

UNIVERSITY OF SOUTHAMPTON
PENSION AND ASSURANCE SCHEME
FOR NON ACADEMIC STAFF

Trustees' Annual Report and Financial Statements

31 JULY 2020

Registered number: 101150842

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

ANNUAL REPORT – 31 JULY 2020

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UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

TRUSTEES AND INDEPENDENT ADVISERS

Chairman

Mr Nicholas Weaver (appointed 8 November 2019)
Mr A Gosden (resigned 14 February 2020)

University Trustees

Ms S Pook
Ms A Sitton (appointed 8 November 2019)
Prof. J Falkingham (resigned 7 November 2019)

Employer Trustee

Mr M Woodcock (appointed 8 November 2019)
Mr W Shannon (resigned 7 November 2019)

Active Member Trustees

Mr A Dilworth
Mrs J Shaw

Pensioner Trustee

Mr N Burr (resigned 15 May 2020)
Mr David Lynock (appointed 17 Aug 20)

Clerk to the Trustees

Mr P Moxham

Administration Office

Finance Department
University of Southampton
Highfield
Southampton, SO17 1BJ

Enquiries

Finance Department
University of Southampton
Highfield
Southampton, SO17 1BJ
Pensions@soton.ac.uk

Actuary

Mr P Hamilton
Barnett Waddingham
St James's House, St James's Square
Cheltenham, GL50 3PR

Independent auditor

Deloitte LLP
Abbots House
Abbey Street
Reading, RG1 3BD

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

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TRUSTEES AND INDEPENDENT ADVISERS (continued)

Investment Advisor

Mr M Tickle
Barnett Waddingham
St James's House, St James's Square
Cheltenham, GL50 3PR

Custodian (BlackRock, Artemis, Longview)

BNY Mellon
One Canada Square
London, E14 5AL

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

Artemis Investment Management LLP
Cassini House
57 St James' Street
London, SW1A 1LD

Fidelity UK Real Estate Fund
Oakhill House
130 Tonbridge Road
Hildenborough
Kent, TN11 9DZ

M&G Investments
Governors House
5 Laurence Pountney Hill
London, EC4R 0HH

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020

The Trustees are pleased to present their annual report on the University of Southampton Pension and Life Assurance Scheme for Non Academic Staff (“the Scheme”) for the year ended 31 July 2020. Following unforeseen delays the annual report is presented outside the seven month requirement.

The Scheme

The Scheme 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, The Social Security Pension Act 1975, and all previous supplementary deeds.

The Scheme is closed to new members but remains open to future benefit accrual for current members. 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.

Changes to the Scheme

The University of Southampton (the “University”), after thorough consideration of a number of options, closed the Pensions and Assurance Scheme for Non-Academic Staff to new members from 1 January 2019.

Eligible staff joining the University since this date have the opportunity to join a defined contribution scheme.

The 31 July 2018 triennial review has been completed and the recovery plan has been based on the Scheme changes and a proposed increase in contributions from both the University and members from 1 January 2020.

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. The removal of a Member-nominated Trustee requires the agreement of all the Trustees and must be recorded in a Deed of Removal. In accordance with the Occupational Pension Schemes (Member-nominated Trustees and Directors) Regulations 2006, members have the option to nominate and vote for member elected Trustees. The Scheme’s Trustee selection process provides for at least one third of the Trustees to be nominated by Scheme members. 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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

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

Trustee	Number of Trustee meetings attended
Mr A Gosden – Chairperson	2/2
Mr N Weaver – Chairperson	4/4
Ms A Sitton – Employer Trustee	4/4
Ms S Pook – University Trustee	4/4
Mr M Woodcock – University Trustee	3/4
Mr A Dilworth – Member Trustee	4/4
Mrs J Shaw – Member Trustee	4/4
Mr N Burr – Pensioner Trustee	2/4

In addition to the above there was one training meeting and one investment 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 that 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 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

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.

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REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

Trustees' responsibilities in respect of contributions

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. Where breaches of the schedule of contributions 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

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 contributions reduced to £9.0m compared with £9.2m for the prior year. The net returns on investments comprised a decrease in market value of investments of £0.9m (2019: increase of £18.3m) and investment income of £2.0m (2019: £2.0m) offset by investment management expenses of £0.6m (2019: £0.6m). The net assets of the Scheme amounted to £245.2m at 31 July 2020 (2019: £245.1m).

Schedule of Contributions

Following the actuarial valuation on 31 July 2018, and the recovery plan dated 25 October 2019 the rates of the old Schedule of Contributions applied for part of the period up to 31 December 2019. From the 1 January 2020 to 31 March 2028 contributions are set at the following rates. The new Schedule of Contributions was agreed and certified by the scheme actuary on 31 October 2019.

Member contributions	7.20 %
Ordinary employer contributions	13.85 %
Deficit contributions	£2m per annum

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REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

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 2020 the following increases were made to pensions payable and deferred provision based on CPI as at September 2019.

Pensions in course of payment for benefits accrued to end September 2010	1.7%
Pensions in course of payment for benefits accrued to after 1 October 2010	1.7%

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 backdated 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.

