

Title: Stewardship Report
Contains Confidential or Exempt Information?: NO - Part I
Member reporting: Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date: Berkshire Pension Fund and Pension Fund Advisory Panels - 13 November 2017
Responsible Officer(s): Nick Greenwood, Pension Fund Manager
Wards affected: None

REPORT SUMMARY

1. This report deals with the stewardship of the Pension Fund for the period 1 July 2017 to 30 September 2017
2. It recommends that Members (and Pension Board representatives) note the Key Financial and Administrative Indicators throughout the attached report.
3. Good governance requires all aspects of the Pension Fund to be reviewed by the Administering Authority on a regular basis
4. There are no financial implications for RBWM in this report

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

- The investment performance and asset allocation of the Fund
- All areas of governance and administration as reported
- All key performance indicators

Please note that Stewardship Reports are provided to each quarter end date (30 June, 30 September, 31 December and 31 March) and presented at each Panel meeting subsequent to those dates.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

The Pension Panels have a duty in securing compliance with all governance and administration issues.

3. KEY IMPLICATIONS

Failure to fulfil the role and purpose of the Administering Authority could lead to the Pension Fund and the Administering Authority being open to challenge and intervention by the Pensions Regulator.

4. FINANCIAL DETAILS / VALUE FOR MONEY

Not applicable.

5. LEGAL IMPLICATIONS

None.

6. RISK MANAGEMENT

None.

7. POTENTIAL IMPACTS

None.

8. CONSULTATION

Not applicable.

9. TIMETABLE FOR IMPLEMENTATION

Not applicable.

10. APPENDICES

None.

11. BACKGROUND DOCUMENTS

None.



STEWARDSHIP REPORT

QUARTER 2– 2017/18

1 July 2017 TO 30 September 2017

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1. INVESTMENT PERFORMANCE AND ASSET ALLOCATION

1.1 Pension Fund key financial indicators

Table 1	March 2013	March 2016	Sept 2017
Asset Value (Smoothed)	£1,561.8m	£1,645.3m	£1,974.8m
Asset Value (Unsmoothed)	£1,572.4m	£1,655.9m	£1,977.7m
Liabilities (Smoothed)	£2,088.8m	£2,238.7m	£2,572.9m
Liabilities (Unsmoothed)	£2,107.7m	£2,257.0m	£2,541.8m
Deficit (Smoothed)	£527.0m	£593.3m	£598.1m
Deficit (Unsmoothed)	£535.3m	£601.1m	£564.1m
Funding Level (Smoothed)	75%	73%	77%
Funding Level (Unsmoothed)	75%	73%	78%
Deficit Recovery Period	27 years	24 years	23 years
Nominal Discount Rate (Smoothed)	6.1%	5.7%	5.7%
Real Discount Rate (Smoothed)	3.4%	3.3%	3.0%
Investment Performance Target (CPI + 4.5%)	6.7%	6.9%	7.2%
Nominal Earnings Inflation Assumption	4.5%	3.9%	4.2%
Consumer Price Index Inflation Assumption	2.7%	2.4%	2.7%
Employers Contributions – Future Service (Smoothed)	12.7%	13.8%	15.4%
Employers Contributions – Past Service Deficit (Smoothed)	6.9%	8.1%	8.3%

1.2 Change in the smoothed liabilities

Table 2	30 Sept 2017
Liability reconciliation	£m
Disclosed smoothed liability at 31/03/2016	2,242.0
Update of smoothing adjustment	-3.34
Updated smoothed liability at start	2,238.7
New liabilities (including transfers in)	150.8
Liabilities extinguished	-159.2
Net new liabilities from bulk transfers in/out	-
Interest on liabilities	203.6
Change due to discount rate	-7.3
Change due to inflation assumption	146.2
Increase in Liabilities	330.9
Smoothed liability at 30 September 2017	2,572.9

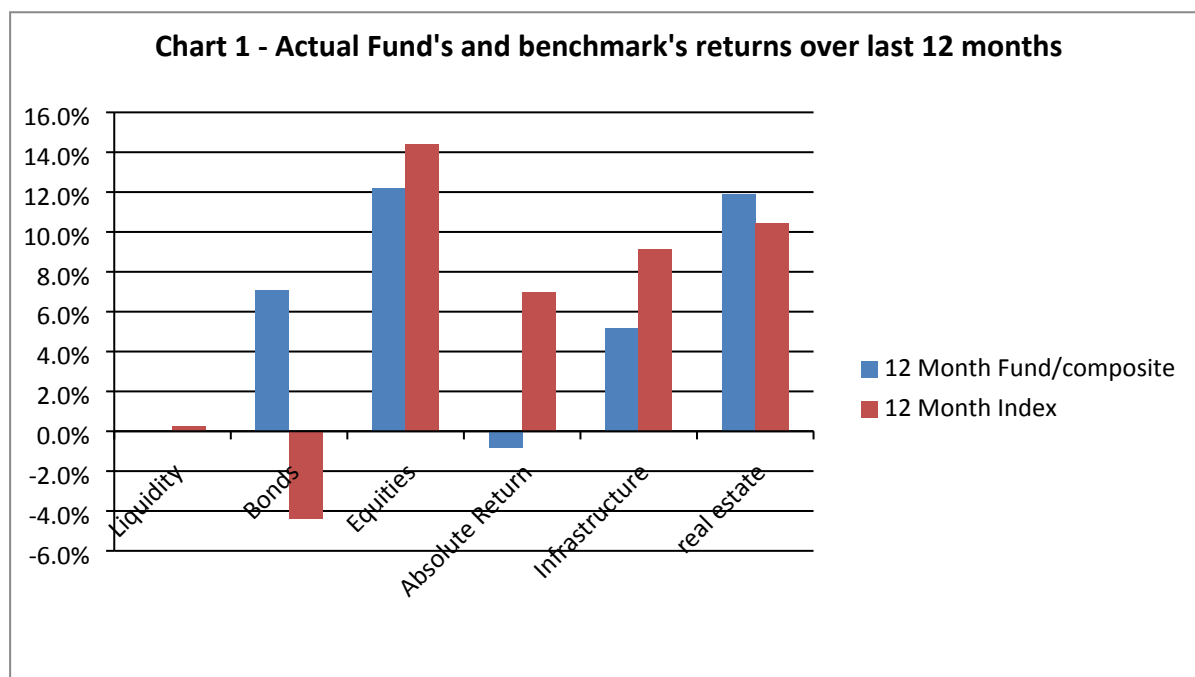
NOTE: The actuary smooths liabilities by taking the average liability figure over the last 6 months. The liabilities are now valued on the 2016 basis and consistent with the 2016 actuarial valuation. The value of the longevity swap is now included in the asset value rather than the liability value (but not in the Fund NAV and returns calculated by JP Morgan).

