

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

Trustees' Annual Report and Financial Statements

31 JULY 2016

Registered number:101150842

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

ANNUAL REPORT – 31 JULY 2016

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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 (from 1.8.2015)

Active Member Trustees

Mr D Lynock (to 7.8.2015)

Mr A Dilworth (from 21.9.2015)

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

5th Floor,

Merck House,

Seldown Lane,

Poole,

Dorset,

BH15 1TW

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

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)

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 2016

The Trustees have pleasure in reporting to the members for the year ended 31 July 2016.

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.

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. University Trustees are the holders of the offices specified in the Trust Deed and cease to be Trustees on resignation from those offices. 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. The Trustees met six times in the year, and attendance at the meetings is as follows:

Trustee	Number of meetings attended
Mr A Gosden – Chairman	6/6
Mr T O'Brien – Employer Trustee	4/6
Ms S Pook – University Trustee	6/6
Prof. J Falkingham – University Trustee	3/6
Mr D Lynock – Member Trustee	1/1
Mr A Dilworth – Member Trustee	5/5
Mrs J Shaw – Member Trustee	6/6
Mr N Burr – Pensioner Trustee	6/6

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

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REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2016 **(Continued)**

Statement of Trustees' responsibilities

The financial statements, which are prepared in accordance with the UK Generally Accepted Accounting Practice, are the responsibility of the Trustees. Pension scheme regulations require the trustees to make available to the scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- 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 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 Statement of Recommended Practice "Financial Reports of Pension Schemes".

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

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

The Trustees are responsible under pension's legislation for ensuring that there is prepared, maintained and from time to time revised 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 monitoring whether contributions are made to the scheme by the employer in accordance with the schedule of contributions. 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 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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2016 (Continued)

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.

Schedule of contributions

Following the actuarial valuation on 31 July 2012 the schedule of contributions was agreed and certified by the scheme actuary. Contributions were set at the following rates:

Member contributions	6.35%.
Deficit contributions	5.65%
Ordinary employer contributions	11.6%

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 2016 the following increases were made to pension payable and deferred provision based on CPI as at September 2015, which replaced the previous methodology of using RPI.

Pensions in course of payment for benefits accrued to end September 2010	0.0%
Pensions in course of payment for benefits accrued to after 1 October 2010	0.0%
Deferred pensions	0.0%

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 2016

(Continued)

Actuarial status of the Scheme

A full year valuation was performed by Barnett Waddingham LLP as at 31 July 2012. The valuation indicated that on the basis of existing contribution rates the scheme was in deficit by £35.6m. As a consequence of the Scheme being in deficit the Trustees agreed to a long term recovery plan effective from 26 April 2013, whereby the funding shortfall was expected to be eliminated by 31 August 2022.

The next full actuarial valuation as at 31 July 2015 was carried out by Barnett Waddingham LLP and finalised on 3 October 2016. This indicated that on the basis of existing contribution rates the scheme continued 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>2016</u> <u>Number</u>	<u>2015</u> <u>Number</u>
Active members		
Active members at the beginning of the year	1,961	1,973
Adjustment to previous year balance	-	(7)
New members joining	398	369
Members retiring	(36)	(27)
Deaths in service	-	(4)
Members leaving prior to pensionable age	(272)	(292)
Members leaving with refunds	(44)	(49)
Transfers out	(2)	(2)
Flexible retirees	5	-
	2,010	1,961
Pensioners		
Pensioners at the beginning of the year	1,361	1,309
Adjustment to previous year balance	(9)	15
Members retiring	36	27
Deferred pensioners reaching pensionable age	28	31
Spouses and dependants	8	6
Pensioners who died during the year	(32)	(27)
Flexible retirees becoming full retirees	(3)	-
	1,389	1,361
Deferred Pensioners		
Deferred pensioners at the beginning of the year	2,218	1,967
Adjustment to previous year balance	25	77
Deferred pensioners during the year	272	292
Deferred pensioners reaching pensionable age	(28)	(31)
Deferred pensioners taking refunds/ transfers/trivial pensions	(94)	(87)
Deferred pensioners who died in the year	(1)	-
	2,392	2,218
Total membership as at 31 July	<u>5,791</u>	<u>5,540</u>

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

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REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2016

(Continued)

Scheme membership (continued)

During the ongoing data integrity and cleansing exercise corrections were made to a number of Pensioner and Deferred members. Adjustments to the previous year balance have been included in the statistics in order to correct the position as at 31st July 2016.

