

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

Trustees' Annual Report and Financial Statements

31 JULY 2019

Registered number: 101150842

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

ANNUAL REPORT – 31 JULY 2019

| Contents | <u>Page</u> |
|--|--------------------|
| Trustees and Independent Advisers | 1 - 2 |
| Report of the Trustees | 3 – 16 |
| Independent auditor's report | 17 – 19 |
| Fund account | 20 |
| Statement of Net Assets (available for benefits) | 21 |
| Notes to the financial statements | 22 – 32 |
| Independent auditor's statement about contributions | 33 – 34 |
| Summary of contributions | 35 |
| Certification of schedule of contributions | 36 |
| Report on actuarial liabilities (forming part of the Trustees' report) | 37 - 38 |

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 (resigned 7 November 2019)

Ms A Sifton (appointed 8 November 2019)

Employer Trustee

Mr W Shannon (resigned 7 November 2019)

Mr M Woodcock (appointed 8 November 2019)

Active Member Trustees

Mr A Dilworth

Mrs J Shaw

Pensioner Trustee

Mr N Burr

Clerk to the Trustees

Mr P Moxham

Administration Office

Finance Department
University of Southampton
Highfield
Southampton, SO17 1BJ

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

TRUSTEES AND INDEPENDENT ADVISERS (continued)

Investment Advisor

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

Investment Managers

BlackRock Investment Management Limited
33 King William Street
London, EC4R 9AS

Barings Asset Management Limited
155 Bishopsgate
London, EC2M 3XY

Hermes Investments Funds plc
Georges Court
54-62 Townsend Street
Dublin 2
Ireland

Newton Investment Management Limited
BNY Mellon Centre
160 Queen Victoria Street
London, EC4V 4LA

Longview Partners (Guernsey) Limited
PO Box 559
Mill Court
St Peter Port
Guernsey, GY1 6JG

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019

The Trustees have pleasure in reporting to the members for the year ended 31 July 2019.

The Scheme

The University of Southampton Pension and Assurance Scheme for Non Academic Staff ("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. The University is currently consulting with members and Unions about the proposed increases.

Management of the Scheme

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (continued)

Management of the Scheme (continued)

The 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 | 4/4 |
| Mr W Shannon – Employer Trustee | 0/4 |
| Ms S Pook – University Trustee | 4/4 |
| Prof. J Falkingham – University Trustee | 2/4 |
| Mr A Dilworth – Member Trustee | 4/4 |
| Mrs J Shaw – Member Trustee | 4/4 |
| Mr N Burr – Pensioner Trustee | 4/4 |

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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (continued)

Statement of Trustees' responsibilities (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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (continued)

Financial development of the Scheme

The financial statements have been prepared and audited in compliance with regulations under Section 41(1) and (6) of the Pensions Act 1995. During the year contributions reduced to £9.2m compared with £9.3m for the prior year. The net returns on investments comprised an increase in market value of investments of £18.3m (2018: £13.3m) and investment income of £2.1m (2018: £2.1m) offset by investment management expenses of £0.6m (2018: £0.7m). The net assets of the Scheme amounted to £245.1m at 31 July 2019 (2018: £224.8m).

Schedule of contributions

Following the actuarial valuation on 31 July 2015 the schedule of contributions was agreed and certified by the Scheme actuary. Contributions were set at the following rates from 1 November 2016.

| | |
|-------------------------------|---------|
| Member contributions | 6.35 % |
| Deficit contributions | 5.10 % |
| Normal employer contributions | 12.15 % |

Following the actuarial valuation on 31 July 2018, and the recovery plan dated 25 October 2019 the deficit contributions above are payable up to 31 December 2019. From the 1 January 2020 to 31 March 2028 contributions are set at the following rates.

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

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 2018 the following increases were made to pensions payable and deferred provision based on CPI as at September 2017.

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

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 2019 (continued)

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 2018, 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.