1.3 Market returns in GBP

All Fund and Index returns in the first three columns of the table below are denominated in GBP. Following the strong depreciation of GBP post Brexit returns of non-Sterling assets were significantly higher in sterling terms than in their local currencies. The right most column shows 12-month returns in US Dollars as a proxy for the 12-month local currency returns, except for the Absolute Return portfolio as calculated by Grosvenor Capital and Global Property ex-UK as calculated by Aviva (valued quarterly in arrears).

Table 3		3 month in GBP	12 month in GBP	36 month in GBP	12 month in USD
Liquidity	Fund	-0.20%	-0.04%	0.25%	
1 Week GBP Libor	Index	0.06%	0.24%	0.39%	
	Relative	-0.26%	-0.28%	-0.14%	
Bonds	Fund	-1.35%	7.06%	11.25%	10.58%
Barclays Global Aggregate	Index	-1.47%	-4.40%	7.90%	-1.26%
	Relative	0.13%	11.45%	3.36%	11.84%
Developed Markets Equities	Fund	2.57%	13.07%	11.57%	16.78%
Morgan Stanley Capital International (MSCI) World	Index	1.50%	14.41%	14.70%	18.17%
	Relative	1.07%	-1.34%	-3.13%	-1.40%
Emerging Markets Equities	Fund	4.19%	16.47%	11.00%	20.29%
Morgan Stanley Capital International EM Equities	Index	4.46%	18.57%	11.73%	22.45%
	Relative	-0.27%	-2.09%	-0.73%	-2.16%
Private Equity	Fund	0.39%	5.40%	14.10%	8.85%
9% per annum	Index	2.18%	9.00%	9.00%	9.00%
	Relative	-1.79%	-3.60%	5.10%	-0.14%
Total Equities	Fund	2.41%	12.21%	11.83%	15.88%
Morgan Stanley Capital International World	Index	1.50%	14.41%	14.70%	18.17%
	Relative	0.91%	-2.20%	-2.87%	-2.30%
Absolute Return	Fund	-4.71%	-0.83%	6.60%	2.44%
7% per annum	Index	1.72%	7.00%	7.01%	7.00%
	Relative	-6.43%	-7.83%	-0.41%	-4.56%
Infra-structure	Fund	0.70%	5.19%	12.61%	8.64%
FTSE Global Core 50/50	Index	-0.37%	9.12%	14.50%	12.70%
	Relative	1.06%	-3.93%	-1.89%	-4.06%
Real Estate	Fund	0.80%	11.90%	12.29%	15.57%
UK Investment Property Databank	Index	2.67%	10.45%	9.51%	
	Relative	-1.87%	1.45%	2.78%	
Total Fund Nominal	Fund	1.50%	8.86%	8.29%	
UK CPI	Index	0.77%	2.97%	1.27%	
Total Fund Real	Relative	0.72%	5.72%	6.93%	
Total Fund Target (4.5% real)		1.11%	4.50%	4.50%	

1.4 Fund performance in GBP



1.5 Exception Traffic Lights

Table 4

<u>Traffic Lights September 2017</u>					
<u>Colour</u>		<u>£ m</u>	<u>Fund %</u>	<u>Comment</u>	<u>Date Traffic Light Changed</u>
<u>BONDS</u>					
<u>Convertible Bonds</u>					
Amber	Aviva	37.6	1.8%	Change in management team & weak performance	Jul-14
Amber	Blue Bay Global	28.1	1.4%	Currency volatility has resulted in disappointing GBP returns.	Jul-14
<u>EQUITIES</u>					
<u>Private Equity</u>					
Amber	South East Growth Fund	2.1	0.1%	Terms of additional extension to fund life agreed	Jul-13
Amber	Stafford Sustainable Fund	4.0	0.2%	Disappointing performance. Buyer not found	Jul-13
<u>Absolute Return</u>					
Red	Grosvenor	90.3	4.4%	Disappointing performance in 2016	Oct-16
<u>INFRASTRUCTURE</u>					
Amber	JPMorgan AIRRO India SideCar Fund	7.2	0.4%	Delays in construction of key assets and adverse legal developments	Aug-17
Amber	Macquarie SBI Infrastructure Ltd	4.2	0.2%	Performance adversely affected by delays in construction of key assets	Jul-13
<u>Property</u>					
Amber	Aviva UK Fund of Funds	66.1	3.2%	Change in the Head of Team	Sep-17
Amber	Aviva Global Fund of Funds	153.2	7.5%	Change in the Head of Team	Sep-17
Total Fund Valuation (excl prepaid contribs)		2,043.1			

Key

Colour Comment

Red Recommendation that action be taken: following a review by officers.

Amber Performance being reviewed by officers: the fund is not meeting its target return over the medium term (ie over a 1 to 2 year rolling period) or there are adverse material changes to processes/people/the firm.