Actuarial status of the Scheme

A full actuarial valuation was carried out by Barnett Waddingham LLP as at 31 July 2018 and finalised on 25 October 2019. This indicated that on the basis of existing contribution rates the Scheme will continue to be in deficit by £38.5m. The Trustees agreed to a long term recovery plan effective from 25 October 2019, whereby the funding shortfall was expected to be eliminated by 31 March 2028, by deficit recovery employer contributions of 5.1% of pensionable salaries payable until 31 December 2019, followed by a £2m annual contribution to be paid towards the Scheme from 1 January 2020 to 31 March 2028. The next full actuarial valuation will be effective from 31 July 2021.

Further detail on the actuarial status of the Scheme is detailed in the Report on Actuarial Liabilities (pages 41 to 42).

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REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

Scheme membership

	2020	2019
	Number	Number
Active members		
Active members at the beginning of the year	1,723	1,857
Adjustment to previous year balance	(23)	5
New members joining	-	154
Members retiring	(34)	(32)
Death in service	-	(2)
Members leaving prior to pensionable age	(153)	(243)
Members leaving with refunds	-	(15)
Transfers out	(2)	(1)
Flexible retirees/Duplications	-	-
	1,511	1,723
Pensioners		
Pensioners at the beginning of the year	1,536	1,485
Adjustment to previous year balance	4	7
Members retiring	34	32
Flexible to full retirement	(5)	-
Deferred pensioners reaching pensionable age	44	37
Spouses and dependants	10	7
Pensioners who died during the year	(59)	(32)
Duplications	-	-
	1,564	1,536
Deferred Pensioners		
Deferred pensioners at the beginning of the year	2,510	2,449
Adjustment to previous year balance	7	-
Deferred pensioners during the year	153	243
Deferred pensioners reaching pensionable age	(44)	(37)
Deferred pensioners taking refunds/ transfers/trivial pensions	(68)	(143)
Deferred pensioners who died in the year	(2)	(2)
	2,556	2,510
Total membership as at 31 July	<u>5,631</u>	<u>5,769</u>

The adjustments shown above are the result of retrospective updating of member records.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (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 that meets the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and incorporates changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019.

The SIP is available on the website.

There are written agreements in place between the Trustees and each of the Scheme advisors listed on page 2 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, Artemis Investment Management, Fidelity Investment Management, Federated Hermes Investment Management and M&G Investments.

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 Artemis, 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. The Scheme has also invested in the Newton Sustainable Real Return Fund during the year, which excludes companies whose industry is classified as 'Tobacco' as well as other stocks which fail to meet their strict ESG criteria.

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 ENDING 31 JULY 2020 (continued)

The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement (page 17) produced alongside the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

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 Property Fund are charged a management fee of 1.0% p.a.

The Index-Linked Gilts held by BlackRock are charged as follows (based on the market value of assets at the quarter end):

- 0.08% p.a. on first £15 million
- 0.04% p.a. on next £10 million
- 0.03% p.a. on balance in excess of £25 million

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% p.a.
- Next £25m 0.65% p.a.
- Next £75m 0.60% p.a.
- Next £125m 0.50% p.a.
- Thereafter 0.40% p.a.

Artemis Investment Management

0.55% pa on closing net asset value of investments held at the end of each quarter, which is invoiced quarterly.

Fidelity Investment Management

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

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

0.55% pa on assets held in the Sustainable Real Return Fund for the first year of investment, and 0.65% pa thereafter. The Scheme invested in the Sustainable Real Return Fund on 4 December 2019. The fee is deducted directly from the pooled fund and therefore incorporated into the unit price.

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REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

Federated Hermes Investment Management

The Scheme receives a 0.15% p.a. rebate on the standard 0.65% p.a. fee for the Multi Strategy Credit Fund. The standard fee is deducted directly from the pooled fund and therefore incorporated into the unit price, with the rebate paid via the additional purchase of units in the Fund.

M&G Investments

0.50% pa on assets held in the M&G Secured Property Income Fund, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

Review of investment performance

Over the year to 30 June 2020, the Scheme carried out the following transactions:

- In line with their agreed strategy, the Scheme met the required cash calls from M&G Investments, with disinvestments from Longview, and invested £10m into the M&G Secured Property Income Fund on 1 November 2019.
- The Scheme switched its holding in the Newton Real Return Fund to its sustainable counterpart, the Newton Sustainable Real Return Fund on 4 December 2019.
- The Scheme invested a further £5m into the Fidelity UK Real Estate Fund in order to move the overall portfolio back towards its strategic allocation. This was met with a disinvestment from the Barings Dynamic Asset Allocation Fund.

A summary of the Scheme's performance over the last five calendar years as well as the first six months of 2020 is given below (with asset classes shown in brackets). 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.