Scheme membership

| | 2019 Number | 2018 Number |
|--|----------------|----------------|
| Active members | | |
| Active members at the beginning of the year | 1,857 | 1,959 |
| Adjustment to previous year balance | 5 | (17) |
| New members joining | 154 | 274 |
| Members retiring | (32) | (48) |
| Death in service | (2) | (2) |
| Members leaving prior to pensionable age | (243) | (270) |
| Members leaving with refunds | (15) | (39) |
| Transfers out | (1) | - |
| | 1,723 | 1,857 |
| Pensioners | | |
| Pensioners at the beginning of the year | 1,485 | 1,412 |
| Adjustment to previous year balance | 7 | 2 |
| Members retiring | 32 | 48 |
| Deferred pensioners reaching pensionable age | 37 | 45 |
| Spouses and dependants | 7 | 4 |
| Pensioners who died during the year | (32) | (23) |
| Flexible retirees becoming full retirees | - | (3) |
| | 1,536 | 1,485 |
| Deferred Pensioners | | |
| Deferred pensioners at the beginning of the year | 2,449 | 2,459 |
| Adjustment to previous year balance | - | 27 |
| Deferred pensioners during the year | 243 | 270 |
| Deferred pensioners reaching pensionable age | (37) | (45) |
| Deferred pensioners taking refunds/ transfers/trivial pensions | (143) | (259) |
| Deferred pensioners who died in the year | (2) | (3) |
| | 2,510 | 2,449 |
| Total membership as at 31 July | <u>5,769</u> | <u>5,791</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 ENDED 31 JULY 2019 (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:

- Section 35 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 SIP is available on request.

There are written agreements in place between the Trustees and each of the Scheme advisers/managers 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 and Hermes Investment Management.

The Trustees have given their investment managers discretion when evaluating environmental, social and governance issues and in exercising right and stewardship obligations attached to the Scheme's investments. In the case of the segregated portfolios held with Longview and 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.

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (continued)

Investment managers (continued)

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

BlackRock Investment Management

Investments held by BlackRock in the Property Fund are charged a management fee of 1.0% per annum.

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

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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (continued)

Investment managers (continued)

Newton Investment Management

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

Hermes Investment Management

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.

Review of investment performance

A summary of the Scheme's performance over the last five calendar years as well as the first six months of 2019 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. The Scheme uses a composite benchmark tailored to its long term strategy.

| Fund | | 2019 (6 mths) | 2018 | 2017 | 2016 | 2015 | 2014 |
|-----------------------------|----------|---------------|------------|------------|-------------|------------|-------------|
| BlackRock Main Portfolio* | % | 8.3 | -0.3 | 7.5 | 14.8 | 3.3 | 10.1 |
| BlackRock Property | % | 0.5 | 6.6 | 10.3 | 2.5 | 11.1 | 15.3 |
| Longview (Global Equities) | % | 11.4 | 4.2 | 11.6 | 29.2 | 5.8 | 16.8 |
| Artemis (Global Equities)** | % | 21.2 | -2.1 | 1.7 | - | - | - |
| Fidelity (Property)*** | % | 0.3 | 9.6 | 0.9 | - | - | - |
| Barings (Multi-Asset) | % | 8.7 | -6.5 | 9.5 | 5.9 | 1.1 | 4.3 |
| Newton (Multi-Asset) | % | 8.6 | -0.1 | 2.5 | 4.0 | 1.1 | 3.2 |
| Hermes (Credit)**** | % | 6.5 | -3.2 | 0.7 | - | - | - |
| Scheme Total | % | 10.4 | 0.1 | 8.1 | 16.7 | 3.5 | 10.7 |
| Benchmark | % | 8.7 | 0.8 | 7.6 | 16.4 | 2.9 | 8.9 |

* 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

**** Hermes' performance during 2017 reflects the period since investment, 26 June 2017.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (continued)

Review of investment performance (continued)

The overall portfolio delivered a return of 8.5% over the 12 months to 30 June 2019 versus a benchmark of 7.3%. Performance was positive for all investments over the period, with the Scheme's Equity holdings being the largest contributors.

Over the 12 month period all funds with the exception of Barings delivered positive performance in line with or above benchmark. The portfolio outperformed the composite benchmark of 7.3% by 1.2% over this period.

The portfolio delivered a return of 8.9% over the 3 year period to 30 June 2019 versus a benchmark of 8.7%.

Investment strategy

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which, together with future contributions, will generate investment returns to meet 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 Scheme's Investment Strategy is considered as part of the triennial Actuarial Valuation Report.