INVESTMENT PERFORMANCE & 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 has been produced as required by Section 35 of the Pensions Act 1995, and is available on request.

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 and Newton Investment Management. 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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2016 (Continued)

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

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.

Review of investment performance

BlackRock manage a portfolio in accordance with the guidelines provided by the Trustees. In the case of the equity portfolios, held with BlackRock and Longview Partners, direct investment in tobacco companies has been excluded.

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 2016 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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2016 (Continued)

	BlackRock Main Portfolio	BlackRock Property Portfolio	Barings [#]	Newton [#]	Longview [*]	PASNAS Total	Benchmark
	%	%	%	%	%	%	%
2016 (6 mths)	5.3	2.7	1.5	8.8	13.2	7.6	7.4
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
2011	-3.0	4.9	3.3	2.1	-	2.0	4.0

[#] Baring's and Newton's performance during 2011 shown for the period invested since 31 January 2011.

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

Over the 12 months to 30 June 2016, all asset classes generated positive returns with the exception of the Barings Fund, with the overall portfolio delivering strong performance. Performance was driven by falling gilt yields and positive returns from global equity markets, the former being particularly pronounced during the first half of 2016.

As a result of the significant fall in yields, bonds outperformed equities over the 12 month period to 30 June 2016. The BlackRock corporate bond holdings returned 12.7%, while the BlackRock index-linked gilts holding returned 16.7% over the same time period.

The global equity portfolio, managed by Longview, returned 14.3%, with returns helped by a significant depreciation of sterling after the EU referendum vote in June 2016. In contrast, the BlackRock UK equity portfolio only returned 0.6% over the 12 months to 30 June 2016.

Analysis of investments

At 31 July 2016 the investment managers had invested the investment assets of the Scheme as follows:

	2016	2015
	£000	£000
Managed Funds UK – Fixed interest securities	10,420	6,957
Managed Funds UK – Index linked securities	24,543	24,260
Equities – UK quoted	51,475	47,082
– UK unquoted	-	3
– Overseas quoted	46,822	39,666
Managed Funds (investment and unit trusts)	8,916	8,461
Absolute Return Funds	44,357	41,072
Cash deposits	1,326	1,483
	187,859	168,984

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE
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REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2016
(Continued)

The investment assets held by each investment manager as at 31 July 2016:

	<u>2016</u>	<u>2015</u>
	£000	£000
BlackRock Investment Management	97,414	89,422
Longview	54,866	46,462
Barings Asset Management	14,131	13,854
Newton Investment Management	21,448	19,246
	<u>187,859</u>	<u>168,984</u>

Analysis of investment portfolio as at 31 July 2016

	<u>2016</u>	<u>2015</u>
	%	%
BlackRock		
Managed funds UK - fixed interest securities	10.7	7.8
Managed funds UK - index linked securities	25.2	27.0
Equities	44.9	45.4
Absolute return funds	9.2	9.5
Managed funds (investment & unit trusts)	9.0	8.9
Cash deposits	1.0	1.4
	<u>100.0</u>	<u>100.0</u>

	<u>2016</u>	<u>2015</u>
	%	%
Longview		
Equities	99.5	99.4
Cash deposits	0.5	0.6
	<u>100.0</u>	<u>100.0</u>

	<u>2016</u>	<u>2015</u>
	%	%
Barings		
Absolute return bond funds	100.0	100.0

	<u>2016</u>	<u>2015</u>
	%	%
Newton		
Absolute return bond funds	100.0	100.0

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

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REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2016 (Continued)

Analysis of investments by market sector (BlackRock & Longview)

The analysis of worldwide quoted equity and managed funds holdings by market sector, based on market values as at 31 July 2016, is as follows:

	<u>2016</u> <u>£000</u>	<u>2015</u> <u>£000</u>
<u>Capital Goods:</u>		
Building, Electronics, Motors, Other Industrial Materials, IT	26,332	22,019
<u>Consumer and Services group:</u>		
Brewers, Leisure, Stores, Food, Media, Printing, Transport	45,379	36,442
<u>Financial group:</u>		
Banks, Insurance, Property	27,483	28,113
<u>Other groups:</u>		
Oil, Gas, Electricity, Chemical, Water and Telephones	8,019	8,635
	<u>107,213</u>	<u>95,209</u>

Custodial arrangements

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

Tax and contracting-out 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. The Scheme is contracted out of the State Earnings Related Pension Scheme under a certificate issued by the Occupational Pensions Board.

