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017**

The Trustees have pleasure in reporting to the members for the year ended 31 July 2017.

### **The Scheme**

The University of Southampton Pension and Assurance Scheme for Non Academic Staff was established in August 1967, to provide retirement and death benefits for all eligible non-academic employees of the University of Southampton.

The Scheme is governed by a revised definitive Trust Deed dated 23 August 2012 incorporating the preservation requirements of The Social Security Act 1973, and the contracting out provision of The Social Security Pension Act 1975, and all previous supplementary deeds.

The scheme is open to new members and open to future accrual. Under the AVC Added Years option members were able to purchase additional years benefits, to be combined with benefits arising due to years' service. The option for members to pay additional voluntary contributions to secure additional benefits is no longer available, but continues for existing members who opted for this. Members are able to fund their contributions by salary sacrifice.

### **Proposal for change**

The University of Southampton, after thorough consideration of a number of options, is proposing to close the Pensions and Assurance Scheme for Non-Academic Staff, to new members and future accrual, offering members the opportunity to join a defined contribution scheme. If the proposals go ahead, they will take effect on 31 July 2018, at which date all active members will become deferred members. PASNAS benefits at retirement would be calculated based on service up to 31 July 2018, based on the member's Final Pensionable Salary at the earliest of the point of retirement or the date of leaving the University's employment. The University will continue to make deficit contributions to the scheme.

The University is presenting these proposals in order to provide greater certainty over future costs for both the University and members of PASNAS. The University is not looking to make cost savings from this proposal but with the costs of future pensions rising, is looking to manage future cost growth. This proposed change is intended to provide a sustainable solution. The next triennial review due at 31 July 2018 will then set the recovery plan based on the scheme changes agreed following the consultation.

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

## SCHEME FOR NON ACADEMIC STAFF

### REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017 (Continued)

#### Management of the Scheme

The overall management of the Scheme is vested in the Trustees whose names appear on page 1 of this report. The Trustees are appointed and may be removed by the University in accordance with provisions of the Trust Deed. Member Trustees are elected triennially by a ballot of members and cease to be Trustees on the day prior to the third anniversary of their appointment, or by resignation prior to that date. The Scheme administration is performed by the Finance Department of the University.

The Trustees are responsible for the administration and investment policy of the Scheme. There were five quarterly Trustee meetings during the year and attendance at the meetings was as follows:

<b>Trustee</b>	<b>Number of Trustee meetings attended</b>
Mr A Gosden – Chairman	5/5
Mr T O'Brien – Employer Trustee	0/1
Mr W Shannon – Employer Trustee	3/5
Ms S Pook – University Trustee	3/5
Prof. J Falkingham – University Trustee	2/5
Mr A Dilworth – Member Trustee	5/5
Mrs J Shaw – Member Trustee	5/5
Mr N Burr – Pensioner Trustee	5/5

In addition to the above there were five investment meetings and one training meeting.

#### Statement of Trustees' responsibilities

The financial statements, which are prepared in accordance with the UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS102) are the responsibility of the trustees. Pension scheme regulations require, and the trustees are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in Regulation 3A the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the relevant reporting framework applicable to occupational pension schemes.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017  
(Continued)**

**Statement of Trustees' responsibilities (continued)**

In discharging the above responsibilities, the trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

The trustees are also responsible for making available certain other information about the scheme in the form of an annual report.

The trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The trustees are responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions are made to the scheme by the employer in accordance with the schedule of contributions, the scheme rules and recommendations of the actuary. Where breaches of the schedule occur, the trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

**The sponsoring employer**

The University of Southampton  
University Road  
Highfield  
Southampton SO17 1BJ

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

## SCHEME FOR NON ACADEMIC STAFF

### REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017 (Continued)

#### Financial development of the Scheme

The financial statements have been prepared and audited in compliance with regulations under Section 41(1) and (6) of the Pensions Act 1995. During the year member income received into the Scheme increased to £9.4 million compared with £9.3 million for the prior year. The net returns on investments comprised change in market value of investments of £16.3 million (£14.7 million in 2016) and investment income of £3 million (£3million in 2016) offset by investment management expenses of £0.8 million (£0.7 million in 2016). The net assets of the scheme amounted to £210.7 million at 31 July 2017 (£188.6 million at 31 July 2016).

#### Schedule of contributions

Following the actuarial valuation on 31 July 2015 the schedule of contributions was agreed and certified by the scheme actuary. Contributions were set at the following rates from 1 November 2016. Rates in force from 1<sup>st</sup> August 2012 to 31<sup>st</sup> October 2016 are shown in brackets.

Member contributions	6.35 % (6.35%)
Deficit contributions	5.10 % (5.65 %)
Ordinary employer contributions	12.15 % (11.60 %)

#### Pensions payable

In accordance with the Scheme rules, pensions are increased annually in line with the Pensions Increase Act 1971. With effect from 1 April 2017 the following increases were made to pension payable and deferred provision based on CPI as at September 2016.

Pensions in course of payment for benefits accrued to end September 2010	1.0%
Pensions in course of payment for benefits accrued to after 1 October 2010	1.0%
Deferred pensions	1.0%

Pension increases are made at the discretion of the Trustees and University of Southampton where pensions commenced to be paid prior to 1 April 1987.