The current target strategy is as follows:

| Mandate | Allocation | Managers |
|----------------------|-------------------|---|
| Global Equities | 35% | Artemis Investment Management Longview Partners |
| Absolute Return Fund | 20% | Newton Investment Management Baring Asset Management |
| Index-Linked Gilts | 15% | BlackRock Investment Management |
| Multi-Asset Credit | 15% | Hermes Investment Management |
| Property | 15% | BlackRock Investment Management M&G Investments (investment pending) Fidelity International |

The Trustees feel that the strategy set out above meets the above objectives with a balance between assets with an expected return above that of government bonds and assets that are expected to reduce funding level volatility by moving in line with the change in liability value.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (continued)

Investment strategy (continued)

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.

Analysis of investments

At 31 July 2019 the investment managers had invested the investment assets of the Scheme as follows:

| | 2019 £000 | 2018 £000 |
|--|----------------|----------------|
| Managed Funds UK – Index linked securities | 36,227 | 32,104 |
| Managed Funds - Property | 21,184 | 20,425 |
| Multi Asset Credit Fund | 35,370 | 30,871 |
| Absolute Return Funds | 52,470 | 48,036 |
| Equities – UK quoted | 9,655 | 9,260 |
| – Overseas quoted | 85,628 | 79,063 |
| Cash deposits | 3,736 | 4,484 |
| | <u>244,270</u> | <u>224,243</u> |

The investment assets held by each investment manager as at 31 July 2019:

| | 2019 £000 | 2018 £000 |
|---------------------------------|----------------|----------------|
| BlackRock Investment Management | 46,964 | 42,525 |
| Longview | 50,377 | 50,466 |
| Artemis | 48,621 | 42,321 |
| Barings Asset Management | 29,284 | 26,581 |
| Newton Investment Management | 23,186 | 21,455 |
| Hermes Investment Management | 35,370 | 30,871 |
| Fidelity | 10,467 | 10,024 |
| | <u>244,270</u> | <u>224,243</u> |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (continued)

Analysis of investments by investment manager as at 31 July 2019

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.

| | 2019 % | 2018 % |
|--|--------------|--------------|
| BlackRock | | |
| Managed funds UK - index linked securities | 77.1 | 75.5 |
| Managed funds - property | 22.9 | 24.5 |
| | <u>100.0</u> | <u>100.0</u> |
| Longview | | |
| | 2019 % | 2018 % |
| Equities | 96.7 | 95.8 |
| Cash deposits | 3.3 | 4.2 |
| | <u>100.0</u> | <u>100.0</u> |
| Artemis | | |
| | 2019 % | 2018 % |
| Equities | 95.8 | 94.5 |
| Cash deposits | 4.2 | 5.5 |
| | <u>100.0</u> | <u>100.0</u> |

The Barings and Newton investments were held 100% in Absolute Return Funds at 31 July 2019 and 31 July 2018. Hermes investments were held 100% in Multi Asset Credit Funds at 31 July 2019 and 31 July 2018. Fidelity investments were held in Managed Fund, Property at 31 July 2019 and 31 July 2018.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (continued)

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

The analysis of worldwide quoted equity holdings by market sector, based on market values as at 31 July 2019, is as follows:

| | 2019 £000 | 2018 £000 |
|---|---------------|---------------|
| Capital Goods: | | |
| Building, Electronics, Motors, Other Industrial Materials, IT | 25,735 | 26,105 |
| Consumer and Services group: | | |
| Brewers, Leisure, Stores, Food, Media, Printing, Transport | 33,799 | 41,749 |
| Financial group: | | |
| Banks, Insurance, Property | 19,045 | 16,098 |
| Other groups: | | |
| Oil, Gas, Electricity, Chemical, Water and Telephones | 16,704 | 4,371 |
| | <u>95,283</u> | <u>88,323</u> |

Custodial arrangements

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

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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2019 (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 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

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 2019 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; and
- the related notes 1 to 18.

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.

The logo for Deloitte LLP, featuring the company name in a stylized blue script font.