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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2016 (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.

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 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 2016 (Continued)

The Pension Protection Fund Ombudsman (TPPFO)

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

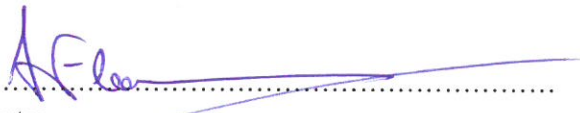
The Pensions Regulator (TPR)

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 30th January 2017

and signed on their behalf by


.....
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

We have audited the financial statements of the University of Southampton Pension and Assurance Scheme for Non Academic Staff for the year ended 31 July 2016 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Respective responsibilities of trustees and auditor

As explained more fully in the Trustees' Responsibilities Statement set out on page 3, the schemes trustees are responsible for the preparation of the financial statements which give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the scheme's Trustees in accordance with 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 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 and the scheme's Trustees, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

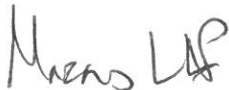
- show a true and fair view of the financial transactions of the scheme during the year ended 31 July 2016 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

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)

- contain the information specified in Regulation 3 and 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.



Mazars LLP

Chartered Accountants and Statutory Auditor
5th Floor, Merck House,
Seldown Lane,
Poole,
Dorset,
BH15 1TW

Date 7 February 2017

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE
SCHEME FOR NON ACADEMIC STAFF

FUND ACCOUNT FOR THE YEAR ENDED 31 JULY 2016

	<u>Notes</u>	<u>2016</u> £000	<u>2015</u> £000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable			
Employer		8,930	8,689
Employee		420	421
Total contributions	2	<u>9,350</u>	<u>9,110</u>
Transfers in from other schemes	3	264	616
Other income	4	-	224
		<u>264</u>	<u>9,950</u>
Benefits payable	5	6,596	6,323
Payments to and on account of leavers	6	402	677
Other payments	7	195	171
Administration expenses	8	566	519
		<u>7,759</u>	<u>7,690</u>
NET ADDITIONS FROM DEALINGS WITH MEMBERS		<u>1,855</u>	<u>2,260</u>
RETURNS ON INVESTMENTS			
Investment income	9	3,074	2,843
Change in market value of investments	10	14,735	16,708
Investment management expenses		(698)	(649)
Custodian fees		(48)	(56)
		<u>17,063</u>	<u>18,847</u>
NET RETURN ON INVESTMENTS		<u>17,063</u>	<u>18,847</u>
NET INCREASE IN THE FUND DURING THE YEAR		18,918	21,107
NET ASSETS AT 1 AUGUST		169,684	148,578
NET ASSETS AT 31 JULY		<u>188,602</u>	<u>169,684</u>

The notes on pages 17 to 26 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 2016

	<u>Notes</u>	<u>2016</u> £000	<u>2015</u> £000
INVESTMENT ASSETS	10		
Pooled Investment Vehicles		88,236	80,750
Equities		98,297	86,751
Cash deposits		1,326	1,483
Other investment balances		276	136
		<u>188,135</u>	<u>169,120</u>
CURRENT ASSETS	13	843	884
CURRENT LIABILITIES	14	(376)	(320)
NET ASSETS OF THE SCHEME		<u>188,602</u>	<u>169,684</u>

The notes on pages 16 to 25 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 of Scheme Liabilities on page 32 and these financial statements should be read in conjunction with it.

The accounts were approved by the Trustees on 30th January 2017, and signed on their behalf by:



Trustee



Trustee

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE ACCOUNTS – 31 JULY 2016

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). This is the first year FRS 102 and the Revised SORP have applied to the Scheme's financial statements.