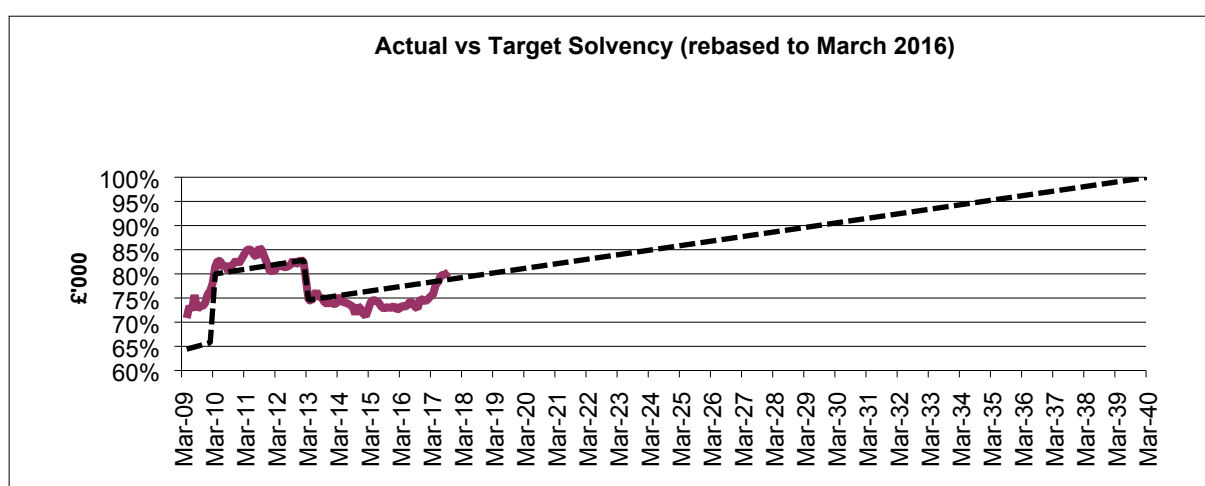
Green Satisfactory performance: performance at least in line with target return or expectations.

Blank Too early in the life of a fund to comment on performance.

1.6 Asset allocation update

SSA Weights	31/03/2013	31/03/2016	30/09/2017	12m change	36m change
Liquidity	1.1%	5.1%	15.0%	5.8%	9.2%
Investment Grade Debt	7.9%	5.0%	3.1%	-0.1%	-3.0%
Other Debt	8.7%	9.4%	9.0%	-0.3%	0.8%
Total Debt	16.6%	14.3%	12.2%	-0.4%	-2.2%
Developed Market Equities	17.2%	22.1%	23.1%	0.4%	4.8%
Developing Market Equities	14.7%	12.4%	11.5%	-0.8%	-1.2%
Private Equity	9.2%	10.1%	11.3%	1.2%	3.2%
Total Equities	41.1%	44.6%	45.9%	0.8%	6.8%
Absolute Return	17.3%	17.4%	4.6%	-10.2%	-12.4%
Infrastructure	4.7%	4.7%	6.4%	1.6%	2.3%
Commodities	9.8%	2.6%	3.4%	1.2%	-1.0%
Real Estate	9.8%	11.1%	12.7%	0.7%	0.9%
Other	-0.3%	0.2%	-0.2%	0.6%	-3.6%
Real Assets	23.9%	18.5%	22.3%	4.1%	-1.4%
Fund Total	100%	100%	100%		

1.7 Solvency



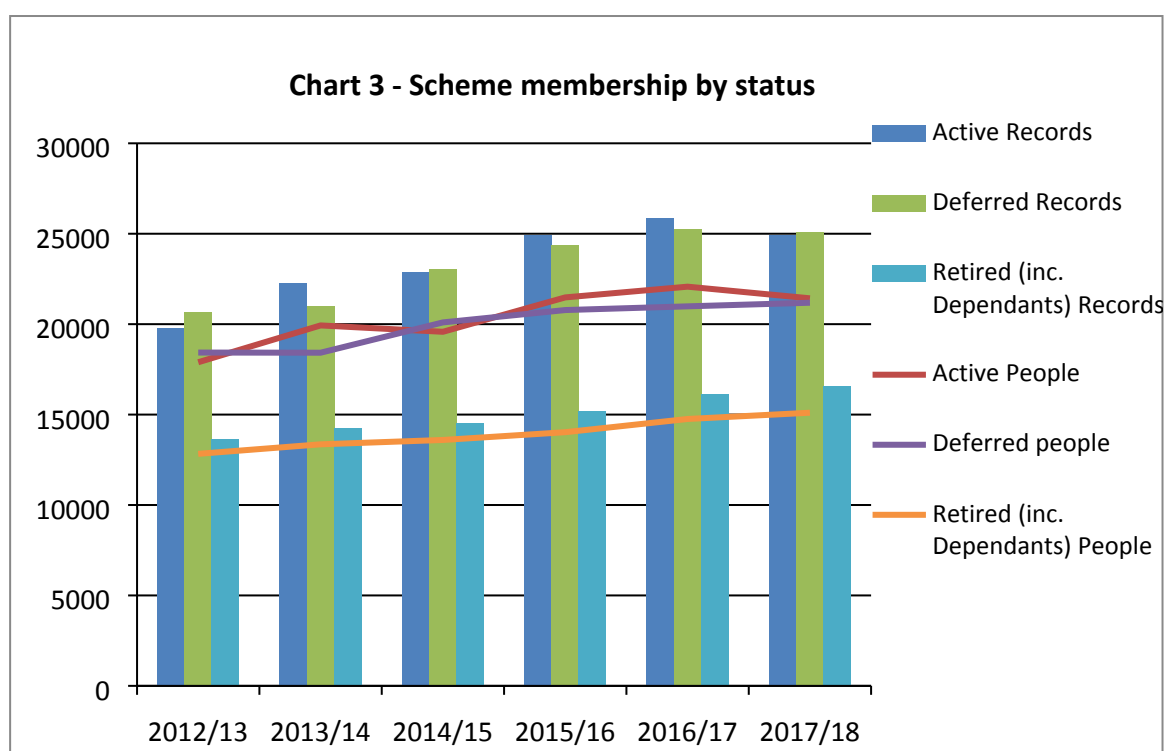
Month	Smoothed		Unsmoothed	
	Surplus/Deficit £000s	Funding Level	Surplus/Deficit £000s	Funding Level
October 2016	(617,258)	75%	(623,320)	75%
November 2016	(635,559)	75%	(608,720)	75%
December 2016	(658,102)	74%	(640,317)	74%
January 2017	(632,066)	75%	(635,317)	75%
February 2017	(642,066)	75%	(618,573)	75%
March 2017	(636,550)	75%	(621,985)	76%
April 2017	(633,240)	75%	(636,213)	75%
May 2017	(639,874)	75%	(621,661)	76%
June 2017	(605,273)	76%	(581,161)	77%
July 2017	(602,496)	77%	(584,725)	77%
August 2017	(596,047)	77%	(581,116)	77%
September 2017	(598,074)	77%	(564,119)	78%

Table 7 - Cashflow	Year to 31/03/15 (actual) £'000's	Year to 31/03/16 (actual) £'000's	Year to 31/03/17 (forecast) £'000's
Contributions	87,691	92,957	96,500
Transfers received	1,916	4,761	6,300
Employers' early retirement payments	1,400	1,058	1,300
Investment income via Custodian	23,762	25,868	25,600
Pension paid (gross)	-73,625	-77,854	-82,000
Retirement lump sums	-18,045	-17,213	-20,600
Transfers paid	-67,201	-7,831	-2,700
Investment management costs	-3,654	-5,783	-6,200
Employee & Other costs	-1,799	-1,212	-1,200
Net cash flow	-49,555	14,751	17,000

NOTE: Transfers paid during year to 31 March 2015 were inflated by the statutory transfer of Thames Valley Probation staff to the Greater Manchester Pension Fund.
Why swing in Investment Income?

