



NOTICE  
OF  
MEETING

**BERKSHIRE PENSION FUND PANEL**

will meet on

**TUESDAY, 9TH FEBRUARY, 2016**

at

**4.00 pm**

In

**ASCOT AND BRAY - TOWN HALL,**

TO: MEMBERS OF THE BERKSHIRE PENSION FUND PANEL

COUNCILLORS JOHN LENTON (CHAIRMAN), GEOFF HILL, DAVID HILTON (VICE-CHAIRMAN) AND PHILIP LOVE

ADVISORY MEMBERS: COUNCILLORS TICKNER (READING BOROUGH COUNCIL), BROOKER (SLOUGH BOROUGH COUNCIL), STANTON (WOKINGHAM), WORRALL (BRACKNELL FOREST BOROUGH COUNCIL), LAW (WEST BERKSHIRE COUNCIL), SUE NICHOLLS (UNISON), ASIA ALLISON (GMB), PATRICK FULLER (UNIVERSITY OF WEST LONDON).

Karen Shepherd - Democratic Services Manager, Issued 08/01/2016

Members of the Press and Public are welcome to attend Part I of this meeting.

The agenda is available on the Council's web site at [www.rbwm.gov.uk](http://www.rbwm.gov.uk) or contact the Panel Administrator

**Fire Alarm** - In the event of the fire alarm sounding or other emergency, please leave the building quickly and calmly by the nearest exit. Do not stop to collect personal belongings and do not use the lifts. Congregate in the Town Hall Car Park, Park Street, Maidenhead (immediately adjacent to the Town Hall) and do not re-enter the building until told to do so by a member of staff.

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## AGENDA

### PART I

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
1.	<u>APOLOGIES</u>  To receive any apologies for absence.	
2.	<u>DECLARATIONS OF INTEREST</u>  To receive any declarations of interest.	7 - 8
3.	<u>INVESTMENT POOLING</u>  To Consider the report.	9 - 14
4.	<u>INVESTMENT GOVERNANCE</u>  To consider the report.	15 - 20
5.	<u>DEVELOPING MARKETS INVESTMENT STRATEGY</u>  To consider the report.	21 - 28
6.	<u>STEWARDSHIP REPORT</u>  To consider the report.	29 - 46
7.	<u>LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC</u>  To consider passing the following resolution:-  "That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting whilst discussion takes place on item 9 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act"	

**PART II**

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
8.	<u>INVESTMENT IN FARMLAND</u>  To consider the report.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	47 - 52
9.	<u>ADMITTED BODIES COVENANT ASSESSMENT</u>  To consider the report.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	53 - 64



## MEMBERS' GUIDANCE NOTE

### DECLARING INTERESTS IN MEETINGS

#### **DISCLOSABLE PECUNIARY INTERESTS (DPIs)**

DPIs include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any license to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where
  - a) that body has a piece of business or land in the area of the relevant authority, and
  - b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body **or** (ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

#### **PREJUDICIAL INTERESTS**

This is an interest which a reasonable fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs your ability to judge the public interest. That is, your decision making is influenced by your interest that you are not able to impartially consider only relevant issues.

#### **DECLARING INTERESTS**

If you have not disclosed your interest in the register, you **must make** the declaration of interest at the beginning of the meeting, or as soon as you are aware that you have a DPI or Prejudicial Interest. If you have already disclosed the interest in your Register of Interests you are still required to disclose this in the meeting if it relates to the matter being discussed. A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in discussion or vote at a meeting.** The term 'discussion' has been taken to mean a discussion by the members of the committee or other body determining the issue. You should notify Democratic Services before the meeting of your intention to speak. In order to avoid any accusations of taking part in the discussion or vote, you must move to the public area, having made your representations.

If you have any queries then you should obtain advice from the Legal or Democratic Services Officer before participating in the meeting.

If the interest declared has not been entered on to your Register of Interests, you must notify the Monitoring Officer in writing within the next 28 days following the meeting.

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Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	NO – Part 1
<b>Title</b>	Investment Pooling Initial Submission
<b>Responsible Officer(s)</b>	Nick Greenwood Pension Fund Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	Cllr J Lenton
<b>For Consideration By</b>	Berkshire Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	9 February 2016
<b>Implementation Date if Not Called In</b>	Not applicable
<b>Affected Wards</b>	None

## REPORT SUMMARY

1. The Department for Communities and Local Government requires administering authorities to commit in writing to pooling of their investments with other Local government Pension Scheme funds by February 19<sup>th</sup> 2016.
2. At this stage only a brief response is required; a much fuller response detailing with whom the Fund's assets will be pooled and the anticipated cost savings arising from pooling must be submitted by July 15<sup>th</sup> 2016.
3. The draft response is attached to this report.