Revaluation of deferred pensions only apply where a member left after 1 January 1986. In these cases, the following rules apply:

- For leavers between 1 January 1986 and 31 December 1990: Revaluation can be back-dated to 1 January 1985,
- For leavers after 1 January 1991: Revaluation is calculated on all pensionable service.

Deferred pensions for members who left before 1 January 1986 are not subject to any revaluation.

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

## SCHEME FOR NON ACADEMIC STAFF

### REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017

(Continued)

#### Actuarial status of the Scheme

A full actuarial valuation was carried out by Barnett Waddingham LLP as at 31 July 2015 and finalised on 3 October 2016. This indicated that on the basis of existing contribution rates the scheme continue to be in deficit by £40.2m. The Trustees agreed to a long term recovery plan effective from 3 October 2016, whereby the funding shortfall is expected to be eliminated by 30 June 2026, by deficit recovery employer contributions of 5.1% of pensionable salaries to be paid towards the scheme from 1 November 2016 to 30 June 2026. The next full actuarial valuation will be effective from 31 July 2018.

#### Scheme membership

	<u>2017</u> <u>Number</u>	<u>2016</u> <u>Number</u>	
<b>Active members</b>			
Active members at the beginning of the year	2,010	1,961	
Adjustment to previous year balance	(3)	-	
New members joining	270	398	
Members retiring	(27)	(36)	
Members leaving prior to pensionable age	(252)	(272)	
Members leaving with refunds	(32)	(44)	
Transfers out	(2)	(2)	
Flexible retirees	(5)	5	
	<b>1,959</b>		2,010
<b>Pensioners</b>			
Pensioners at the beginning of the year	1,389	1,361	
Adjustment to previous year balance	2	(9)	
Members retiring	27	36	
Deferred pensioners reaching pensionable age	27	28	
Spouses and dependants	7	8	
Pensioners who died during the year	(41)	(32)	
Flexible retirees becoming full retirees	1	(3)	
	<b>1,412</b>		1,389
<b>Deferred Pensioners</b>			
Deferred pensioners at the beginning of the year	2,392	2,218	
Adjustment to previous year balance	7	25	
Deferred pensioners during the year	252	272	
Deferred pensioners reaching pensionable age	(27)	(28)	
Deferred pensioners taking refunds/ transfers/trivial pensions	(165)	(94)	
Deferred pensioners who died in the year	-	(1)	
	<b>2,459</b>		2,392
Total membership as at 31 July	<u><b>5,830</b></u>		<u><b>5,791</b></u>

Ongoing member data checking gives rise to adjustments to the previous year balance. These have been included in the statistics in order to correct the position as at 31<sup>st</sup> July 2017.



# **UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF**

## **REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017 (Continued)**

### **Investment performance and management**

The Scheme investments are in accordance with the Occupational Pensions Scheme (Investment of Scheme's Resources) Regulations 1996. There were no employer-related investments held at any time during the year.

A Statement of Investment Principles (SIP) has been produced as required by the Pensions Act 1995, as amended by the Pensions Act 2004, and of the Occupational Pension Schemes (Investment) Regulations 2005, and is available on request. The SIP has been updated to reflect changes in the portfolio following the investment strategy review that occurred over the year, and is in the final stages of Trustee agreement.

There are written agreements in place between the trustees of each of the scheme advisors listed on page 1 of this report and also with the Principal Employer. The investment managers appointed on behalf of the Trustees to manage funds under section 34(4) of the Pensions Act 1995 are appropriately authorised under the Financial Services Act 1986 to manage investments or are specifically exempted from the requirements of the Act. The investment managers appointed have the appropriate knowledge and experience necessary to manage the particular investments delegated to them.

### **Investment managers**

The management of the investment assets of the Scheme has been delegated by the Trustees to BlackRock Investment Management, Longview Partners (Guernsey) Limited, Barings Asset Management, Newton Investment Management and Hermes Investment Management.

The Trustees have given their investment managers discretion when evaluating environmental, social and governance issues and in exercising right and stewardship obligations attached to the Scheme's investments. In the case of the segregated portfolios held with Longview and Blackrock, the Trustees have agreements in place for the explicit exclusion of investing in companies whose 'industry' is classified as 'Tobacco' within the MSCI Global Industry Classification Standard.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. Where relevant, equity managers who are regulated by appropriate UK (or other relevant) authorities are expected to report on their adherence to the UK Stewardship Code on an annual basis.

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017 (Continued)

### Investment managers (continued)

The Investment Managers are remunerated on a fee basis which is based on the value of the Scheme's assets managed by each manager as follows:

#### BlackRock Investment Management

Investments held by BlackRock in the Absolute Return Bonds Fund are charged at 0.5% per annum. Investments held by BlackRock in the Property Fund are charged a management fee of 1.0% per annum.

All other investments are charged as follows (based on the market value of assets at the quarter end):

- 0.70% pa on first £10 million
- 0.50% pa on next £10 million
- 0.35% pa on balance in excess of £20 million

The Scheme disinvested from the Absolute Return Bonds Fund and the Corporate Bond Fund on 26 June 2017.