Deloitte LLP

Statutory Auditor
Reading

Date 14/2/20

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

FUND ACCOUNT FOR THE YEAR ENDED 31 JULY 2019

| | Notes | 2019 £000 | 2018 £000 |
|---|-------|-----------------------|-----------------------|
| CONTRIBUTIONS AND BENEFITS | | | |
| Contributions receivable | | | |
| Employer | | 8,824 | 8,946 |
| Employee | | 359 | 361 |
| Total contributions | 2 | <u>9,183</u> | <u>9,307</u> |
| Transfers in from other Schemes | 3 | 373 | 293 |
| Other income | 4 | <u>40</u> | <u>157</u> |
| | | <u>413</u> | <u>450</u> |
| Benefits paid or payable | 5 | 7,868 | 7,958 |
| Payments to and on account of leavers | 6 | 266 | 469 |
| Other payments | 7 | 142 | 138 |
| Administration expenses | 8 | <u>755</u> | <u>690</u> |
| | | <u>9,031</u> | <u>9,255</u> |
| NET ADDITIONS FROM DEALINGS WITH MEMBERS | | <u>565</u> | <u>502</u> |
| RETURNS ON INVESTMENTS | | | |
| Investment income | 9 | 2,046 | 2,080 |
| Change in market value of investments | 10 | 18,330 | 13,302 |
| Investment management expenses | | (616) | (679) |
| Custodian fees | | <u>(59)</u> | <u>(63)</u> |
| NET RETURN ON INVESTMENTS | | <u>19,701</u> | <u>14,640</u> |
| NET INCREASE IN THE FUND DURING THE YEAR | | 20,266 | 15,142 |
| NET ASSETS AT 1 AUGUST | | 224,795 | 209,653 |
| NET ASSETS AT 31 JULY | | <u>245,061</u> | <u>224,795</u> |

The notes on pages 22 to 32 form part of these financial statements.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

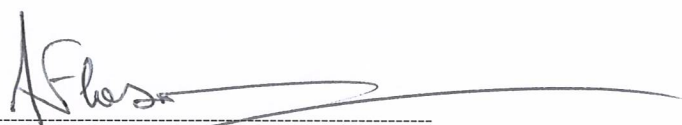
STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 JULY 2019

| | Notes | 2019 £000 | 2018 £000 |
|---------------------------------|-------|----------------|----------------|
| INVESTMENT ASSETS | 10 | | |
| Pooled Investment Vehicles | | 145,251 | 131,436 |
| Equities | | 95,283 | 88,323 |
| Cash deposits | | 3,807 | 4,484 |
| Other investment balances | | 223 | 215 |
| | | <u>244,564</u> | <u>224,458</u> |
| CURRENT ASSETS | 13 | 730 | 737 |
| CURRENT LIABILITIES | 14 | (233) | (400) |
| NET ASSETS OF THE SCHEME | | <u>245,061</u> | <u>224,795</u> |

The notes on pages 22 to 32 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 37 to 38 and these financial statements should be read in conjunction with it.

The financial statements were approved by the Trustees on 14 February 2019, and signed on their behalf by:


Trustee


Trustee

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS – 31 JULY 2019

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 and with the guidance set out in the Statement of Recommended Practice (Revised November 2014).

The principal accounting policies are set out below. Unless otherwise stated they have been applied consistently year on year.

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.

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 FINANCIAL STATEMENTS – 31 JULY 2019 (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. 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. Realised and unrealised capital gains and losses are dealt with in the fund account in the year in which they arise.

The Scheme's functional and presentation currency is pounds sterling. 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.

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 Report of the Trustees.

2 CONTRIBUTIONS RECEIVABLE

| | 2019 £000 | 2018 £000 |
|--|---------------------|---------------------|
| Employer | | |
| Normal contributions | 4,686 | 4,773 |
| Deficit contributions | 1,967 | 2,004 |
| Normal employer contributions arising from member salary sacrifice | <u>2,171</u> | <u>2,169</u> |
| | 8,824 | 8,946 |
| Employee | | |
| Normal contributions | 259 | 295 |
| Additional voluntary contributions | <u>100</u> | <u>66</u> |
| | 359 | 361 |
| Total contributions | <u>9,183</u> | <u>9,307</u> |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS – 31 JULY 2019 (continued)

2 CONTRIBUTIONS RECEIVABLE (continued)

Contribution rates during the year were as follows:

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

The above rates were implemented on 1 November 2016. In July 2008 the University implemented a salary sacrifice scheme relating to employee pension contributions. These payments are separately disclosed as employer contributions arising from member salary sacrifice.