Fund		2020 (6 months)	2019	2018	2017	2016	2015
BlackRock Main Portfolio*	%	13.6	6.8	-0.3	7.5	14.8	3.3
BlackRock Property	%	-3.7	1.4	6.6	10.3	2.5	11.1
Longview (Global Equities)	%	-11.7	19.7	4.2	11.6	29.2	5.8
Artemis (Global Equities)**	%	4.5	26.8	-2.1	1.7	-	-
Fidelity (Property)***	%	-3.8	2.0	9.6	0.9	-	-
M&G (Property)****	%	-1.6	1.0	-	-	-	-
Barings (Multi-Asset)	%	-8.1	12.0	-6.5	9.5	5.9	1.1
Newton (Multi-Asset)*****	%	-1.0	11.6	-0.1	2.5	4.0	1.1
Hermes (Credit)*****	%	-4.7	11.0	-3.2	0.7	-	-
PASNAS Total	%	-1.6	14.3	0.1	8.1	16.7	3.5
Benchmark	%	3.1	11.5	0.8	7.6	16.4	2.9

* This allows for the disinvestments from equities and bonds that occurred during 2017 and contains only index-linked gilts from 12 October 2017 onwards

**Artemis' performance during 2017 shown is for the period invested since 11 October 2017.

*** Fidelity's performance during 2017 is shown for the period invested since 15 December 2017

****M&G's performance during 2019 is shown for the period invested since 1 November 2019

*****Newton's performance reflects the returns of the Real Return Fund until 4 December 2019, and the returns of the Sustainable Real Return Fund since 4 December 2019. Therefore the performance for 2019 is a combination of the two Funds.

***** Hermes' performance during 2017 is shown for the period invested since 26 June 2017.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

The overall portfolio delivered a return of 2.0% over the 12 months to 30 June 2020. Performance was negative for most investments over this period with only the Artemis Global Select Strategy and the Newton Sustainable Real Return Fund delivering positive returns.

Over the 12 months period all funds with the exception of the Artemis Global Select Strategy and Fidelity UK Real Estate Fund underperformed their benchmarks. The portfolio underperformed the composite benchmark of 5.7% by 3.7% over this period.

Investment strategy

The 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 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 current target strategy is as follows:

Mandate	Allocation	Managers
Global Equities	35%	Artemis Investment Management Longview Partners
Diversified Growth Funds	20%	Newton Investment Management Barings Asset Management
Multi-Asset Credit	15%	Federated Hermes Investment Management
Property	15%	BlackRock Investment Management Fidelity International M&G Investments
Index-Linked Gilts	15%	BlackRock Investment Management

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.

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

Custodial arrangements

The Trustees have appointed The Bank of New York Mellon as custodians of the investments held by BlackRock, Longview and Artemis. They are responsible for retaining all documentation in relation to assets held by the Scheme.

Custodians appointed by the Investment Managers are JP Morgan Chase & Co. (Fidelity), Northern Trust Fiduciary Services (Ireland) Limited (Barings & Federated Hermes), Northern Trust (Guernsey) Limited (M&G) and The Bank of New York Mellon (Newton).

Analysis of investments

At 31 July 2020 the investment managers had invested the investment assets of the Scheme as follows:

	2020	2019
	£000	£000
Managed Funds UK – Index linked securities	39,347	36,227
Managed Funds - Property	34,916	21,184
Multi Asset Credit Fund	35,642	35,370
Absolute Return Funds	47,601	52,470
Liquidity fund	4	-
Equities – UK quoted	5,404	9,655
– Overseas quoted	78,417	85,628
Cash deposits	3,077	3,807
Other investments	266	223
	<u>244,674</u>	<u>244,564</u>

The investment assets held by each investment manager as at 31 July 2020:

	2020	2019
	£000	£000
BlackRock Investment Management	49,808	47,005
Longview	35,564	50,497
Artemis	51,385	48,754
Barings Asset Management	23,193	29,284
Newton Investment Management	24,408	23,187
Hermes Investment Management	35,642	35,370
Fidelity	14,840	10,467
M&G Investments	9,834	-
	<u>244,674</u>	<u>244,564</u>

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

Analysis of investments by investment manager as at 31 July 2020

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.

BlackRock	2020	2019
	%	%
Managed funds UK - index linked securities	79.1	77.1
Managed funds - property	20.9	22.9
	<u>100.0</u>	<u>100.0</u>
Longview	2020	2019
	%	%
Equities	96.2	96.7
Cash deposits	3.8	3.3
	<u>100.0</u>	<u>100.0</u>
Artemis	2020	2019
	%	%
Equities	96.8	95.8
Cash deposits	3.2	4.2
	<u>100.0</u>	<u>100.0</u>

The Barings and Newton investments were held 100% in Absolute Return Funds at 31 July 2020 and 31 July 2019. Hermes investments were held 100% in Multi Asset Credit Funds at 31 July 2020 and 31 July 2019. Fidelity investments were held 100% in Managed Fund, Property at 31 July 2020 and 31 July 2019. M&G investments were held 100% in Managed Fund, Property at 31 July 2020.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

Analysis of equity investments by market sector (Artemis & Longview)

The analysis of worldwide quoted equity holdings by market sector, based on market values as at 31 July 2020, is as follows:

	2020	2019
	£000	£000
Capital Goods:		
Building, Electronics, Motors, Other Industrial Materials, IT	32,145	25,735
Consumer and Services group:		
Brewers, Leisure, Stores, Food, Media, Printing, Transport	24,591	33,799
Financial group:		
Banks, Insurance, Property	14,795	19,045
Other groups:		
Oil, Gas, Electricity, Chemical, Water and Telephones	<u>12,291</u>	<u>16,704</u>
	<u>83,822</u>	<u>95,283</u>

Tax status of Scheme

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

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. .