#### Longview Partners

All investments are subject to fees, which are calculated quarterly, based on the average value of the Scheme's asset as at the end of the previous three months:

- |              |       |
|--------------|-------|
| • First £25m | 0.75% |
| • Next £25m  | 0.65% |
| • Next £75m  | 0.60% |
| • Next £125m | 0.50% |
| • Thereafter | 0.40% |

#### Barings Asset Management

0.55% pa on assets held in the Dynamic Asset Allocation Fund, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

#### Newton Investment Management

0.75% pa on assets held in the Real Return Fund, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

#### Hermes Investment Management

0.55% pa on assets held in the Multi Strategy Credit Fund, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

## SCHEME FOR NON ACADEMIC STAFF

### REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017 (Continued)

#### Review of investment performance

Over the year, BlackRock managed a portfolio in accordance with the guidelines provided by the Trustees, which was suspended in June 2017 following the Scheme's investment strategy review.

The policy followed reflects the investment objectives of meeting the Scheme's long term commitment to provide pensions and other benefits in the future.

A summary of the Scheme's performance over the last five calendar years as well as the first six months of 2017 is given below. The table shows the returns achieved by each investment manager and the aggregate return of the Scheme. All performance returns are shown net of fees. Since 1 April 2003 the Scheme has been using a composite benchmark, tailored to its long term strategy.

Calendar Year	BlackRock Main Portfolio	BlackRock Property Portfolio	Barings	Newton	Hermes**	Longview*	PASNAS Total	Benchmark
	%	%	%	%	%	%	%	%
2017 (6 mths)	3.0	4.3	5.5	3.1	-0.3	6.8	4.4	3.7
2016	14.8	2.5	5.9	4.0	-	29.2	16.7	16.4
2015	3.3	11.1	1.1	1.1	-	5.8	3.5	2.9
2014	10.1	15.3	4.3	3.2	-	16.8	10.7	8.9
2013	13.7	8.9	7.9	5.7	-	5.4	12.4	10.3
2012	11.3	1.8	5.5	4.4	-	-	9.2	8.6

\* Longview's performance during 2013 shown for the period invested since 26 July 2013.

\*\* Hermes' performance during the 6 months of 2017 reflects the period since investment, 26 June 2017.

Over the 12 months to 30 June 2017, all funds generated positive returns with the exception of the Newton Real Return Fund. The overall portfolio delivered strong performance of 13.3%, slightly outperforming the Scheme's benchmark, with performance driven by positive returns of more than 20% from the portfolio equity holdings.

The Scheme's Index-linked gilts returned 7.2% as long term inflation expectations increased significantly over the twelve month period. Corporate bonds benefited from a decrease in spreads returned 9.9% over the year to 30 June 2017.

All funds, except the Newton Real Return Fund and the BlackRock Property Fund, outperformed their benchmark over the year to 30 June 2017.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017  
(Continued)**

**Investment strategy**

The Trustees set the investment strategy taking into account considerations such as the strength of the employer covenant, the long term liabilities and the funding agreed with the Employer. The Scheme's Investment Strategy is considered as part of the triennial Actuarial Valuation Report. The Scheme has recently conducted a review of investment strategy and is currently in the process of implementing changes to the strategy as a result of this review, details of which are contained below. A new Statement of Investment Principles (SIP), which reflects the change in strategy, has been drafted and is being agreed by the Trustees.

At the beginning of the Scheme's year, the investment strategy was as follows:

- 75% in return seeking investments, comprising at the date of this report, UK and overseas equities, Diversified Growth Funds and UK commercial property.
- 25% in bonds and cash, comprising at the date of this report, UK and overseas government bonds, corporate bonds, loans and cash.

The new strategy includes the appointment of four new Investment Managers. These managers are Artemis Investment Management, M&G Investments, Fidelity International and Hermes Investment Management (already appointed). The new strategy can be summarised in the table below:

<b>Mandate</b>	<b>Allocation</b>	<b>Managers</b>
Global Equities	35%	Artemis Investment Management (investment pending) Longview Partners
Diversified Growth Funds	20%	Newton Investment Management Baring Asset Management
Index-Linked Gilts	15%	BlackRock Investment Management
Multi-Asset Credit	15%	Hermes Investment Management
Property	15%	BlackRock Investment Management M&G Investments (investment pending) Fidelity International (investment pending)

The Trustees' investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due. The Trustees feel that the strategy set out above meets the above objectives with a balance between assets with an expected return above that of government bonds and assets that are expected to reduce funding level volatility by moving in line with the change in liability value.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE**  
**SCHEME FOR NON ACADEMIC STAFF**

**REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017**  
**(Continued)**

**Investment strategy (Continued)**

Contributions paid by the Employer, not required for Scheme cashflow purposes, were invested with the Scheme's investment managers so as to move the Scheme back towards the central asset allocation benchmark.

As at the accounting date, the Scheme held approximately £10m in a Cash Fund with BlackRock. This £10m was invested into the Fidelity UK Real Estate Fund in December 2017

**Analysis of investments**

At 31 July 2017 the investment managers had invested the investment assets of the Scheme as follows:

	<u>2017</u>	<u>2016</u>
	£000	£000
Managed Funds UK – Fixed interest securities	-	10,420
Managed Funds UK – Index linked securities	24,502	24,543
Managed Funds - Property	9,504	8,916
Multi Asset Credit Fund	30,060	-
Absolute Return Funds	37,880	44,357
Equities – UK quoted	47,140	51,475
– Overseas quoted	45,660	46,822
Cash deposits	14,364	1,326
	<u>209,110</u>	<u>187,859</u>

The investment assets held by each investment manager as at 31 July 2017:

	<u>2017</u>	<u>2016</u>
	£000	£000
BlackRock Investment Management	87,043	97,414
Longview	54,128	54,866
Barings Asset Management	16,737	14,131
Newton Investment Management	21,141	21,448
Hermes Investment Management	30,061	-
	<u>209,110</u>	<u>187,859</u>

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE**  
**SCHEME FOR NON ACADEMIC STAFF**

**REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017**  
**(Continued)**

**Analysis of investments by investment manager as at 31 July 2017**

The % of each class of asset held by each investment manager is shown below. This is included to indicate the distribution of assets with each investment manager

	<u>2017</u>	<u>2016</u>
<b>BlackRock</b>	%	%
Managed funds UK - fixed interest securities	-	10.7
Managed funds UK - index linked securities	<b>28.1</b>	25.2
Managed funds (investment & unit trusts)	<b>10.9</b>	9.0
Absolute return funds	-	9.2
Equities	<b>47.6</b>	44.9
Cash deposits	<b>13.4</b>	1.0
	<u><b>100.0</b></u>	<u>100.0</u>
	<u>2017</u>	<u>2016</u>
<b>Longview</b>	%	%
Equities	<b>95.0</b>	99.5
Cash deposits	<b>5.0</b>	0.5
	<u><b>100.0</b></u>	<u>100.0</u>

The Barings and Newton investments are held 100% in Absolute Return Funds at 31 July 2017 and 31 July 2016. Hermes investments are held 100% in Multi Asset Credit Funds at 31 July 2017.

**Analysis of investments by market sector (BlackRock & Longview)**

The analysis of worldwide quoted equity and managed equity funds holdings by market sector, based on market values as at 31 July 2017, is as follows:

	<u>2017</u>	<u>2016</u>
	£000	£000
<u>Capital Goods:</u>		
Building, Electronics, Motors, Other Industrial Materials, IT	<b>21,038</b>	26,332
<u>Consumer and Services group:</u>		
Brewers, Leisure, Stores, Food, Media, Printing, Transport	<b>43,211</b>	45,379
<u>Financial group:</u>		
Banks, Insurance, Property	<b>30,380</b>	27,483
<u>Other groups:</u>		
Oil, Gas, Electricity, Chemical, Water and Telephones	<b>7,675</b>	8,019
	<u><b>102,304</b></u>	<u>107,213</u>

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017  
(Continued)**

**Custodial arrangements**

The custodians are The Bank of New York Mellon (BlackRock, Longview & Newton) and Northern Trust Fiduciary Services (Ireland) Limited (Barings & Hermes). They are responsible for retaining all documentation in relation to assets held by the scheme.

**Tax status of Scheme**

The Scheme is approved as an “exempt approved scheme” under the terms of the Income and Corporation Taxes Act 1988 and to the Trustees’ knowledge there is no reason why such approval should be prejudiced or withdrawn.

**Cash equivalents**

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary benefits.

**Members Information**

Members can obtain information about their own pension benefits or further information about the scheme from the Pensions Office.

Copies of the Scheme’s documentation are available for reference in the Pensions Office, Finance Department, Professional Services (George Thomas) Building.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017  
(Continued)**

**Registrar of Occupational and Personal Pension Schemes**

The Registrar's main purpose is to provide a tracing service for members (and their dependants) of previous employers' schemes, who have lost touch with earlier employers and trustees. To trace a benefit entitlement under a former employer's scheme, enquiries should be addressed to:

Pension Tracing Service  
The Pension Service 9  
Mailing Handling Site A  
Wolverhampton  
WV98 1LU  
Tel: 0845 600 2537  
Or visiting their website at [www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

The information provided includes details of the address at which the trustees of a pension scheme may be contacted. This Scheme has been registered with the Registrar.

**The Pensions Advisory Service (TPAS)**

Any concern connected with the Scheme should be referred to the Clerk to the Trustees, who will try to resolve the problem as quickly as possible. Members and beneficiaries of occupational pension schemes who have problems concerning their scheme which are not satisfied by the information or explanation given by the administrators or the Trustees can consult with The Pensions Advisory Service (TPAS). A local TPAS advisor can usually be contacted through a Citizen's Advice Bureau. Alternatively TPAS can be contacted at:

11 Belgrave Road  
London SW1V 1RB  
Telephone: 0300 123 1047



**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2017  
(Continued)**

**The Pension Protection Fund Ombudsman (PPF)**

In cases where a complaint or dispute cannot be resolved, normally after the intervention of TPAS, an application can be made to the Pension Protection Fund Ombudsman for him to investigate and determine any complaint or dispute of fact or law involving occupational pension schemes. The address is:

11 Belgrave Road  
London SW1V 1RB  
Telephone: 0207 630 2200

**The Pensions Regulator (TPR)**

The Pensions Regulator (TPR) has the power to intervene where trustees of an occupational pension scheme, the employer or the professional advisors to the trustees have failed in their duties. TPR may be contacted at the following address: -

Napier House  
Trafalgar Palace  
Brighton  
BN1 4DW

Approved by the Trustees on ..... *9 February 2018* .....

and signed on their behalf by

*[Signature]*  
.....  
Trustee

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## **Independent Auditor's Report to the Trustees of the University of Southampton Pension and Assurance Scheme for Non Academic Staff**

### **Opinion**

We have audited the financial statements of University of Southampton Pension and Assurance Scheme for Non Academic Staff (the 'pension scheme') for the year ended 31 July 2017 which comprise the fund account, the statement of net assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 31 July 2017, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3a of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## Independent Auditor's Report to the Trustees of the University of Southampton Pension and Assurance Scheme for Non Academic Staff (Continued)