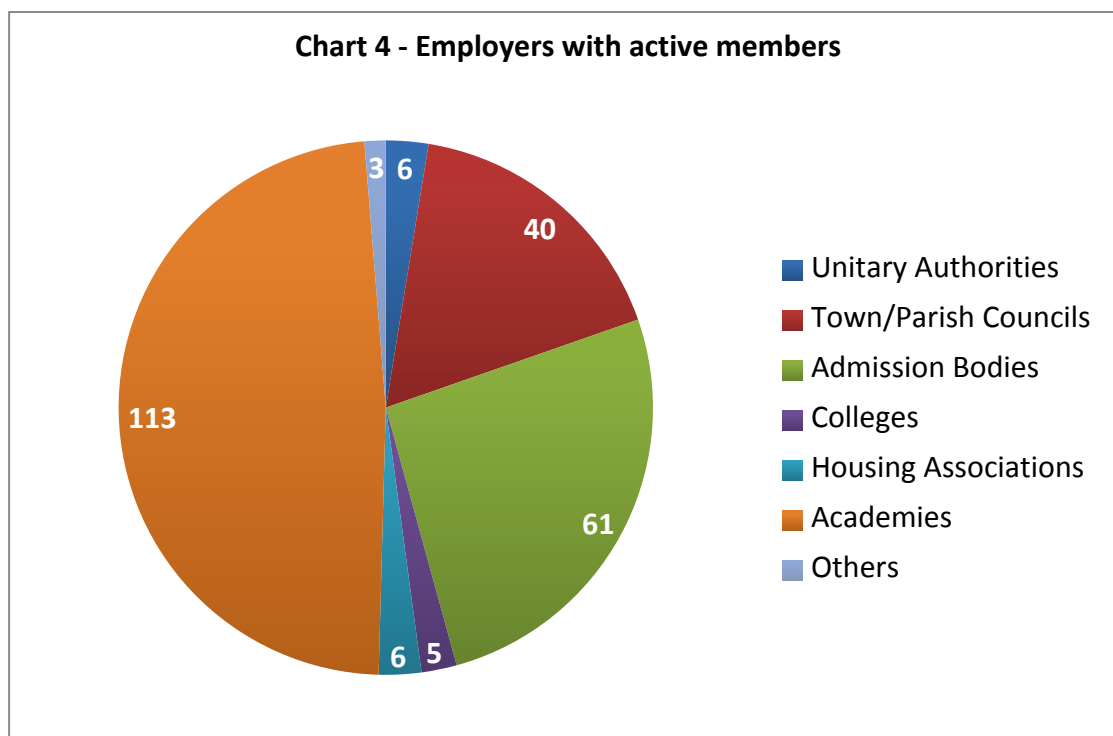
2 GOVERNANCE AND ADMINISTRATION

2.1 Scheme membership



TOTAL MEMBERSHIP			
Active Records	24927	Active People	21429
Deferred Records	25099	Deferred People	21185
Retired Records	16560	Retired People	15103
TOTAL	66586	TOTAL	57717

2.2 Scheme Employers

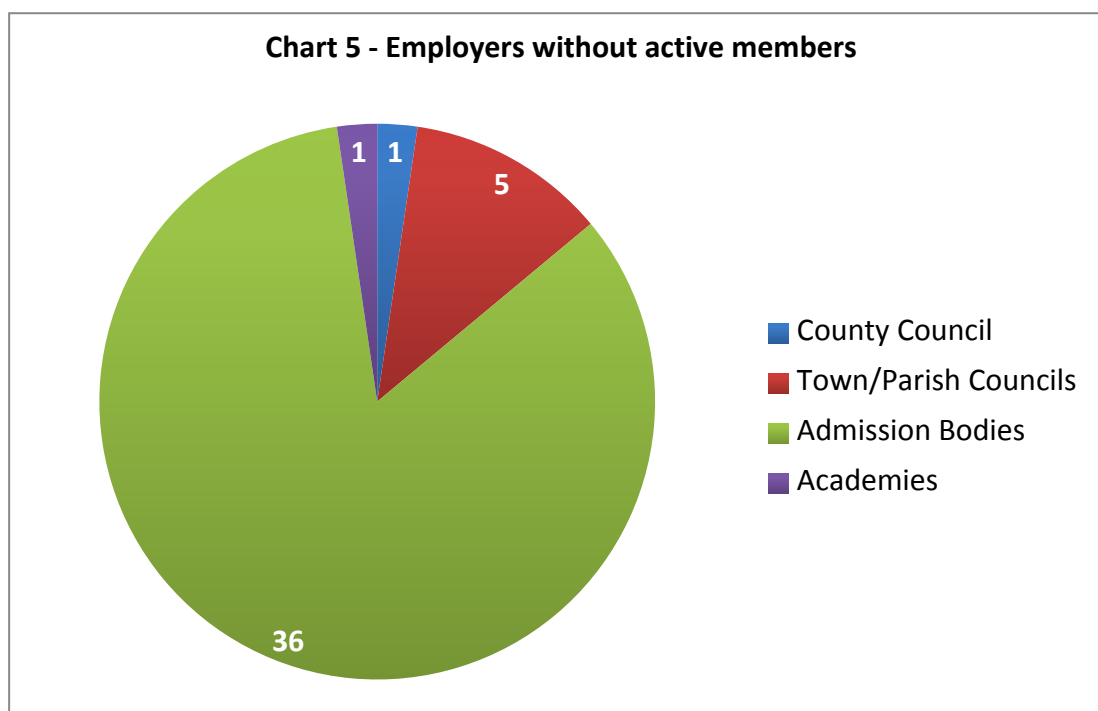


New employers since last report:

Admission Bodies: Hayward Services Ltd x2.