COVID-19

During March 2020 and subsequently, there has been significant volatility in the financial markets as a result of the COVID-19 pandemic. The Scheme invests in a broad range of asset classes many of which, such as property, are illiquid in nature. Such assets are valued on a periodic basis, mostly quarterly but others less frequently. At the end of the year to 31 July 2020 these asset classes made up approximately 14% of the overall investment portfolio and while there have been significant falls in other asset classes, it is difficult to assess precisely the full financial effect at the date of issue of the financial statements. As noted in note 11, the valuers of the property assets have included a material uncertainty clause in their valuations as at 31 July 2020. The Trustees continue to monitor the situation and the impact that COVID-19 may have on the future performance of these illiquid assets.

The Scheme continues to monitor the impact of the global economic impact in the wake of the coronavirus outbreak which has led to significant uncertainty around investment returns in the short term. The Scheme acknowledges that the decrease in stocks, a resultant of global events and the impact of COVID-19, has an impact for future outlook, and that there is likely to be considerable pressures on individual employers. As events unfold with restrictions being lifted plus increasing market sentiments, there is hope for economic recovery.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDING 31 JULY 2020 (continued)

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.

Finance Department
University of Southampton
Highfield
Southampton, SO17 1BJ

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

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 adviser 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 ENDING 31 JULY 2020 (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:

10 South Colonnade
Canary Wharf
London E14 4PU
Telephone: 0800 917 4487

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 advisers to the Trustees have failed in their duties. TPR may be contacted at the following address: -

Napier House
Trafalgar Place
Brighton
BN1 4DW

Approved by the Trustees on

and signed on their behalf by

.....

Trustee

Trustee

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT

How voting and engagement policies have been followed

The Scheme invests primarily in pooled funds and, where applicable, delegates responsibility for carrying out voting and engagement activities to the Scheme's fund managers. The Scheme's holdings with Artemis and Longview are through segregated mandates and both include an exclusion on the investment in any company significantly involved in the tobacco industry.

The Trustees undertook an initial review of the stewardship and engagement activities of the current asset managers at their 19 July 2019 meeting, and were satisfied that their policies were reasonable and no remedial action was required at that time.

The Trustees receive annual voting information and engagement policies from the asset managers and their investment advisors, which are reviewed to ensure alignment with the Scheme's policies. This exercise was undertaken in October 2020.

Having reviewed the above in accordance with their policies, the Trustees are comfortable that the actions of the asset managers are in alignment with the Scheme's stewardship policies. The table below provides an indication of the asset managers' overall voting and engagement activities.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Voting Data

Manager	Artemis	Longview	Newton	Barings
Asset class	Global Equities	Global Equities	Diversified Growth	Diversified Growth
Structure	Segregated	Segregated	Pooled	Pooled
Date of data	31 July 2020	30 June 2020	30 June 2020	26 June 2020
Ability to influence voting behaviour of manager	The segregated mandate allows the Trustees to engage with the manager and influence their voting behaviour.		The pooled fund structure means that there is limited scope for the Trustees to influence the manager's voting behaviour.	
What % of resolutions did you vote on for which you were eligible?	100%	100%	100%	98%
Of the resolutions on which you voted, what % did you vote with management?	90%	94%	85%	95%
Of the resolutions on which you voted, what % did you vote against management?	10%	6%	15%	5%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy advisor? (if applicable)	1%	0%	10%	1%

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Fund level engagement

Manager	Artemis	Longview	Newton	Barings	M&G	BlackRock	Fidelity	Hermes
Asset class	Global Equities	Global Equities	Diversified Growth	Diversified Growth	Property	Property	Property	Multi-Asset Credit
Date of data	31 July 2020	30 June 2020	30 June 2020	26 June 2020	26 June 2020	26 June 2020	31 March 2020	5 June 2020
Does the manager perform engagement on behalf of the holdings of the fund	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	Yes	Yes	Yes	data not provided	data not provided	No	Yes
Number of engagements undertaken on behalf of the holdings in this fund in the year	245	4	data not provided	Barings are in the process of implementing a system to track, monitor and report on engagements going forward.	data not provided	data not provided	n/a	76
Number of engagements undertaken at a firm level in the year	2,460	4	90		data not provided	2,840	680	3,096