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The trustees are responsible for the other information. The other information comprises the information included in the report of the Trustees, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of Trustees

As explained more fully in the trustees' responsibilities statement set out on pages 3 and 4, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the pension scheme or to cease operations, or have no realistic alternative but to do so.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**Independent Auditor's Report to the Trustees of the University of Southampton  
Pension and Assurance Scheme for Non Academic Staff (Continued)**

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Those standards require us to comply with the Financial Reporting Council's Ethical Standard. This report is made solely to the scheme's trustees, as a body in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the scheme's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustees as a body for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

*Mazars LLP*

**Mazars LLP**  
Chartered Accountants and Statutory Auditor  
The Pinnacle,  
160 Midsummer Boulevard,  
Milton Keynes,  
Buckinghamshire  
MK9 1FF

Date *12.2.2018*

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE**  
**SCHEME FOR NON ACADEMIC STAFF**

**FUND ACCOUNT FOR THE YEAR ENDED 31 JULY 2017**

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
		£000	£000
<b>CONTRIBUTIONS AND BENEFITS</b>			
Contributions receivable			
Employer		9,062	8,930
Employee		383	420
Total contributions	2	9,445	9,350
Transfers in from other schemes	3	941	264
		941	264
Benefits payable	4	6,575	6,596
Payments to and on account of leavers	5	455	402
Other payments	6	180	195
Administration expenses	7	657	566
		7,867	7,759
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>2,519</b>	<b>1,855</b>
<b>RETURNS ON INVESTMENTS</b>			
Investment income	8	3,094	3,074
Change in market value of investments	9	16,279	14,735
Investment management expenses		(794)	(698)
Custodian fees		(47)	(48)
		18,532	17,063
<b>NET RETURN ON INVESTMENTS</b>		<b>18,532</b>	<b>17,063</b>
<b>NET INCREASE IN THE FUND DURING THE YEAR</b>		<b>21,051</b>	18,918
<b>NET ASSETS AT 1 AUGUST</b>		<b>188,602</b>	169,684
<b>NET ASSETS AT 31 JULY</b>		<b>209,653</b>	<b>188,602</b>

The notes on pages 21 to 31 form part of these financial statements.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**STATEMENT OF NET ASSETS AS AT 31 JULY 2017**

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
		£000	£000
<b>INVESTMENT ASSETS</b>	9		
Pooled Investment Vehicles		101,946	88,236
Equities		92,800	98,297
Cash deposits		14,364	1,326
Other investment balances		240	276
		<u>209,350</u>	<u>188,135</u>
<b>CURRENT ASSETS</b>	12	749	843
<b>CURRENT LIABILITIES</b>	13	(446)	(376)
<b>NET ASSETS OF THE SCHEME</b>		<u>209,653</u>	<u>188,602</u>

The notes on pages 21 to 31 form part of these financial statements.

The financial statements summarise the transactions and net assets of the Scheme. Liabilities to pay pensions and other benefits which are expected to become payable after the end of the scheme year are not dealt with in the financial statements. The actuarial position of the Scheme, which does take account of such liabilities, is dealt with in the Report on Actuarial Liabilities on pages 35 to 36 and these financial statements should be read in conjunction with it.

The accounts were approved by the Trustees on... *[Signature]* ...2018, and signed on their behalf by:

*[Signature]*  
-----  
Trustee

*[Signature]*  
-----  
Trustee

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## NOTES TO THE ACCOUNTS – 31 JULY 2017

### 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (Revised November 2014).

#### **Contribution income**

Ordinary and deficit contributions in respect of wages and salaries earned in the financial year are included on an accruals basis at rates agreed between the Trustees and the participating employers for the period and as recommended by the consultant actuary. Special contributions from the participating employers and additional voluntary contributions are accounted for when receivable.

#### **Additional voluntary contributions**

Additional voluntary contributions from members represent contributions made to purchase added years benefits, under the provision of the principal scheme, and are included in the fund account. Assets acquired with these contributions are included within investments in the statement of net assets.

#### **Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Scheme. All the values were based on methods and assumptions determined by the consultant actuary advising the Trustees.

#### **Investment income**

Income from investments is accounted for when receivable. Dividends and interest are grossed up for the amount of any taxation recoverable.

#### **Benefits payable**

Benefits payable represent all valid benefit claims in respect of the scheme year and are accounted for when paid. Lump sum payments and transfers are accounted for when payable.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)**

**1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)**

**Investments**

Investments are included in the statement of net assets at their fair values at the year end.

Realised and unrealised capital gains and losses are dealt with in the fund account in the year in which they arise.

Investments denominated in foreign currencies are translated at exchange rates ruling at the year end, and any surpluses or deficits arising from foreign currency movements are dealt with as part of realised and unrealised investment gains and losses.

**Investment management expenses**

The investment managers are remunerated on a formula based on the valuation of the fund each quarter. Specific details are disclosed within the Trustees Report.