## If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. Pooling of investments is required by the Department for Communities and Local Government in its role as the Scheme Manager for the Local Government Pension Scheme. Ultimately the Department believes	April 2018

that pooling will reduce the cost of managing the Scheme although it may be some years before those cost savings become large enough to influence employers' contribution rates	
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## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel:

- i. **review and amend as necessary the response attached at Annex 1**
- ii. **authorise Officers to submit the response by 19<sup>th</sup> February 2016.**

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

The Department for Communities and Local Government published on 25th November 2015 "Local Government Pension Scheme: Investment Reform Criteria and Guidance" setting out the criteria to be imposed to enforce pooling of investments by Local Government Pension Funds.

The intention is to create 6 British Wealth Funds with at least £25 billion in each fund to facilitate cost savings and investment in infrastructure. The document sets two key dates 19 February and 15 July 2016 for the submission to the Department of proposals.

On 19<sup>th</sup> February 2016 the administering authority must make a submission that "includes a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities." Whilst on July 15<sup>th</sup> a more detailed submission including:

- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

This paper requests Members to review the submission for February 19<sup>th</sup> and recommend any changes to it.

Option	Comments
Comply with DCLG instruction to make a submission on February 19 <sup>th</sup> 2016	<b>Recommended as it is a statutory requirement</b>
Do not comply with DCLG instruction to make a submission on February 19 <sup>th</sup> 2016	Not recommended



### 3. KEY IMPLICATIONS

3.1

Defined Outcomes	Unmet	Met	Exceeded	Significantly Exceeded	Date they should be delivered by
19 Feb Submission	Not submitted	Submitted			19 Feb 16
15 July submission	Not submitted	Submitted			15 Jul 16

### 4. FINANCIAL DETAILS

The financial impact on the fund of pooling investments has not yet been ascertained.

### 5. LEGAL IMPLICATIONS

5.1 The Secretary of State has exercised his power as Scheme Manager for the Local Government Pension Scheme to mandate pooling of investments

### 6. VALUE FOR MONEY

6.1 Not known at this time

### 7. SUSTAINABILITY IMPACT APPRAISAL

7.1 Not applicable

### 8. RISK MANAGEMENT

8.1 Not applicable at this stage but will be once pooling arrangements have been agreed.

### 9. LINKS TO STRATEGIC OBJECTIVES

9.1 None

### 10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

10.1 Not required

### 11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS

11.1 None at this stage but there will be medium term implications for staff and accommodation needs.

## **12. PROPERTY AND ASSETS**

12.1 The majority of the Pension Fund assets will be transferred to the pool manager.

## **13. ANY OTHER IMPLICATIONS**

13.1 There will be other implications but these can only be quantified once pooling arrangements have been agreed.

## **14. CONSULTATION**

14.1

## **15. TIMETABLE FOR IMPLEMENTATION**

15.1 Initial submission is due by 19 February 2016 and the final submission on 15 July 2016.

## **16. APPENDICES**

16.1 Annex 1 – Draft Response to DCLG

## **17. BACKGROUND INFORMATION**

17.1 Local Government Pension Scheme: Investment Reform Criteria and Guidance ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479925/criteria\\_and\\_guidance\\_for\\_investment\\_reform.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf))

**Strictly Private and Confidential**

**Draft Response**

**LGPS Investment Pooling**

The Royal Borough of Windsor and Maidenhead (“the Borough”) is the administering authority for the Royal County of Berkshire Pension Fund (“the Fund”) a constituent member of the Local Government Pension Scheme (“LGPS”) in England & Wales.

The Borough notes the directive from the Department for Communities and Local Government (“DCLG”) that the Fund is to pool its investment assets with other LGPS funds and is required to give a commitment to pooling and outline the discussions it has had with other administering authorities to DCLG by February 19<sup>th</sup> 2016.

The Borough, therefore, confirms that it will comply with the directive to pool. In addition the Borough discloses that Officers have held discussions with a number of the nascent pools.

Based on the Borough’s Pension Fund Panel’s three key criteria, namely:

- Ability of a pool to deliver the Fund’s investment strategy (modest long-term returns with low volatility of those returns to close the funding gap over the deficit recovery period agreed with the Actuary);
- The proposed governance arrangements of the pool; and
- The quality of management of the pool

the Pension Fund Panel has agreed that Officers should continue discussions with the London Pensions Fund Authority and Lancashire County Council and other nascent pools regarding pooling of assets.