Academies: Bisham School (RBWM) joined Ashley Hill Schools Trust; Great Hollands School (Bracknell) joined the Maiden Erlegh Schools Trust; St Edmund Campion School (RBWM) and St Teresa's School (Wokingham) joined The Frassati Catholic Academy Trust;

Town/Parish Councils: Nil



Exiting employers: Nil

2.3 Scheme Employer Key Performance Indicators

Table 8A – i-Connect users Quarter 1 (1 April to 30 June 2017)

Employer	Starters	Leavers	Changes	Total	Errors	Achieved
RBWM	209	251	612	1072	58	94.87%
Reading BC	257	91	1167	1515	100	93.80%
Academies	64	50	816	930	377	71.16%
Colleges	10	4	173	187	9	95.41%
Others	9	7	253	269	24	91.81%
Totals	549	403	3021	3973	716	85.75%

NOTES: Table 8A above shows all transactions through i-Connect in the first quarter of 2017/18. Changes include hours/weeks updates, address amendments and basic details updates.

The benefits of i-Connect are:

- Pension records are maintained in 'real-time';
- Scheme members are presented with the most up to date and accurate information through *mypension* ONLINE (Member self-service);
- Pension administration data matches employer payroll data;
- Discrepancies are dealt with as they arise each month;
- Employers are not required to complete year end returns;
- Manual completion of forms and input of data onto systems is eradicated removing the risk of human error.

Exception report – less than 90% achieved

The reason for the percentage achieved in respect of the academies being below 90% is a direct result of a change in academy conversion dates. Where a delay in converting from a maintained school to an academy occurs this changes the final pay period and therefore monthly i-connect submission date. Scheme member records get updated to Status 2 (undecided leaver) but because of the conversion date change the scheme member continues to appear on the following month's i-connect submission and cannot post data because the record is no longer Status 1 (active member).

Table 8B Non i-Connect users Quarter 2 (1 July to 30 Sep 2017)

Employer	Starters	Leavers	Total	Achieved	Trend		
	In/Out	In/Out			Quarter <1	Quarter <4	Quarter <3
Bracknell	117/86	55/78	336	49.50%	52.66%	71.79%	70.11%
RBWM	1/34	15/30	80	20.00%	16.49%	33.35%	60.57%
Reading	0/2	12/48	62	19.35%	16.67%	49.45%	53.91%
Slough	85/49	7/31	172	53.49%	43.24%	50.65%	39.36%
W Berkshire	9/27	21/154	211	14.22%	10.00%	32.19%	27.17%
Wokingham	5/27	21/4	57	45.61%	35.24%	39.90%	67.41%
WBC Schs.	1/30	1/73	105	1.90%	1.59%	14.64%	18.18%
Academies	67/165	41/36	309	34.95%	14.89%	39.44%	41.29%
Colleges	2/10	3/6	21	23.81%	13.16%	34.94%	38.10%
Others	39/38	22/28	127	48.03%	26.25%	45.73%	47.36%
Totals	326/468	198/488	1480	35.41%	20.51%	41.21%	48.79%

NOTES: Some employers listed in Table 8B above will also be listed in Table 8A. This is because not all employees of a scheme employer are paid through the scheme employer's payroll e.g. some non-teaching staff at Local Authority maintained schools may be paid via a third party payroll provider which is not an i-Connect user although those individuals are employees of the relevant Unitary Authority.

Details of starters and leavers only are recorded by the team. Other pension record changes may or may not have been received by the Pension Fund via payroll or from the scheme member direct.

Experience tends to show that individuals may notify payroll of certain data changes but not always pensions and that payroll may not always forward information to the pension team.

Many missing data items are found through the year-end process which can be a long, labour intensive exercise for both the Pension Fund and the scheme employer. Employers using i-Connect do not have a year-end process to deal with as all data is uploaded and verified on a monthly basis.

Table 8C below deals with employer notifications of retirements i.e. any circumstance under which a member's benefits become immediately payable.

The Pension Fund's service standards state that retirement lump sum payments should be made to the scheme member within 30 days of retirement. Where payment is not made within the 30-day period, scheme regulations dictate that interest becomes due.

The Pension Fund will always make payment of any lump sum as soon as possible following a scheme member's retirement. However, in order to be able to do so, the Pension Fund needs information from both the scheme employer and the scheme member. For the purposes of this report the statistics in the following table reflect the performance of the scheme employer only in submitting leaver details to the Pension Fund within 30 days from the date of a scheme member's retirement.

Table 8C Retirement Quarter 2 (1 July to 30 Sep 2017)					Trend		
Employer	In	Out	Total	Achieved	Quarter <1	Quarter <4	Quarter <3
Bracknell	17	1	18	94.44%	80.00%	100%	80.00%
RBWM	13	3	16	81.25%	60.00%	100%	85.71%
Reading	10	2	12	83.33%	50.00%	63.64%	100%
Slough	2	0	2	100%	66.67%	42.86%	0.00%
W Berkshire	21	3	24	87.50%	60.00%	54.55%	55.56%
Wokingham	9	0	9	100%	83.33%	100%	100%
WBC Schs.	0	2	2	0.00%	33.33%	50.00%	25.00%
Academies	10	4	14	71.43%	100%	27.27%	30.00%
Colleges	1	2	3	33.33%	75.00%	50.00%	75.00%
Others	5	6	11	45.45%	63.64%	58.33%	83.33%
Totals	88	21	109	80.73%	67.20%	64.67%	63.46%