Contribution income

Ordinary 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 2016 (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>2016</u>	<u>2015</u>
	£000	£000
Employer		
Ordinary contributions	4,559	4,444
Deficit contributions	2,221	2,164
Employer contributions arising from member salary sacrifice	2,150	2,081
	<u>8,930</u>	<u>8,689</u>
Employee		
Ordinary contributions	338	338
Additional voluntary contributions	82	83
Total contributions	<u>9,350</u>	<u>9,110</u>

Contribution rates during the year were as follows:

By members	6.35%
By employers – deficit	5.65%
By employers – ordinary	11.6 %

Please note that the above rates were implemented on 1st August 2012. 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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE ACCOUNTS – 31 JULY 2016 (Continued)

3 TRANSFERS IN

	<u>2016</u> <u>£000</u>	<u>2015</u> <u>£000</u>
Individual transfers in from other schemes	<u>264</u>	<u>616</u>

4 OTHER INCOME

	<u>2016</u> <u>£000</u>	<u>2015</u> <u>£000</u>
Life assurance benefits	<u>-</u>	<u>224</u>

5 BENEFITS PAYABLE

	<u>2016</u> <u>£000</u>	<u>2015</u> <u>£000</u>
Pension payments to retired members	5,311	5,107
Commutation of pensions	1,200	1,068
Death in service – benefits	84	136
Death in service – refunded contributions	1	12
	<u>6,596</u>	<u>6,323</u>

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	<u>2016</u> <u>£000</u>	<u>2015</u> <u>£000</u>
Refunds to members leaving service	14	11
State scheme premiums	24	9
Individual transfers out to other schemes	364	657
	<u>402</u>	<u>677</u>

7 OTHER PAYMENTS

	<u>2016</u> <u>£000</u>	<u>2015</u> <u>£000</u>
Group life assurance premiums	<u>195</u>	<u>171</u>

Related claims under these policies are included within 'other income' above.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE ACCOUNTS – 31 JULY 2016 (Continued)

8 ADMINISTRATION EXPENSES

	<u>2016</u>	<u>2015</u>
	<u>£000</u>	<u>£000</u>
Expenses borne by the scheme comprise:		
Investment advisors fees (including actuarial fees)	160	112
Audit fees	11	19
Staff costs (recharged by the University)	169	123
Pension Protection Fund (PPF) Levy	172	217
Other scheme expenses	54	48
	<u>566</u>	<u>519</u>

The University of Southampton provides day to day administration staff, the costs of which are recharged to the Scheme as noted above. The audit fees in 2015 included an amount for internal audit, of £7,700.

9 INVESTMENT INCOME

	<u>2016</u>	<u>2015</u>
	<u>£000</u>	<u>£000</u>
Income from UK fixed interest securities	348	308
Dividends from equities	2,276	2,112
Income from managed funds	443	417
Interest on cash deposits	7	6
	<u>3,074</u>	<u>2,843</u>

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE ACCOUNTS – 31 JULY 2016 (Continued)

10 INVESTMENT ASSETS

	Value at 1 August 2015 £000	Purchases at cost £000	Sale proceeds £000	Change in market value £000	Cash Movement £000	Value at 31 July 2016 £000
Pooled investment vehicles:						
Managed Funds Fixed Interest Securities	6,957	2,921	(533)	1,075	-	10,420
Managed Funds Index Linked Securities	24,260	2,518	(5,357)	3,122	-	24,543
Managed Funds Property	8,461	298	-	157	-	8,916
Managed Funds Other than property	41,072	1,349	(270)	2,206	-	44,357
Total pooled investment vehicles	80,750	7,086	(6,160)	6,560	-	88,236
Equities	86,251	25,791	(22,338)	8,093	-	98,297
Cash Instruments	1,483	17,594	(17,182)	82	(651)	1,326
	168,984	50,471	(45,680)	14,735	(651)	187,859
Other investment balances	136					276
	169,120					188,135

“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
BlackRock UK Index Linked Securities	24,543	13.0
Newton Real Return	21,448	11.4
Baring Dynamic Asset Allocation Fund	14,131	7.5
BlackRock UK Fixed Interest Securities	10,420	5.5

Transaction Costs

Transaction costs arising on equities are as follows:

	Fees £000	Commission £000	Taxes £000	Total £000
2016	86	26	-	112
2015	76	30	-	106

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 2016 (Continued)

11 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
At 31 July 2016				
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	8,777	-	44,356
Equities	98,297	-	-	98,297
Cash deposits	1,326	-	-	1,326
	<u>135,202</u>	<u>52,656</u>	<u>-</u>	<u>187,858</u>

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 July 2015				
Managed Funds Fixed Interest Securities	-	6,956	-	6,956
Managed Funds Index Linked Securities	-	24,260	-	24,260
Managed Funds Property	-	8,461	-	8,461
Managed Funds Other than property	33,100	7,972	-	41,072
Equities	86,748	-	3	86,751
Cash deposits	1,483	-	-	1,483
	<u>121,331</u>	<u>47,649</u>	<u>3</u>	<u>168,983</u>

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE ACCOUNTS – 31 JULY 2016 (Continued)

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.