In the long run the Panel are of the view that additional cost-savings would be achieved by greater integration of LGPS funds including risk management and sharing (for instance pooling longevity risk), joint investments and pensions administration.

**Cllr J Lenton**

**Chairman**

**Berkshire Pension Fund and Pension Fund Advisory Panels**

**9 February 2016.**

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Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	NO– Part I
<b>Title</b>	Investment Governance
<b>Responsible Officer(s)</b>	Nick Greenwood Pension Fund Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	N/A
<b>For Consideration By</b>	Berkshire Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	9 February 2016
<b>Implementation Date if Not Called In</b>	Immediate
<b>Affected Wards</b>	None

## REPORT SUMMARY

1. This paper seeks to clarify the process for making investment decisions for the Fund and requests Panel to delegate authority to the Investment Working Group and Officers as detailed in Section 2.

## If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. A clearly defined investment decision making demonstrates good governance of the Fund	Immediately

## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel:

- i. Delegates authority to the Investment Working Group and Officers to make investment decisions on behalf of the Fund.

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

The Council's Constitution currently gives all Officers broad delegated authority to fulfil their duties. The breadth of this delegated authority and the lack of clarity over whom (Panel, Investment Working Group or Officers) has the authority has resulted in Internal Audit recommending that there should be better clarity over the process followed when making investment decisions for the Fund.

The table below recommends specific delegated authorities and gives a rationale for that delegated authority. All decisions by the IWG will require a majority vote in favour by Panel members sitting on the IWG.

<b>Delegate</b>	<b>Delegated Authority</b>	<b>Rationale</b>
Pension Fund Panel	Set Investment Strategy including asset classes and upper limits for investment in those asset classes (required from 1 Oct 2016 via the Investment Strategy Statement).	Prerogative of the administering authority which has delegated this to the Pension Fund Panel
	Award contracts with a value exceeding £50,000 including investment management agreements*	Prerogative of the administering authority which has delegated this to the Pension Fund Panel
Investment Working Group	Recommend changes to the Investment Strategy	A natural function of the IWG; approval of changes will still require Panel approval.
	Set and change asset allocation	Asset allocation is a "by-product" of investment strategy and should be reviewed regularly. IWG was created to periodically review asset allocation and to review investments
	Review investment opportunities/new managers and authorise Officers to make such investments if they comply with the agreed Investment Strategy and do not involve the award of an investment management agreement.	IWG was created to review investments including new investments. Delegating this function to IWG will allow Panel to focus on the overall stewardship of the Fund.
	Terminate mandates/ redeem holdings in pooled funds and Limited Partnerships	Delegating this function to IWG will allow Panel to focus on the overall stewardship of the Fund.
Officers	Undertake due diligence on new investments/managers	Day to day management of the Fund.

	including utilising external resources (e.g. legal assistance) as necessary	
	Complete documentation for making investments	
	Make “capital actions**” decisions where the Capital value of such a decision does not exceed 0.5% (£8.5 million) of the Fund’s assets. Such decisions to include changes to the Absolute Return Portfolio, capital actions for listed equities, co-investment opportunities in private equity, reinvestment of income and capital proceeds from existing investments.	
	Any additional actions that may be required to ensure efficient implementation of the investment strategy or for the efficient management of the Fund. Approval for such actions to be sought from the Chairman or Vice Chairman of the Pension Fund Panel prior to execution.	
Constitutional Emergency Powers	Emergency action to terminate a mandate, redeem a pooled holding or reduce exposure to one or more asset classes	Constitutional power to protect the fund in times of financial stress.

\* An Investment Management Agreement is a contract between a fund manager and the administering authority to manage a pool of assets for the pension fund.

\*\* For the avoidance of doubt “Capital Actions” refers to actions required to ensure the efficient management of the Fund’s assets and does not enable Officers to make investments not previously approved by IWG or Panel.

Option	Comments
Implement Delegated Authorities as detailed above	<b>Recommended – provides a clear audit trail of how decisions have been made</b>
Do not implement recommended Delegated Authorities	Not recommended – Delegated Authorities demonstrate good governance.