2.4 Administration – Key Performance Indicators

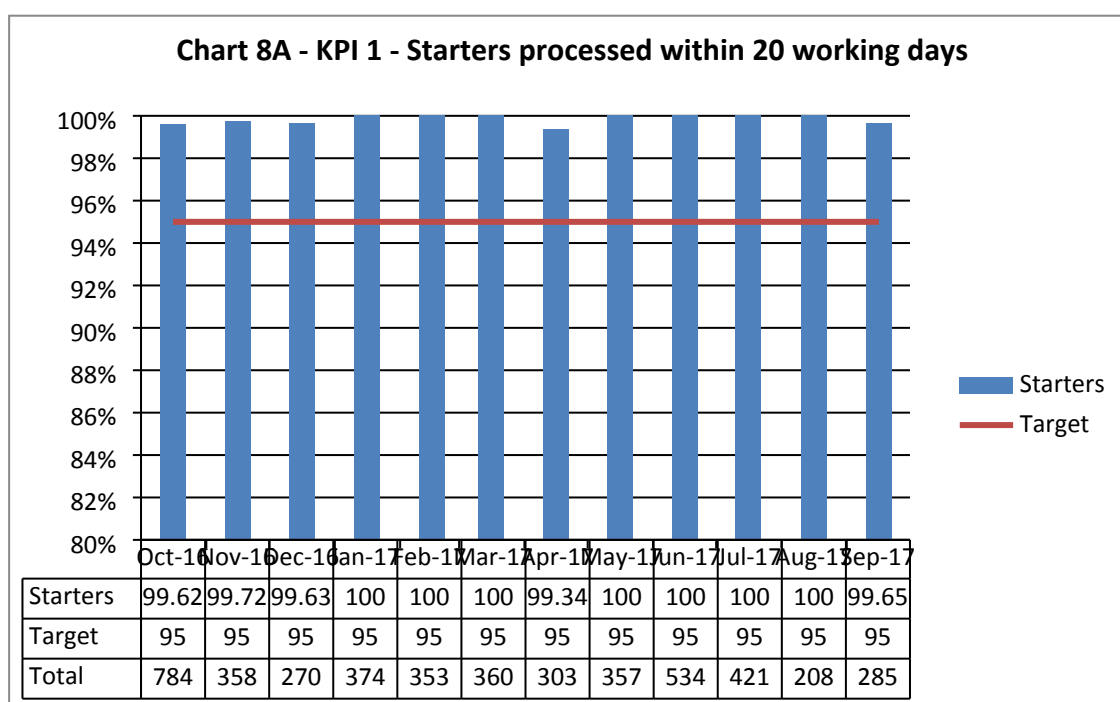


Chart 8B - KPI 2 - Leavers processed within 15 working days

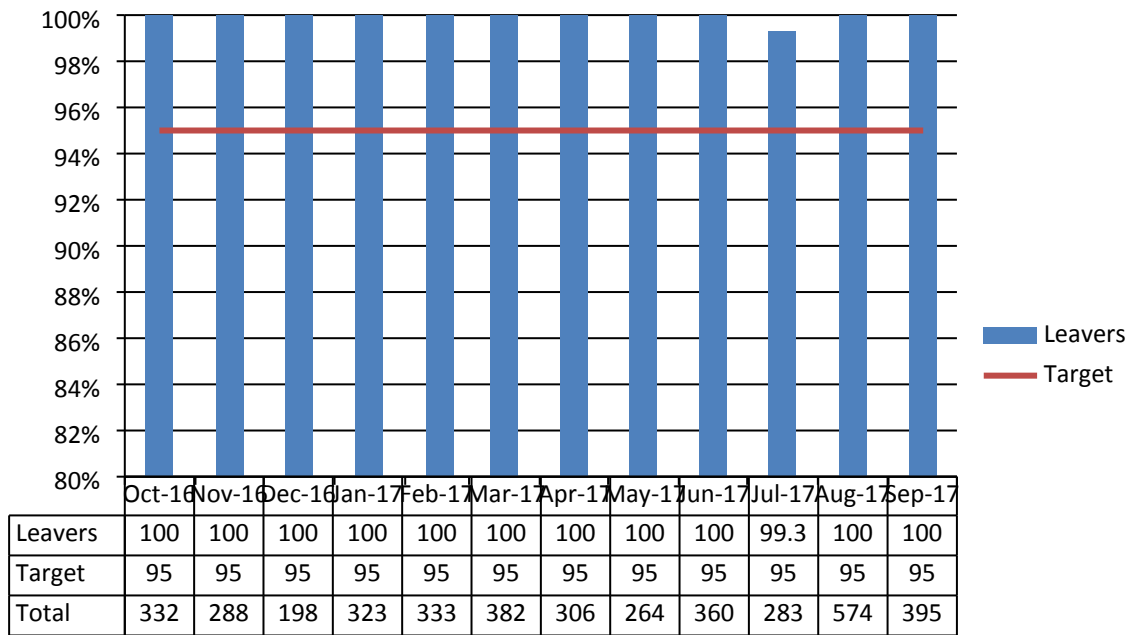