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Manager and Asset Class	Engagement themes and examples of engagements undertaken with holdings in the fund
Artemis Global Equities	<p>Through its cardboard packaging techniques, SIG Combibloc, is helping consumer product companies reduce their use of plastic. Artemis engaged with management to understand the pace of change and whether SIG was promoting change or just protecting their historic position. Encouraged that it was the latter, Artemis resolved to continue to monitor their progress.</p> <p>Data Centre REIT Digital Realty acquired Intexion and Artemis initially sold their position in the latter. They engaged with the acquirer about why this fit was appropriate and voted against the acquisition. Artemis believed Intexion's assets were superior in quality and that the price paid was unreflective. Following careful monitoring of the early stages of the merger, Artemis were subsequently encouraged by the progress the combined entity was making and, once they held a clearer view of how the new group was operating, bought back a position.</p>
Longview Global Equities	<p>In July 2019, Longview engaged with the Chair of the Remuneration Committee of Whitbread regarding their newly proposed remuneration policy. The Committee believed that their proposed structure best incentivises management to make decisions that benefit the business over the long-term. Longview suggested that the metrics used to calculate rewards exclude international business as this area was relatively young and may act as a disincentive to investment. In September 2019, Whitbread came back with an updated policy that took account of Longview's concerns.</p> <p>In May 2020, Longview wrote a letter to the Chairman of the Board of Directors of Sanofi following the announcement that the company intended to sell most of its equity stake in Regeneron Pharmaceuticals. In this letter, Longview expressed concern surrounding the intended use of the sale proceeds and to promote their use in a value creative manner rather than to drive revenue growth. Subsequent to this letter, Longview spoke with management and Sanofi satisfied Longview's concerns that capital would be allocated appropriately.</p>
Newton Diversified Growth	<p>Newton formulate strategic engagement themes which they discuss with companies and review over a specified time period. These include climate change, gender diversity, healthy markets and fast fashion.</p> <p>Newton also have some companywide exclusions including companies that manufacture or provide the means to manufacture and distribute cluster munitions.</p> <p>In December 2019, the Trustees' switched all holdings from the Newton Real Return Fund to the Newton Sustainable Real Return Fund in order to better reflect their ex-tobacco stance.</p>
BlackRock Property	<p>BlackRock formulate strategic engagement themes which they discuss with companies and review over a specified time period. These include tenant satisfaction, energy and resource efficiency, environmental improvement and occupier health and well-being.</p>
Hermes Multi-Asset Credit	<p>Hermes produce an Engagement Plan. The Plan summarises the long-term outcomes they seek to achieve on behalf of their clients. The Plan is based on clients' long-term objectives and they consult clients regularly and systematically to ensure they are covering the topics of most importance to them. The Plan for 2020-2022 is focused on the 12 major themes below.</p> <ol style="list-style-type: none"> 1. Climate change 2. Natural resource stewardship 3. Pollution waste and circular economy 4. Conduct culture & ethics 5. Human capital management 6. Human and labour rights 7. Risk management 8. Corporate reporting 9. Business purpose and strategy 10. Board effectiveness 11. Executive remuneration 12. Shareholder protection and rights

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of University of Southampton Pension and Assurance Scheme for Non-Academic Staff (the "Scheme"):

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 July 2020 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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.

We have audited the financial statements of the Scheme which comprise:

- the Fund Account;
- the Statement of Net Assets (available for benefits); and
- the related notes 1 to 19

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 Financial Reporting Council's (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 are required by ISAs (UK) to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Other information

The Trustees are responsible for the other information. The other information comprises the information included in the annual report, 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 respect of these matters.

Responsibilities of Trustees

As explained more fully in the Trustees' responsibilities statement, 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 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Deloitte LLP

Statutory Auditor
Birmingham, United Kingdom

Date

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

FUND ACCOUNT FOR THE YEAR ENDED 31 JULY 2020

	Notes	2020	2019
		£000	£000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable			
Employer		8,747	8,824
Employee		245	359
Total contributions	2	<u>8,992</u>	<u>9,183</u>
Transfers in from other Schemes	3	178	373
Other income	4	<u>-</u>	<u>40</u>
		<u>178</u>	<u>413</u>
Benefits paid or payable	5	8,569	7,868
Payments to and on account of leavers	6	116	266
Other payments	7	167	142
Administration expenses	8	753	755
		<u>9,605</u>	<u>9,031</u>
NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS		<u>(435)</u>	<u>565</u>
RETURNS ON INVESTMENTS			
Investment income	9	2,035	2,046
Change in market value of investments	10	(850)	18,330
Investment management expenses		(594)	(616)
Custodian fees		(67)	(59)
		<u>524</u>	<u>19,701</u>
NET RETURN ON INVESTMENTS		<u>524</u>	<u>19,701</u>
NET INCREASE IN THE FUND DURING THE YEAR		89	20,266
NET ASSETS AT 1 AUGUST		245,061	224,795
NET ASSETS AT 31 JULY		<u><u>245,150</u></u>	<u><u>245,061</u></u>

The notes on pages 26 to 37 form part of these financial statements.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 JULY 2020

	Notes	2020 £000	2019 £000
INVESTMENT ASSETS	10		
Pooled Investment Vehicles		157,510	145,251
Equities		83,821	95,283
Cash deposits		3,077	3,807
Other investment balances		266	223
		<u>244,674</u>	<u>244,564</u>
CURRENT ASSETS	13	803	730
CURRENT LIABILITIES	14	(327)	(233)
NET ASSETS OF THE SCHEME		<u><u>245,150</u></u>	<u><u>245,061</u></u>

The notes on pages 26 to 37 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 41 to 42 and these financial statements should be read in conjunction with it.