**2 CONTRIBUTIONS RECEIVABLE**

	<u>2017</u>	<u>2016</u>
	£000	£000
<b>Employer</b>		
Ordinary contributions	4,772	4,559
Deficit contributions	2,081	2,221
Employer contributions arising from member salary sacrifice	2,209	2,150
	<u>9,062</u>	<u>8,930</u>
<b>Employee</b>		
Ordinary contributions	311	338
Additional voluntary contributions	72	82
	<u>383</u>	<u>420</u>
<b>Total contributions</b>	<u><u>9,445</u></u>	<u><u>9,350</u></u>



**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)**

**2 CONTRIBUTIONS RECEIVABLE (Continued)**

Contribution rates during the year were as follows:

	From 1 <sup>st</sup> November 2016	From 1 <sup>st</sup> August 2012 to 31 <sup>st</sup> October 2016
By members	6.35%	6.35%
By employers – deficit	5.10%	5.65%
By employers – ordinary	12.15%	11.60 %

Please note that the above rates were implemented on 1<sup>st</sup> August 2012 and 1<sup>st</sup> November 2016. In July 2008 the University implemented a salary sacrifice scheme relating to employee pension contributions. These payments are separately disclosed as employer contributions arising from member salary sacrifice.

**3 TRANSFERS IN**

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
Individual transfers in from other schemes	<u>941</u>	<u>264</u>

**4 BENEFITS PAYABLE**

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
Pension payments to retired members	5,448	5,311
Commutation of pensions	1,127	1,200
Death in service – benefits	-	84
Death in service – refunded contributions	-	1
	<u>6,575</u>	<u>6,596</u>

**5 PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
Refunds to members leaving service	28	14
State scheme premiums	40	24
Individual transfers out to other schemes	387	364
	<u>455</u>	<u>402</u>

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)**

**6 OTHER PAYMENTS**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Group life assurance premiums	<b>180</b>	<b>195</b>

Related claims under these policies would be included within 'Other Income' where received.  
Nil claims received in 2017 (2016 nil).

**7 ADMINISTRATION EXPENSES**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Expenses borne by the scheme comprise:		
Investment advisors fees (including actuarial fees)	<b>203</b>	160
Audit fees	<b>11</b>	11
Staff costs (recharged by the University)	<b>161</b>	169
Pension Protection Fund (PPF) Levy	<b>209</b>	172
Other scheme expenses	<b>73</b>	54
	<b>657</b>	<b>566</b>

The University of Southampton provides day to day administration staff, the costs of which are recharged to the Scheme as noted above.

**8 INVESTMENT INCOME**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Income from UK fixed interest securities	<b>260</b>	348
Dividends from equities	<b>2,420</b>	2,276
Income from managed funds	<b>401</b>	443
Interest on cash deposits	<b>13</b>	7
	<b>3,094</b>	<b>3,074</b>

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE**  
**SCHEME FOR NON ACADEMIC STAFF**

**NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)**

**9 INVESTMENT ASSETS**

	Value at 1 August 2016 £000	Purchases at cost £000	Sale proceeds £000	Change in market value £000	Cash Movement £000	Value at 31 July 2017 £000
Pooled investment vehicles:						
Managed Funds Fixed Interest Securities	10,420	2,188	(12,772)	164	-	-
Managed Funds Index Linked Securities	24,543	300	(1,786)	1,445	-	24,502
Managed Funds Property	8,916	295	-	293	-	9,504
Managed Funds Other than property	44,357	32,690	(9,668)	561	-	67,940
Total pooled investment vehicles	88,236	35,473	(24,226)	2,463	-	101,946
Equities	98,297	25,296	(44,737)	13,944	-	92,800
Cash Instruments	1,326	25,790	(15,709)	(128)	3,085	14,364
	187,859	86,559	(84,672)	16,279	3,085	209,110
Other investment balances	276					240
	188,135					209,350

“Other Investment Balances” includes withholding tax and income receivable in relation to Investment Assets.

**Investments exceeding 5% of the net assets of the pension scheme**

Investment holdings that exceed 5% of the net assets of the pension scheme are listed below.

	£000	Percentage of net assets
Hermes Multi Strategy Credit Fund	30,061	14.3%
BlackRock UK Index Linked Securities	24,502	11.6%
Newton Real Return	21,141	10.0%
Baring Dynamic Asset Allocation Fund	16,737	7.9%

**Transaction Costs**

Transaction costs arising on equities are as follows:

	Fees £000	Commission £000	Taxes £000	Total £000
2017	88	32	-	120
2016	86	26	-	112

Indirect costs are incurred on the bid-offer spread on pooled investment vehicles. It is not possible for the Trustees to quantify indirect transaction costs.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE**  
**SCHEME FOR NON ACADEMIC STAFF**

**NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)**

**10 FAIR VALUE DETERMINATION**

In March 2016, an amendment was made to FRS102 revising the fair value hierarchy disclosure requirement for retirement benefit plans. This amendment applies for accounting periods beginning on or after 1 January 2017, however, early adoption is permitted. The Trustees have chosen to early adopt.