Chart 8C - KPI 3 - Transfers out processed within 15 working days

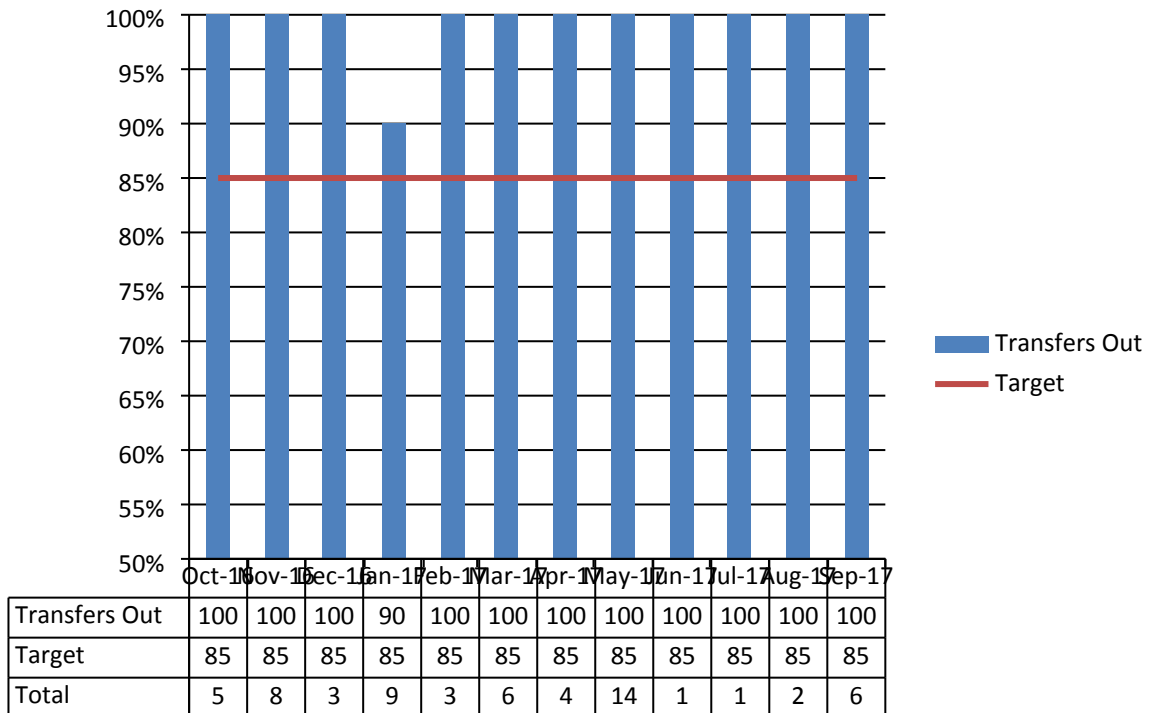
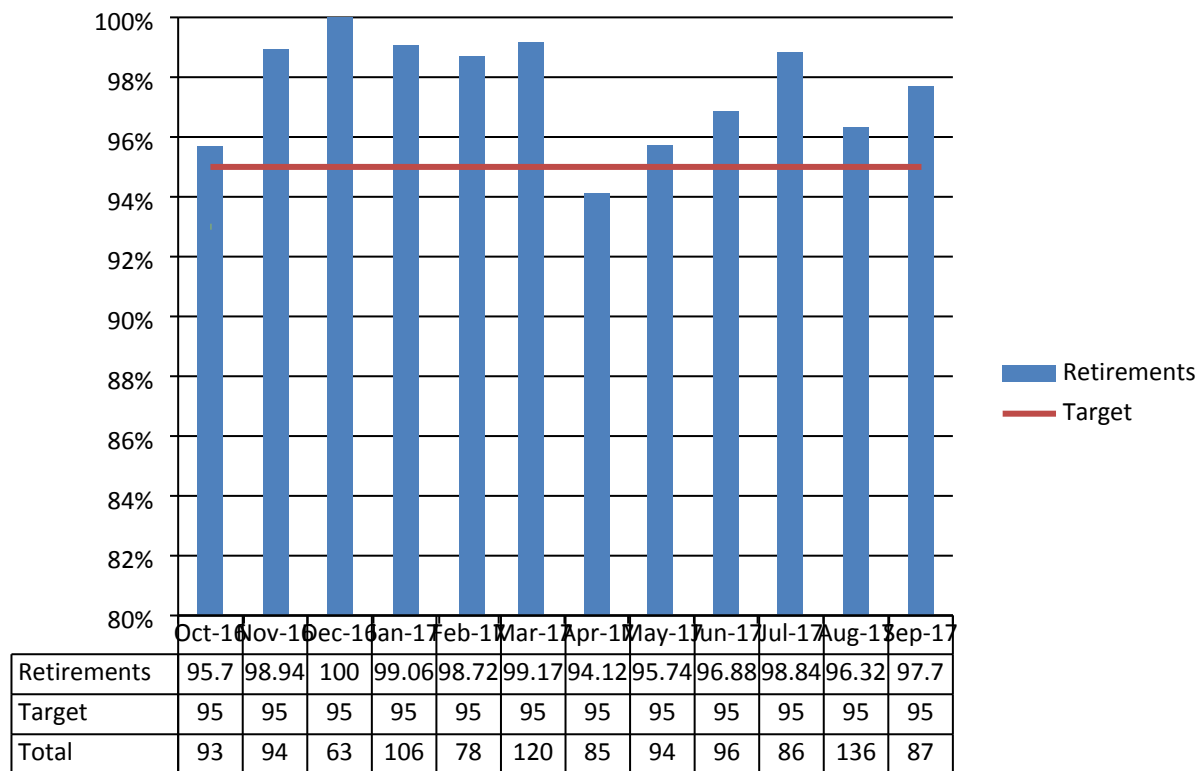
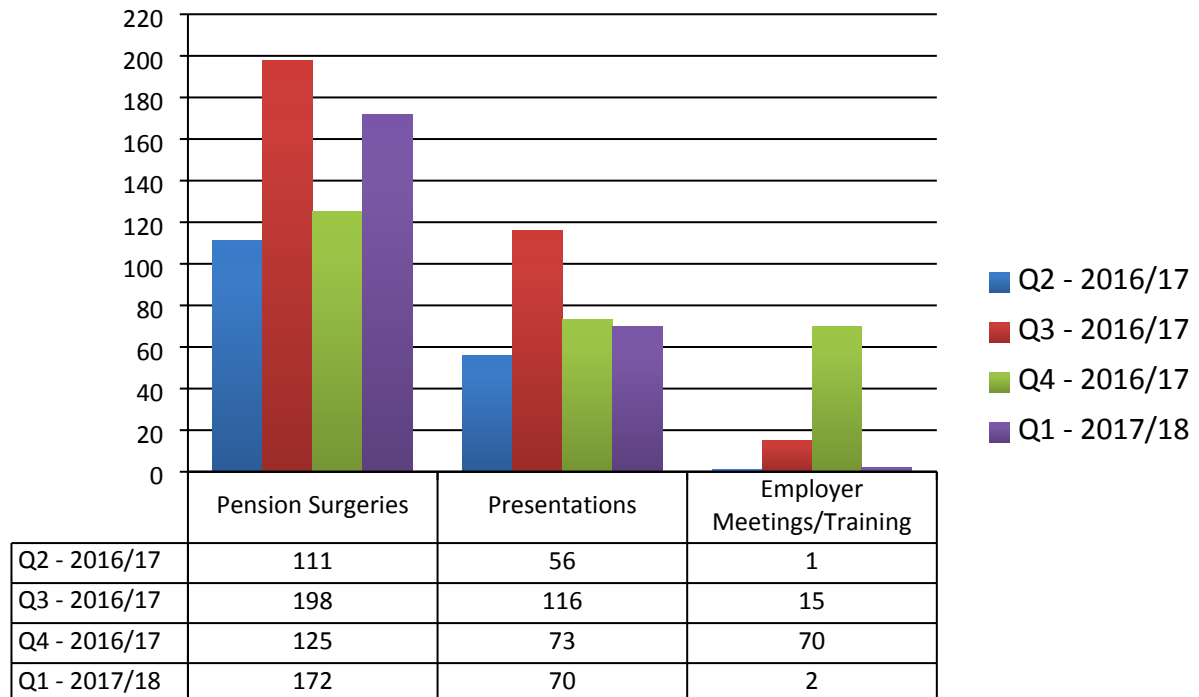