The financial statements were approved by the Trustees on.....2021 and signed on their behalf by:

Trustee

Trustee

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial statements 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 (“FRS 102”) and the guidance set out in the Statement of Recommended Practice ‘Financial Reports of Pension Schemes’ (Revised June 2018) (“the SORP”). In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustees have adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on these financial statements.

Identification of the financial statements

The Scheme is established as a trust under English Law. The address for enquiries to the Scheme is included in the Trustees’ report on page 1.

Principal accounting policies

The financial statements have been prepared on an accruals basis. The principal accounting policies are set out below. Unless otherwise stated they have been applied consistently year on year.

Currency

The Scheme’s functional and presentational currency is pounds sterling (GBP). Assets and liabilities in foreign currencies are expressed in GBP at the rates of exchange ruling at the year end. Foreign currency transactions are translated into GBP at the spot exchange rate at the date of the transaction. Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year-end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Any surpluses or deficits arising from foreign currency movements are dealt with as part of realised and unrealised investment gains and losses.

Contributions

Normal 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. Additional 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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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.

Investments

Investments are included in the Statement of Net Assets at their fair values at the year end. Quoted securities in active markets, including equities and bonds are usually valued at the current bid prices at the reporting date. Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value, determined in accordance with fair value principles, provided by the pooled investment manager. Change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Investment management expenses

The investment managers are remunerated on a formula based on the valuation of the fund each quarter and they are accounted for on an accrual basis. Specific details are disclosed within the Report of the Trustees.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

2 CONTRIBUTIONS RECEIVABLE

	2020	2019
	£000	£000
Employer		
Normal contributions	4,569	4,686
Deficit contributions	2,025	1,967
Normal employer contributions arising from member salary sacrifice	<u>2,153</u>	<u>2,171</u>
	8,747	8,824
Employee		
Normal contributions	205	259
Additional voluntary contributions	40	100
	<u>245</u>	<u>359</u>
Total contributions	<u><u>8,992</u></u>	<u><u>9,183</u></u>

Contribution rates during the year to 31 December 2019 were as follows:

By members	6.35%
By employers – deficit	5.10%
By employers – normal	12.15%

Contribution rates from 1 January 2020 to 31 March 2028 are as follows:

By members	7.2%
By employers – deficit	£2 million per annum
By employers – normal	13.85%

Under the recovery plan dated 25 October 2019 the deficit contributions of £2m per annum are payable up to 31 March 2028 in monthly instalments.

3 TRANSFERS IN

	2020	2019
	£000	£000
Individual transfers in from other schemes	<u>178</u>	<u>373</u>

4 OTHER INCOME

	2020	2019
	£000	£000
Life assurance benefits	<u>-</u>	<u>40</u>

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

5 BENEFITS PAID OR PAYABLE

	2020	2019
	£000	£000
Pension payments to retired members	6,558	6,223
Commutation of pensions	1,864	1,591
Death in service – benefits	138	40
Death in service – refunded contributions	9	14
	<u>8,569</u>	<u>7,868</u>

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020	2019
	£000	£000
Refunds to members leaving service	15	15
Individual transfers out to other schemes	101	251
	<u>116</u>	<u>266</u>

7 OTHER PAYMENTS

	2020	2019
	£000	£000
Group life assurance premiums	167	142

Related claims under these policies would be included within ‘Other Income’ where received. No claims were received in 2020 (2019: £40,000).

8 ADMINISTRATION EXPENSES

Expenses borne by the Scheme comprise:	2020	2019
	£000	£000
Investment advisers fees (including actuarial fees)	215	212
Audit fees	10	12
Staff costs (recharged by the University)	114	189
Pension Protection Fund (PPF) Levy	387	286
Other Scheme expenses	27	56
	<u>753</u>	<u>755</u>

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

9 INVESTMENT INCOME

	2020	2019
	£000	£000
Dividends from equities	1,868	1,676
Income from managed funds	158	348
Interest on cash deposits	9	22
	<u>2,035</u>	<u>2,046</u>

10 INVESTMENT ASSETS

	Market value at 1 August 2019	Purchases at cost	Sales proceeds	Change in market value	Market value at 31 July 2020
	£000	£000	£000	£000	£000
Pooled investment vehicles:					
-Bonds	71,597	53	-	3,339	74,989
-Liquidity	-	5,039	(5,039)	4	4
-Property	21,184	25,427	(10,039)	(1,656)	34,916
-Equity	52,470	24,003	(29,003)	131	47,601
Total pooled investment vehicles	145,251	54,522	(44,081)	1,818	157,510
Equities	95,283	72,432	(81,464)	(2,430)	83,821
	240,534	<u>126,954</u>	<u>(125,545)</u>	(612)	241,331
Cash instruments	3,807			(238)	3,077
Other investment balances	223				266
	<u>244,564</u>			<u>(850)</u>	<u>244,674</u>