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 set out below. 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 2016 (Continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (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, with the current investment strategy set out in the Statement of Investment Principles (SIP).

A summary the current investment strategy is 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 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.

There were no changes to the underlying Trustees investment strategy over the past year. There have been several additional contributions during the period, over and above those required under the Scheme's Schedule of Contributions and Recovery Plan, made with the aim of improving Scheme funding levels. These cashflows were applied so as to move the Scheme back towards the central asset allocation benchmark.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE ACCOUNTS – 31 JULY 2016 (Continued)

12 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	2016 value £000s	2015 value £000s
BlackRock UK Equities	1	1	1	3	43,724	40,569
Longview Global Equities	1	3	1	3	54,573	46,182
Newton Real Return Fund	2	2	2	3	21,448	19,246
Barings DAAF	2	2	2	3	14,131	13,854
BlackRock UK Property Fund	2	1	2	3	8,916	8,461
BlackRock Corporate Bonds	3	2	3	1	10,420	6,957
BlackRock Index-Linked Gilts	2	1	3	1	24,543	24,260
BlackRock Absolute Return Bonds	3	2	2	2	8,778	7,972
BlackRock Cash Fund	3	2	1	1	1,326	1,483

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 bonds, 25% 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. Within the bond portfolio, the Scheme invests in 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.

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE ACCOUNTS – 31 JULY 2016 (Continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (Continued)

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 manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities. In addition, the asset allocation is detailed in the Appendix of 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 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.

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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE

SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE ACCOUNTS – 31 JULY 2016 (Continued)

13 CURRENT ASSETS

	<u>2016</u> £000	<u>2015</u> £000
Amount owed by the University of Southampton	317	302
Other debtors	22	23
Cash Balances	<u>504</u>	<u>559</u>
	<u>843</u>	<u>884</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 2016 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

14 CURRENT LIABILITIES

	<u>2016</u> £000	<u>2015</u> £000
Amounts owed to the University of Southampton	30	71
Accruals	<u>346</u>	<u>249</u>
	<u>376</u>	<u>320</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.

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

Total claims outstanding	3
--------------------------	---

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.

16 FRS 102 CONVERSION

The policies applied under the Scheme's previous accounting framework are not materially different to FRS 102.

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 2016 to which this statement is attached.

Respective responsibilities of trustees and auditor

As described in the statement of Trustees' responsibilities, the scheme's trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme. The trustees are also responsible for keeping records in respect of contributions received in respect of active members of the scheme 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 report our opinion to you. This statement is made solely to the scheme's trustees, in accordance with 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 scheme 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 scheme and the scheme's Trustees, for our work, for this statement, or for the opinions we have formed.

Scope of work on statement about contributions

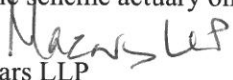
Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of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

**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 (Continued)**

Statement about contributions payable under the schedule of contributions

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


Mazars LLP

Chartered Accountants and Statutory Auditor,
5th Floor,
Merck House,
Seldown Lane,
Poole,
Dorset,
BH15 1TW

7 February 2017

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	6,780
Employer contributions arising from member salary sacrifice	2,150
Employee normal contributions	<u>338</u>
Total contributions per Schedule of Contributions	9,268
Employee additional voluntary contributions	82
Total contributions per fund account	<u>9,350</u>

Signed on behalf of the Trustees:



Date: 30th January 2017

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Adequacy of rates of contributions

Adherence to statement of funding principles

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.

Signature: _____ **Date:** 26 April 2013

Name: Jon Bridger **Qualification:** Fellow of the
Institute of Actuaries

Address: St. James' House
St. James' Square
Cheltenham
GL50 3PR

Name of Employer: 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 will also be taken into account. An assumption for Consumer Prices Index (CPI) inflation will be 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 will take 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 will be 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 will 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 will be 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 will be 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.