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>At 31 July 2017</b>				
Managed Funds Fixed Interest Securities	-	-	-	-
Managed Funds Index Linked Securities	-	24,502	-	24,502
Managed Funds Property	-	9,504	-	9,504
Managed Funds Other than property	67,940	-	-	67,940
Equities	92,800	-	-	92,800
Cash deposits	14,364	-	-	14,364
	175,104	34,006	-	209,110
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>At 31 July 2016</b>				
Managed Funds Fixed Interest Securities	-	10,420	-	10,420
Managed Funds Index Linked Securities	-	24,543	-	24,543
Managed Funds Property	-	8,916	-	8,916
Managed Funds Other than property	35,579	8,778	-	44,357
Equities	98,297	-	-	98,297
Cash deposits	1,326	-	-	1,326
	135,202	52,657	-	187,859

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)

### 11 FINANCIAL INSTRUMENT RISK DISCLOSURES

FRS102 requires the disclosure of information in relation to certain investment risks as follows:

#### **Credit risk**

One party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

#### **Market risk**

Comprises the following three types of risk:

1. Interest rate risk: The risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in market interest rates
2. Currency risk: The risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in foreign exchange rates
3. Other price risk: The risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in market prices (other than those due to interest rates and currency).

The Trustees determine their investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy described on page 10 and 11 of the Trustees' Report. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

Further information on the Trustees' approach to risk management, credit and market risk is set out below.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)**

**11 FINANCIAL INSTRUMENT RISK DISCLOSURES (Continued)**

**Investment risks**

The following table summarises the extent to which the various classes of investments are affected by financial risks:

Asset Type	Credit Risk	Market Currency Risk	Market interest rate risk	Market other price risk	2017 value £000s	2016 value £000s
BlackRock UK Equities	1	1	1	3	41,397	43,724
Longview Global Equities	1	3	1	3	51,403	54,573
Newton Real Return Fund	2	2	2	3	21,142	21,448
Barings DAAF	2	2	2	3	16,737	14,131
BlackRock UK Property Fund	2	1	2	3	9,504	8,916
Hermes Multi Strategy Credit Fund	3	2	2	1	30,061	-
BlackRock Corporate Bonds	3	2	3	1	-	10,420
BlackRock Index-Linked Gilts	2	1	3	1	24,502	24,543
BlackRock Absolute Return Bonds	3	2	2	2	-	8,778
Cash Fund Deposits	3	2	1	1	14,364	1,326

In the table above, a risk rating '1' is deemed none/hardly any risk, '2' is partial and '3' is significant

**Market risk: Interest rates**

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds, gilts and cash. The Trustees have set a benchmark for total investment in index-linked gilts, 15% of their total investment portfolio, and under this strategy if interest rates fall, the value of the Scheme's bond investments will rise. The converse is true should interest rates rise.

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

## SCHEME FOR NON ACADEMIC STAFF

### NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)

#### 11 FINANCIAL INSTRUMENT RISK DISCLOSURES (Continued)

Over the year, the Scheme held investments within the BlackRock Absolute Return Bond Fund. This fund largely removes the bond assets' sensitivity to changes in interest rates, and relies instead on returns generated by the performance of the credit instruments themselves.

Towards the end of the June 2017, the Scheme invested in the Hermes Multi Strategy Credit Fund, which is exposed to interest rate risk through investments in various types of bonds, including high yield bonds. The interest rate risk is actively managed by the Fund's manager.

##### **Market risk: Currency**

The Scheme is exposed to currency risk because some of its investments are held in overseas markets. For example, the Scheme invests directly in overseas equities, which are subject to currency movements. There is also a degree of currency risk associated with investments in Baring, Newton and Hermes. Over the year the Scheme was exposed to currency risk in their investment in the BlackRock Absolute Return Bond Fund; however a full disinvestment occurred in June 2017.

##### **Market risk: Other price**

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, property, and diversified growth funds.

The Scheme manages this exposure by investing in a diverse portfolio of instruments across various markets. The investment managers are expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities. The asset allocation is detailed in the Appendix to the Statement of Investment Principles and is monitored on a regular basis by the Trustees.

##### **Credit risk**

The Scheme is subject to credit risk because it invests in corporate bonds and high yield bonds through pooled funds, has cash balances and also holds units in pooled investment vehicles.

Cash is held within financial institutions which are at least investment grade rated.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and the ongoing due diligence of the pooled manager.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)**

**11 FINANCIAL INSTRUMENT RISK DISCLOSURES (Continued)**

Indirect credit risk arises in relation to the underlying investments of pooled investment vehicles. This risk is taken in order to generate additional returns above that assumed on gilts, and is monitored by the investment managers.

The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.

**12 CURRENT ASSETS**

	<u>2017</u> £000	<u>2016</u> £000
Amount owed by the University of Southampton	291	317
Other debtors	23	22
Cash Balances	<u>435</u>	<u>504</u>
	<u>749</u>	<u>843</u>

The debtor balances relate to contributions. The cash balance is retained to cover the working capital requirements of the scheme. All contributions due to the Scheme relate to the month of July 2017 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

**13 CURRENT LIABILITIES**

	<u>2017</u> £000	<u>2016</u> £000
Amounts owed to the University of Southampton	13	30
Accruals	<u>433</u>	<u>346</u>
	<u>446</u>	<u>376</u>



# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## NOTES TO THE ACCOUNTS – 31 JULY 2017 (Continued)

### 14 CONTINGENT LIABILITIES

Following the European Court of Justice's decision that part-time staff must be allowed to join an occupational pension scheme and the subsequent English case of Preston v Wolverhampton Healthcare NHS Trust, the Trustees have undertaken work to contact all part-time staff, past and present, and inform them of their rights.

The liability of the scheme which may arise has been quantified by the Trustees as follows:

Total claims outstanding	3
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#### Current members

	£
Contributions due	1,474
Future additional pension per annum (based on current salaries)	857
Future additional lump sum payable (based on current salaries)	2,569

There could be further claims lodged in the future by current members that may need to be settled. The Trustees are unable to quantify the number that may be involved or the relevant costs of potential claims.