### 3. KEY IMPLICATIONS

3.1 This proposal codifies how investment decisions are made and enables a clear audit trail to be established.

#### **4. FINANCIAL DETAILS**

None

#### **5. LEGAL IMPLICATIONS**

5.1 None

#### **6. VALUE FOR MONEY**

6.1 N/A

#### **7. SUSTAINABILITY IMPACT APPRAISAL**

7.1 N/A

#### **8. RISK MANAGEMENT**

8.1

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
No delegated authorities	Medium	Confirm delegated authorities	Low

#### **9. LINKS TO STRATEGIC OBJECTIVES**

9.1 N/A

#### **10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION**

10.1 Not required

#### **11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS**

11.1 None

#### **12. PROPERTY AND ASSETS**

12.1 N/A

#### **13. ANY OTHER IMPLICATIONS**

13.1 None

#### **14. CONSULTATION**

14.1 Chairman, Vice Chairman of Panel, Head of Finance, External Advisers



**15. TIMETABLE FOR IMPLEMENTATION**

15.1 Immediate

**16. APPENDICES**

16.1 None

**17. BACKGROUND INFORMATION**

17.1 None

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Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	NO – Part I
<b>Title</b>	Developing Markets Investment Strategy
<b>Responsible Officer(s)</b>	Nick Greenwood Pension Fund Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	Investment Working Group
<b>For Consideration By</b>	Berkshire Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	9 February 2016
<b>Implementation Date if Not Called In</b>	Not applicable
<b>Affected Wards</b>	None

## REPORT SUMMARY

- Attached to this report is a paper considered by and approved by the Investment Working Group regarding the development of a multi-asset approach to investing in Developing Markets. It seeks Panel's approval for this strategy and authority for Officers to implement it after consultation with the Investment Working Group on specific investment opportunities

## If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. A clear strategy on investment in Developing Markets will ensure that exposure to these markets is well diversified.	31 <sup>st</sup> March 2017

## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel:

- i. **Approve the Developing Markets Investment Strategy at Annex 1**
- ii. **Authorise Officers to implement it after consultation with the Investment Working Group on specific investment opportunities.**

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

Details of the proposed strategy are at Annex 1. For the avoidance of doubt Developing Markets encompasses all countries other than those recognised as Developed Markets (that is North America, Western Europe, Japan, Australia and New Zealand).

Members are requested to note that the private debt proposal mentioned in the annex was not proceeded with given concerns over its exposure to commodity based borrowers.

<b>Option</b>	<b>Comments</b>
Agree and implement proposed strategy	<b>Recommended by Officers and the Investment Working Group</b>
Do not agree the strategy	Not recommended as this could result in undue concentration in one asset class
Authorise Officers to implement the strategy after consultation with the Investment Working Group on specific investment opportunities	<b>Recommended by Officers on the grounds that this is the most efficient way of implementing the strategy</b>
Do not authorise Officers to implement the strategy after consultation with the Investment Working Group on specific investment opportunities	Not recommended as this would slow implementation and require Panel to approve every investment.

## 3. KEY IMPLICATIONS

### 3.1

<b>Defined Outcomes</b>	<b>Unmet</b>	<b>Met</b>	<b>Exceeded</b>	<b>Significantly Exceeded</b>	<b>Date they should be delivered by</b>
Strategy Implemented	Strategy not implemented	Strategy Implemented	Strategy Implemented by 30 Sept 2017	Strategy Implemented by 31 March 2017	31 March 2018

#### **4. FINANCIAL DETAILS**

Investments to be funded from cash-flow (including capital cash-flows as private funds return capital) and by sale/redemption of existing investments as and when appropriate

#### **5. LEGAL IMPLICATIONS**

5.1 None

#### **6. VALUE FOR MONEY**

6.1 Wherever possible the investment team will negotiate to minimise asset managers' fees.

#### **7. SUSTAINABILITY IMPACT APPRAISAL**

7.1 Not applicable

#### **8. RISK MANAGEMENT**

8.1

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
Developing Markets exposure concentrated in too few asset classes	High	Diversify exposure across asset classes	Medium
Developing Markets exposure concentrated in too few countries/locations	High	Diversify exposure across countries/locations	Medium
Poor selection of asset managers	Medium	Due diligence on managers	Low

#### **9. LINKS TO STRATEGIC OBJECTIVES**

9.1 Forms part of the Fund's overall investment strategy

#### **10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION**

10.1 Not required

#### **11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS**

11.1 None

#### **12. PROPERTY AND ASSETS**

12.1 None

**13. ANY OTHER IMPLICATIONS**

13.1 None

**14. CONSULTATION**

14.1 Investment Working Group

**15. TIMETABLE FOR IMPLEMENTATION**

15.1 As opportunities arise

**16. APPENDICES**

16.1 Annex 1 (attached)

**17. BACKGROUND INFORMATION**

17.1 Annex 1 (attached)

## Annex 1 - Developing Markets Investment Strategy

### Proposal for a Multi-Asset Approach

The IWG at its meeting on 30th January 2015 resolved that the Fund should increase its Developing Markets exposure towards a target of 25% of the Fund's net assets.