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

Investments exceeding 5% of the net assets of the Scheme at the year end comprised:

	2020	2020	2019	2019
	£000	% net assets	£000	% net assets
Hermes Multi Strategy Credit Fund	35,642	14.6%	35,370	14.4%
Blackrock Aquila UK Index Linked Securities	39,347	16.1%	36,227	14.8%
Newton Real Return	24,408	10.0%	23,186	9.5%
Baring Dynamic Asset Allocation Fund	22,297	9.1%	29,284	11.9%
Fidelity UK Real Estate Fund	14,840	6.0%	10,467	4.3%

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

10 INVESTMENT ASSETS (continued)

Transaction Costs

Transaction costs arising on equities are as follows:

	Fees £000	Commission £000	Taxes £000	Total £000
2020	<u>313</u>	<u>37</u>	<u>54</u>	<u>404</u>
2019	<u>289</u>	<u>28</u>	<u>34</u>	<u>351</u>

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

11 FAIR VALUE DETERMINATION

Under FRS102 fair value hierarchy disclosure requirement for retirement benefit plans 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
At 31 July 2020				
- Bonds	-	74,989	-	74,989
- Liquidity Fund	-	4	-	4
- Property	-	-	34,916	34,916
- Equity	-	47,601	-	47,601
Pooled investment vehicles	-	122,594	34,916	157,510
Equities	83,821	-	-	83,821
Cash deposits	3,077	-	-	3,077
Other investment balances	266	-	-	266
	<u>87,164</u>	<u>122,594</u>	<u>34,916</u>	<u>244,674</u>

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

11 FAIR VALUE DETERMINATION (continued)

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 July 2019				
- Bonds	-	71,597	-	71,597
- Property	-	10,717	10,467	21,184
- Equity	-	52,470	-	52,470
Pooled investment vehicles	-	134,784	10,467	145,251
Equities	95,283	-	-	95,283
Cash deposits	3,807	-	-	3,807
Other investment balances	223	-	-	223
	<u>99,313</u>	<u>134,784</u>	<u>10,467</u>	<u>244,564</u>

As a result of the COVID-19 outbreak, which has caused extensive disruption to businesses and economic activities on a global level in all sectors, the property valuers valuing the underlying assets within the three pooled property funds, have reported their valuation on the basis of ‘material valuation uncertainty’. The declaration does not mean that the valuation cannot be relied upon but it does mean that less certainty, and a higher degree of caution, should be attached to the valuation of the property than would normally be the case. Additionally, all three pooled property funds had suspended trading as at 31 July 2020. The effect of this is to require these assets to be moved from a fair value hierarchy level 2 to level 3 as at 31 July 2020. In September 2020, the material uncertainty and suspended trading were removed from these funds.

In order to give a clearer picture of the impact on the Scheme’s results or financial position of potential changes in significant estimates and assumptions, a sensitivity to assess the impact of a change of 10% in value of pooled property funds determined that the valuation could change by £3.5m (2019: £2.1m). This sensitivity is based on assumptions and conditions prevailing at the year-end and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because the Scheme’s actual exposures are constantly changing.

12 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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (continued)

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 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.

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	2020 value £000s	2019 value £000s
Artemis Global Select Strategy	1	3	1	3	49,696	46,560
Longview Global Equities	1	3	1	3	34,124	48,723
Newton Sustainable Real Return Fund	2	2	2	3	24,408	23,186
Barings DAAF	2	2	2	3	23,193	29,284
BlackRock UK Property Fund	2	1	2	3	10,243	10,717
Fidelity Property	2	1	2	3	14,840	10,467
M&G Secured Property Income Fund	2	1	2	3	9,834	-
Hermes Multi Strategy Credit Fund	3	2	2	1	35,642	35,370
BlackRock Index-Linked Gilts	2	1	3	1	39,346	36,227
Cash Fund Deposits	3	2	1	1	3,081	3,807

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (continued)

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.

Over the year, the Scheme held investments within the Federated Hermes Multi Strategy Credit Fund. This fund 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, 35% of the Scheme's portfolio is invested directly in overseas equities, which are subject to currency movements. There is also a degree of currency risk associated with investments in Barings, Newton and Federated Hermes. Federated Hermes employ currency hedging to hedge back returns to sterling. Barings and Newton can employ currency hedging where deemed appropriate.

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 Statement of Asset Strategy 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.

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 manager. The table below shows how the Scheme's assets are split between each type of pooled investment vehicle.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (continued)

Pooled investment vehicle by type of arrangement	31 July 2020 £ 000	31 July 2019 £ 000
Investment Company with Variable Capital (“ICVC”)	24,408	23,186
Open Ended Investment Company (“OEIC”)	23,193	29,284
Unclassified Property Unit Trust	10,243	10,742
Property Authorised Investment Fund (“PAIF”)	14,840	10,467
Guernsey Property Unit Trust	9,834	-
Undertakings in Collective Investment in Transferable Securities (“UCITS”)	35,642	35,370
Unit-linked Insurance Contracts	39,346	36,227
Cash instruments	4	-
Total	157,510	145,276

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.