Chart 8D - KPI 4 - Retirements processed within 7 working days

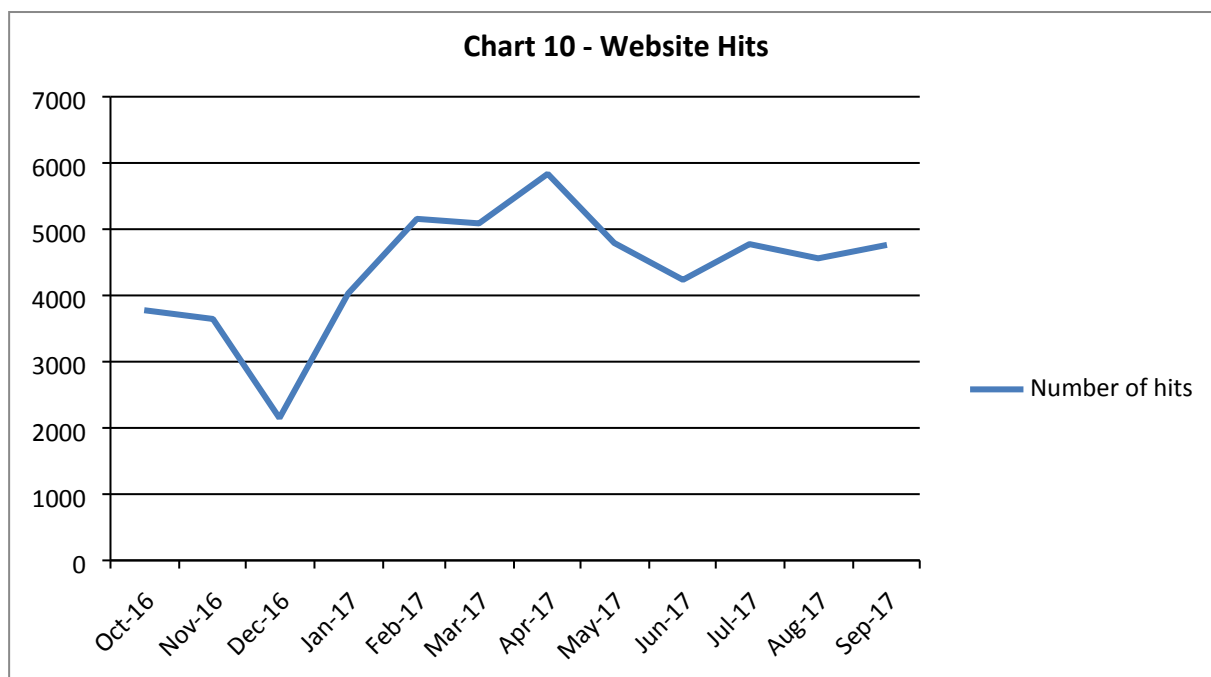


2.5 Administration – Communications

Chart 9 - Communications - Attendees



2.6 Website hits



2.7 Special projects

- GMP Reconciliation
 - With the removal of the contracted-out nature of public service pension schemes the Pension Fund entered into a period of reconciliation against DWP records to ensure that the correct GMP (Guaranteed Minimum Pension) values are held by the Pension Fund for Pensioner and Dependant scheme members. It is now strongly anticipated this project will be completed by 1 February 2018.

This process will be followed by the Pension Fund ensuring that the correct GMP values are held for Active scheme members.

The deadline by when all Pension Funds must complete their reconciliation is 31 December 2018.

- i-Connect Software
 - Bellevue Park Education Trust – Went LIVE in August 2017.
 - Bracknell Forest Council – Recognise a change to their internal processes is required to avoid a repeat of the high number of queries needing to be resolved during Year End 2017 processing.
 - Dataplan – A payroll provider, expected to go LIVE in November 2017. Data will be provided on behalf of a further nine scheme employers.
 - East Berkshire College – Expected to go LIVE in October 2017.
 - Oxford Diocesan Schools Trust – Expected to go LIVE before 1 April 2018.
 - Slough Borough Council – Expected to go LIVE before 1 April 2018.
 - West Berkshire Council – Will go LIVE in November 2017.
 - Wokingham BC (In-house) – Intended to go LIVE in September 2017. However, the first submission identified a number of data discrepancies. No further files will be submitted until the Administration Team are happy these data discrepancies are fully resolved.

Overall there are currently 31 scheme employers submitting monthly data to the Administration Team using i-connect. This represents 7,763 scheme member records or 30% of the current total active scheme membership.

- Pension Administration Standards Association (PASA)
 - Remains ongoing with a target date of 31 March 2018 to have all desktop procedures written and accreditation applied for.
- Employer Self Service (ESS)
 - Went LIVE on 19 October 2017. A number of scheme employers have already been in touch to request further details and how to register. ESS is a fully auditable system that provides all scheme employers the opportunity to view and update their own scheme members' data. It is also possible for scheme employers to quickly and easily calculate early retirement estimates for their own scheme members rather than approaching the Administration Team. ESS will improve scheme employer engagement whilst allowing the Administration Team time to focus on other areas of day to day and special projects.
- ABAKA
 - Following discussions with ABAKA (a company which provides pension benefit modelling tools for scheme members that can be linked to the member self-service facility '*mypension ONLINE*') the Pension Fund are currently ensuring all data protection requirements are in place. If adopted this 'modelling tool' will present members with details of the pension benefits they can expect to receive and sets out any shortfall against the member's own expectations of what income they need in retirement. Options for making up any perceived deficit are also then presented with the proviso, of course, that any member must seek independent financial advice before taking any decisions.