This paper presents a proposed solution for creating such a multi-asset approach to Developing Markets and recommends a timetable for implementation.

The table below shows the Fund's current exposure to Developing Markets which has slipped below 15% of the total. This is due to two factors – the sale of the Nomura Small Company fund (reinvested in RWC dividend growth mandate) and the decline in Emerging Market Equity markets relative to other asset classes.

Asset Class	Market Value £m	Uncalled Cash £m	Weighting % (Whole Fund)	Developing Markets Asset Allocation % (Current Value)	Developing Markets Asset Allocation % (including uncalled amounts)
Emerging Market Equities	160.2		9.5	64.8	61.7
Frontier Markets Equities	56.7		3.4	23.0	21.9
Private Equity	7.1	11.2	0.4	2.9	7.0
Infrastructure	15.2	1.1	0.9	6.1	6.3
Property	8.0		0.5	3.2	3.1
Absolute Return					
<b>Totals</b>	<b>247.2</b>	<b>12.3</b>	<b>14.7</b>	<b>100.0%</b>	<b>100.0%</b>

The key fundamentals that investment in these markets should focus on include:

- The population of SE Asia exceeds that of the rest of the world
- Most (not all admittedly) developing markets are forecast to have faster GDP growth than Developed markets
- Infant mortality in developing markets is falling
- Increasing urbanisation – by 2025 47% of global GDP growth is forecast to be from 440 expanding cities in developing countries (source).?
- Forecast of 1 billion new urban consumers in developing markets by 2025 with an expected annual consumption of \$10 trillion.(source)?
- Increasing demand for food, water and energy.

Whilst emerging and frontier market listed equities will give exposure to these themes the increasing globalisation of world stock-markets does mean that many such listed

stocks have only modest exposure to their domestic markets. This does suggest that private equity (focussed on the consumer, urbanisation and increasing demand for food, water and energy) may offer higher exposure.

The table below gives a recommended broad asset allocation for a multi-asset developing market portfolio:

<b>Asset Class</b>	<b>Current Weighting (after outstanding calls)</b>	<b>Current Value £m</b>	<b>Proposed Target</b>	<b>Proposed Value £m</b>	<b>Range</b>
Listed Equity	83.6%	216.9	50%	170.0	35-75%
Private Equity	7.0%	18.3	7.5%	25.0	5-25%
Infrastructure	6.3%	16.3	10%	34.0	5-15%
Property	3.1%	8.0	10%	34.0	5-15%
Bonds	0.0%		15%	52.0	0-30%
Absolute Return	0.0%		7.5%	25.0	0-15%
<b>Total</b>		<b>259.5</b>		<b>340.0</b>	

### **Next steps**

**Listed Equities** – Long term aim is a reduction, however, following recent weakness it was considered that no reduction should be made at this time but that a search for an emerging markets equity dividend growth manager should be commenced during Quarter 4 2015 with a target of funding in Spring/Summer 2016.. Officers suggest a mandate value of £75m with a target income of £3 million growing by UK CPI over the next 5 years.

**Private Equity** – With headroom of £7.7 million (approx. \$12 million) Officers should be requested to review opportunities and report to IWG when suitable opportunities are found.

**Infrastructure** – Officers to review opportunities and report to IWG when suitable opportunities are found.

**Property** – We should engage with Aviva and advise them that the Fund would like to allocate an additional £26 million to Emerging Market real estate. The conversation with Aviva should also include the potential for raising some of this additional capital from the existing Aviva Funds of Funds.

**Bonds** – Largely dependent on timing – the Fund previously appointed Stone Harbour after a search in 2008 and it would be relatively simple to reinvest with them. Potential investments in Private Debt should also be considered as and when suitable opportunities arise

**Absolute Return** – Whilst there are many hedge fund managers based in Emerging Markets (particularly Hong Kong, Singapore and South Africa) most are “global” rather



than Emerging Market managers. Officers should research the universe and report to IWG in 2016.