13 CURRENT ASSETS

	2020 £000	2019 £000
Amount owed by the University of Southampton	202	179
Other debtors	-	17
Cash Balances	601	534
	803	730

Amounts owed by the University of Southampton represents employer contributions of £728,000 including salary sacrifice contributions of £180,000 (2019: £687,000, including salary sacrifice contributions of £175,000) and employee contributions of £20,000 (2019: £16,000), offset by a pensioner payroll recharge of £546,000 (2019: £524,000). The net difference was paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force and therefore do not constitute employer related investments.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

14 CURRENT LIABILITIES

	2020 £000	2019 £000
Amounts owed to the University of Southampton	10	11
Expense accruals	<u>317</u>	<u>222</u>
	<u>327</u>	<u>233</u>

15 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. Whilst the majority of identified claims were resolved over a number of years up to 2007 the Trustees are aware of two outstanding claims that may be made.

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.

On 6 May 2020 the Nuffield Theatre went into administration giving rise to a potential section 75 liability with an estimated value of £400,000. The trustees are taking legal advice with regards to apportionment of the liability.

16 RELATED PARTIES

The Scheme is administered by the University of Southampton. Fees payable in respect of administration and processing of £192,000 (2019: £189,000) are included within administrative expenses. At the year end creditors include £10,000 (2019: £11,000) 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. There are two active member Trustees and one pensioner Trustee.

17 BREXIT

The potential impact of Brexit on exchange rates and investment valuation is considered as part of the overall investment strategy and discussed with the Scheme advisors.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020 (continued)

18 GUARANTEED MINIMUM PENSION EQUALISATION

The last formal triennial actuarial valuation of the scheme was performed as at 31 July 2018 and included an estimate for Guaranteed Minimum Pension (GMP) Equalisation and for the McCloud judgement.

The McCloud judgement relates to the transitional protection offered to some members of public sector final salary schemes when the schemes were reformed. The transitional protection allowed those members who were within 10 years of normal pension age to remain in their final salary scheme instead of being moved to the new career average arrangement with its higher pension age. As some members would be better off in the new scheme rather than the old the McCloud judgement requires that there is no reduction in benefits accrued or are receiving if already retired. The initial judgement did not address transfers out which were subject to a second judgement announced in November 2020. Defined benefit schemes must revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of GMP equalisation. As the Scheme has experienced historical transfers out, adjustments will be required. Based on a high level assessment of the likely additional liabilities in respect of GMP equalisation for past transfer values, the Trustees do not expect these to be material to the financial statements and consequently no provision has been made in these financial statements.

19 COVID-19

During March 2020 and subsequently, there has been significant volatility in the financial markets as a result of the COVID-19 pandemic. The Scheme invests in a broad range of asset classes many of which, such as property, are illiquid in nature. Such assets are valued on a periodic basis, mostly quarterly but others less frequently. At the end of the year to 31 July 2020 these asset classes made up approximately 14% of the overall investment portfolio and while there have been significant falls in other asset classes, it is difficult to assess precisely the full financial effect at the date of issue of the financial statements. As noted in note 11, the valuers of the property assets have included a material uncertainty clause in their valuations as at 31 July 2020. The Trustees continue to monitor the situation and the impact that COVID-19 may have on the future performance of these illiquid assets.

The Scheme continues to monitor the impact of the global economic impact in the wake of the coronavirus outbreak which has led to significant uncertainty around investment returns in the short term. The Scheme acknowledges that the decrease in stocks, a resultant of global events and the impact of COVID-19, has an impact for future outlook, and that there is likely to be considerable pressures on individual employers. As events unfold with restrictions being lifted plus increasing market sentiments, there is hope for economic recovery.

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 to the University of Southampton Pension and Assurance Scheme for Non-Academic Staff (the "Scheme") for the Scheme year ended 31 July 2020 to which this statement is attached.

In our opinion contributions for the Scheme year ended 31 July 2020 as reported in the summary of contributions and payable under the Schedules of contributions have been paid in all material respects for the period from 1 August 2019 to 30 October 2019 at least in accordance with the Schedule of Contributions certified by the actuary on 3 October 2016 and for the period from 31 October 2019 to 31 July 2020 at least in accordance with the Schedule of Contributions certified by the actuary on 31 October 2019.

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 Trustees' responsibilities statement, 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.

Use of our report

This statement is made solely to the Trustees, as a body, in accordance with Regulation 4 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 work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustees as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
Date:

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	4,569
Employer deficit contributions	2,025
Employer normal contributions arising from member salary sacrifice	2,153
Employee normal contributions	<u>205</u>
Total contributions per the Schedule of Contributions as reported on by the Scheme auditor	8,952
Employee additional voluntary contributions	40
Total contributions per Fund Account	<u><u>8,992</u></u>

Signed on behalf of the Trustees:

Date:

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 2018. This showed that on that date:

The value of the Technical Provisions was: £263.3million

The value of the assets at that date was: £224.8million

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 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.

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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

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

Significant actuarial assumptions (continued)

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.