### 15 RELATED PARTIES

The Scheme is administered by the University of Southampton. Fees payable in respect of administration and processing of £165,000 (2016: £186,000) are included within administrative expenses. At the year end creditors include £13,000 (2016: £ 30,000) in respect of administration expenses payable to the University of Southampton.

Contributions received in respect of Trustees who are members of the Scheme have been made in accordance with the Trust Deed and Rules.

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## **Independent auditor's statement about contributions to the Trustees of University of Southampton Pension and Assurance Scheme for Non Academic Staff**

We have examined the summary of contributions of University of Southampton Pension and Assurance Scheme for Non Academic Staff payable in respect of the scheme year ended 31 July 2017 to which this statement is attached.

In our opinion the contributions for the scheme year ended 31 July 2017 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedules of contributions certified by the scheme actuary on 26 April 2013 and 3 October 2016.

### **Scope of work on statement about contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedule of contributions.

### **Respective responsibilities of trustees and auditor**

As explained more fully in the statement of trustees' responsibilities, the scheme's trustees are responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedule of contributions and to report our opinion to you.

*Mazars LLP*

Mazars LLP  
Chartered Accountants and Statutory Auditor  
The Pinnacle  
160 Midsummer Boulevard  
Milton Keynes  
Buckinghamshire  
MK9 1FF  
Date: *12.2.2018*

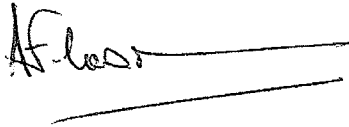
**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**SUMMARY OF CONTRIBUTIONS**

During the year, the contributions paid to the Scheme under the Schedule of Contributions were as follows:

	£000
Employer normal contributions	6,853
Employer contributions arising from member salary sacrifice	2,209
Employee normal contributions	<u>311</u>
Total contributions per Schedule of Contributions	9,373
Employee additional voluntary contributions	72
<b>Total contributions per fund account</b>	<b><u><u>9,445</u></u></b>

Signed on behalf of the Trustees:



Date: 9 February 2018

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS**

**Name of scheme**      The University of Southampton Pension and Assurance Scheme for  
Non Academic Staff

**Adequacy of rates of contributions**

1.      I certify that, in my opinion, the rates of the contributions shown in this Schedule of Contributions are such that the statutory funding objective can be expected, on 31 July 2015, to be met by the end of the period specified in the Recovery Plan dated 3 October 2016.

**Adherence to statement of funding principles**

2.      I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 3 October 2016.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

<b>Signature:</b>		<b>Date:</b>	3 October 2016
<b>Name:</b>	Paul Hamilton	<b>Qualification:</b>	Fellow of the Institute and Faculty of Actuaries
<b>Address:</b>	St. James' House St. James' Square Cheltenham GL50 3PR	<b>Name of Employer:</b>	Barnett Waddingham LLP

# UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

## REPORT ON ACTUARIAL LIABILITIES (forming part of the Trustees' report)

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 July 2015. This showed that on that date:

The value of the Technical Provisions was: £209.9million

The value of the assets at that date was: £169.7million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

### **Method**

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

### **Significant actuarial assumptions**

*Inflation and pension increases:* The starting point is the yield curve of implied inflation statistics published by the Bank of England. This gives an indication of the level of price inflation expected by the market at the valuation date. The Government's long term target for inflation is also be taken into account. An assumption for Consumer Prices Index (CPI) inflation is derived by determining an appropriate gap between the Retail Prices Index (RPI) and CPI. The assumed rates of pension increases are set taking into account the inflation assumption and any limits on the rate of increase.

*Investment return:* The investment return assumption used to determine the discount rate takes into account market indicators of the returns available at the date of the valuation and the long-term strategic allocation of assets agreed by the Trustees after taking professional advice. The Trustees have adopted a single assumption for investment returns before and after retirement which is based on the outperformance of the assets above Government bonds. The allowance for outperformance is determined by the Trustees based on information provided by their professional advisers.

*Salary increases:* Salaries will normally be assumed to increase by more than the inflation assumption. This assumption may be adjusted following discussion with the Principal Employer as to likely future salary increases.

**UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE  
SCHEME FOR NON ACADEMIC STAFF**

**REPORT ON ACTUARIAL LIABILITIES (forming part of the Trustees'  
report) (continued)**

*Mortality:* The rates of mortality assumed reflect information published by the Continuous Mortality Investigation most relevant to the membership of the Scheme, with allowance for expected future improvements in longevity. This assumption may be adjusted on the advice of the Scheme Actuary or in the light of evidence relating to the actual mortality experience of the Scheme, the industry in which the members work or the distribution of pension payment amounts or other characteristics of the Scheme membership.

*Leaving service:* No allowance is made for active members to leave service before their retirement date.

*Retirement:* All members may take the benefits accrued before 1 October 2010 unreduced at age 60. An allowance has been made for 60% of active and deferred members to retire at age 60 with no reduction to their benefits and 40% to retire at age 65.

*Cash commutation:* No allowance is made for members to exchange part of their pension for a lump sum at retirement.

*Age difference of spouse:* Males are assumed to be three years older than females.

*Percentage married at retirement or earlier death:* 90% of members are assumed to be married at retirement or earlier death.