Under the recovery plan dated 25 October 2019 the deficit contributions above are payable up to 31 March 2028 with an additional annual deficit payment of £2m.

3 TRANSFERS IN

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Individual transfers in from other schemes | <u>373</u> | <u>293</u> |

4 OTHER INCOME

| | 2019 £000 | 2018 £000 |
|-------------------------|--------------|--------------|
| Life assurance benefits | <u>40</u> | <u>157</u> |

5 BENEFITS PAID OR PAYABLE

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Pension payments to retired members | 6,223 | 5,835 |
| Commutation of pensions | 1,591 | 1,887 |
| Death in service – benefits | 40 | 157 |
| Death in service – refunded contributions | 14 | 79 |
| | <u>7,868</u> | <u>7,958</u> |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS – 31 JULY 2019 (continued)

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Refunds to members leaving service | 15 | 39 |
| State scheme premiums | - | 63 |
| Individual transfers out to other schemes | 251 | 367 |
| | <u>266</u> | <u>469</u> |

7 OTHER PAYMENTS

| | 2019 £000 | 2018 £000 |
|-------------------------------|--------------|--------------|
| Group life assurance premiums | 142 | 138 |

Related claims under these policies would be included within 'Other Income' where received. Claims of £40,000 were received in 2019 (2018: £157,000).

8 ADMINISTRATION EXPENSES

| | | |
|---|--------------|--------------|
| Expenses borne by the Scheme comprise: | 2019 £000 | 2018 £000 |
| Investment advisers fees (including actuarial fees) | 212 | 177 |
| Audit fees | 12 | 12 |
| Staff costs (recharged by the University) | 189 | 173 |
| Pension Protection Fund (PPF) Levy | 286 | 267 |
| Other Scheme expenses | 56 | 61 |
| | <u>755</u> | <u>690</u> |

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

9 INVESTMENT INCOME

| | 2019 £000 | 2018 £000 |
|---------------------------|--------------|--------------|
| Dividends from equities | 1,676 | 1,638 |
| Income from managed funds | 348 | 425 |
| Interest on cash deposits | 22 | 17 |
| | <u>2,046</u> | <u>2,080</u> |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS – 31 JULY 2019 (continued)

10 INVESTMENT ASSETS

| | Market value at 1 August 2018 £000 | Purchases at cost £000 | Sales proceeds £000 | Change in market value £000 | Market value at 31 July 2019 £000 |
|----------------------------------|---|------------------------------|---------------------------|-----------------------------------|--|
| Pooled investment vehicles: | | | | | |
| -Bonds | 62,975 | 3,047 | - | 5,575 | 71,597 |
| -Property | 20,425 | 344 | - | 415 | 21,184 |
| -Equity | 48,036 | 2,000 | - | 2,434 | 52,470 |
| Total pooled investment vehicles | 131,436 | 5,391 | - | 8,424 | 145,251 |
| Equities | 88,323 | 55,850 | (58,796) | 9,906 | 95,283 |
| | 219,759 | 61,241 | (58,796) | 18,330 | 240,534 |
| Cash instruments | 4,484 | | | | 3,807 |
| Other investment balances | 215 | | | | 223 |
| | 224,458 | | | | 244,564 |

“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:

| | 2019 £000 | 2019 % net assets | 2018 £000 | 2018 % net assets |
|---|--------------|----------------------|--------------|----------------------|
| Hermes Multi Strategy Credit Fund | 35,370 | 14.4% | 30,871 | 13.7% |
| Blackrock Aquila UK Index Linked Securities | 36,227 | 14.8% | 32,104 | 14.2% |
| Newton Real Return | 23,186 | 9.5% | 21,455 | 9.5% |
| Baring Dynamic Asset Allocation Fund | 29,284 | 11.9% | 26,581 | 11.8% |

Transaction Costs

Transaction costs arising on equities are as follows:

| | Fees £000 | Commission £000 | Taxes £000 | Total £000 |
|------|--------------|--------------------|---------------|---------------|
| 2019 | 289 | 28 | 34 | 351 |
| 2018 | 19 | 58 | 37 | 114 |

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 FINANCIAL STATEMENTS – 31 JULY 2019 (continued)

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 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> |
| At 31 July 2018 | | | | |
| - Bonds | - | 32,104 | - | 62,975 |
| - Property | - | 10,401 | 10,024 | 20,425 |
| - Equity | - | 78,907 | - | 48,036 |
| Pooled investment vehicles | - | 121,412 | 10,024 | 131,436 |
| Equities | 88,323 | - | - | 88,323 |
| Cash deposits | 4,484 | - | - | 4,484 |
| Other investment balances | 215 | - | - | 215 |
| | <u>93,022</u> | <u>121,412</u> | <u>10,024</u> | <u>224,458</u> |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS – 31 JULY 2019 (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 described on page 11 and 12 of the Trustees' Report. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS – 31 JULY 2019 (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 | 2019 value £000s | 2018 value £000s |
|-----------------------------------|-------------|----------------------|---------------------------|-------------------------|------------------|------------------|
| Longview Global Equities | 1 | 3 | 1 | 3 | 48,723 | 48,330 |
| Artemis Global Select Strategy | 1 | 3 | 1 | 3 | 46,560 | 39,993 |
| BlackRock Index-Linked Gilts | 2 | 1 | 3 | 1 | 36,227 | 32,104 |
| Hermes Multi Strategy Credit Fund | 3 | 2 | 2 | 1 | 35,370 | 30,871 |
| Barings DAAF | 2 | 2 | 2 | 3 | 29,284 | 26,581 |
| Newton Real Return Fund | 2 | 2 | 2 | 3 | 23,186 | 21,455 |
| BlackRock UK Property Fund | 2 | 1 | 2 | 3 | 10,717 | 10,401 |
| Fidelity Property | 2 | 1 | 2 | 3 | 10,467 | 10,024 |
| Cash Fund Deposits | 3 | 2 | 1 | 1 | 3,807 | 4,484 |
| Total | | | | | 244,341 | 244,243 |

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

Market risk: Interest rates

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS – 31 JULY 2019 (continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (continued)

Over the year, the Scheme held investments within the 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, the Scheme invests directly in overseas equities, which are subject to currency movements. There is also a degree of indirect currency risk associated with investments in Baring, Newton and Hermes multi-asset portfolios.

When selecting an investment vehicle, the Trustees consider the exposure of that investment to overseas markets and the investment manager's approach towards currency hedging. The investment managers are also permitted to hedge currency risk within the portfolio. The Trustees do not conduct any direct currency hedging.

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 absolute return funds.

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

Credit risk

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

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

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS – 31 JULY 2019 (continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (continued)

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

The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each to manager from as is 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

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Amount owed by the University of Southampton | 179 | 204 |
| Other debtors | 17 | 19 |
| Cash Balances | 534 | 514 |
| | <u>730</u> | <u>737</u> |

Amounts owed by the University of Southampton represents employer contributions of £687,000 including salary sacrifice contributions of £175,000 (2018: £714,000, including salary sacrifice contributions of £178,000) and employee contributions of £16,000 (2018: £23,000), offset by a pensioner payroll recharge of £524,000 (2018: £534,000). 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.

14 CURRENT LIABILITIES

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Amounts owed to the University of Southampton | 11 | 24 |
| Expense accruals | 222 | 376 |
| | <u>233</u> | <u>400</u> |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS – 31 JULY 2019 (continued)

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.

16 RELATED PARTIES

The Scheme is administered by the University of Southampton. Fees payable in respect of administration and processing of £189,000 (2018: £173,000) are included within administrative expenses. At the year end creditors include £11,000 (2018: £24,000) 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.

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.

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 2019 to which this statement is attached.

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

Scope of work on statement about contributions

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

Respective responsibilities of Trustees and auditor

As explained more fully in the 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.

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)

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: 14/2/20

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 | 4,686 |
| Employer deficit contributions | 1,967 |
| Employer normal contributions arising from member salary sacrifice | 2,171 |
| Employee normal contributions | <u>259</u> |
| Total contributions per Schedule of Contributions as reported on by the Scheme auditor | 9,083 |
| Employee additional voluntary contributions | 100 |
| Total contributions per Fund Account | <u>9,183</u> |

Signed on behalf of the Trustees:



Date: 14 February 2020

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:** 25 October 2019

| | | | |
|--------------|---------------|-----------------------|---|
| Name: | Paul Hamilton | Qualification: | Fellow of the Institute and Faculty 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 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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

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

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

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

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

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

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

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