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Report for: INFORMATION



<b>Contains Confidential or Exempt Information</b>	No - Part I
<b>Title</b>	Stewardship Report
<b>Responsible Officer(s)</b>	Nick Greenwood, Pension Fund Manager, Kevin Taylor, Deputy Pension Fund Manager, Pedro Pardo, Investment Manager, Philip Boyton, Pension Administration Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood, Pension Fund Manager 01628 796701
<b>Member reporting</b>	n/a
<b>For Consideration By</b>	Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	9 February 2016
<b>Implementation Date if Not Called In</b>	n/a
<b>Affected Wards</b>	None

<p><b>Report Summary</b></p> <ol style="list-style-type: none"> <li>1. This report deals with the stewardship of the Pension Fund for the period 1 September to 31 November 2015</li> <li>2. It recommends that Members (and Pension Board representatives) note the Key Financial and Administrative Indicators throughout the attached report.</li> <li>3. Good governance requires all aspects of the pension fund to be reviewed by the Administering Authority a regular basis</li> <li>4. There are no financial implications for RBWM in this report</li> </ol>
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<b>If recommendations are adopted, how will residents, fund members and other stakeholders benefit?</b>	
Benefits to residents, fund members and other stakeholders and reasons why they will benefit	Dates by which they can expect to notice a difference
Efficient management of the pension fund enhances the reputation of the Royal Borough as administering authority for the Fund	On-going

## **1. Details of Recommendations**

**RECOMMENDATION:** That Panel note:

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

## **2. Reason 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**

Not applicable.

## **5. Legal Implications**

None.

## **6. Value For Money**

Not relevant.

## **7. Sustainability Impact Appraisal**

There are no known implications.

## **8. Risk Management**

None.

## **9. Links to Strategic Objectives**

Linked to strategic objectives of the Pension Fund in accordance with overriding pension scheme regulations.

## **10. Equalities, Human Rights and Community Cohesion**

There are no known implications.

## **11. Staffing/Workforce and Accommodation implications:**

None.

## **12. Property and Assets**

None.

**13. Any other implications:**

None.

**14. Consultation**

Not applicable.

**15. Timetable for Implementation**

Not applicable.

**16. Appendices**

None.

**17. Background Information**

None.



THE ROYAL COUNTY OF  
**BERKSHIRE**  
PENSION FUND

**STEWARDSHIP REPORT**

**QUARTER 3 – 2015/16**

**1<sup>ST</sup> SEPTEMBER 2015 TO 30<sup>TH</sup> NOVEMBER 2015**

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## 1. INVESTMENT PERFORMANCE AND ASSET ALLOCATION

### 1.1 Pension Fund key financial indicators

Table 1	March 2010	March 2013	November 2015
Asset Value (Smoothed)	£1,307.7m	£1,561.8m	£1,660.5m
Asset Value (Unsmoothed)	£1,319.4m	£1,572.4m	£1,687.8m
Liabilities (Smoothed)	£1,618.4m	£2,088.8m	£2,291.4m
Liabilities (Unsmoothed)	£1,618.4m	£2,107.7m	£2,313.2m
Deficit (Smoothed)	£310.7m	£527.0m	£630.9m
Deficit (Unsmoothed)	£299.0m	£535.3m	£625.5m
Funding Level (Smoothed)	81%	75%	72%
Funding Level (Unsmoothed)	82%	75%	73%
Deficit Recovery Period	30 years	27 years	25 years
Nominal Discount Rate	6.8%	6.1%	6.0%
Real Discount Rate	3.3%	3.4%	3.4%
Investment Performance Target (CPI + 4%)	7.0%	6.7%	7.3%
Nominal Earnings Inflation Assumption	4.7%	4.5%	4.4%
Consumer Price Index Inflation Assumption	3.0%	2.7%	2.6%
Employers Contributions – Future Service	12.8%	12.7%	12.4%
Employers Contributions – Past Service Deficit	3.7%	6.9%	7.8%

### 1.2 Change in the smoothed liabilities

Table 2	30 Nov 2015
Liability reconciliation	£m
<b>Disclosed smoothed liability at 31/03/2013</b>	<b>2,088.8</b>
New liabilities (excluding transfers in)	208.1
Liabilities extinguished	-244.7
Net new liabilities from bulk transfers in/out	-79.8
Interest on liabilities	339.9
Change due to discount rate	47.5
Change due to inflation assumption	-71.7
Change in value of longevity insurance contract	3.3
<b>Increase in Liabilities</b>	<b>202.6</b>
<b>Smoothed liability at 30 November 2015</b>	<b>2,291.4</b>

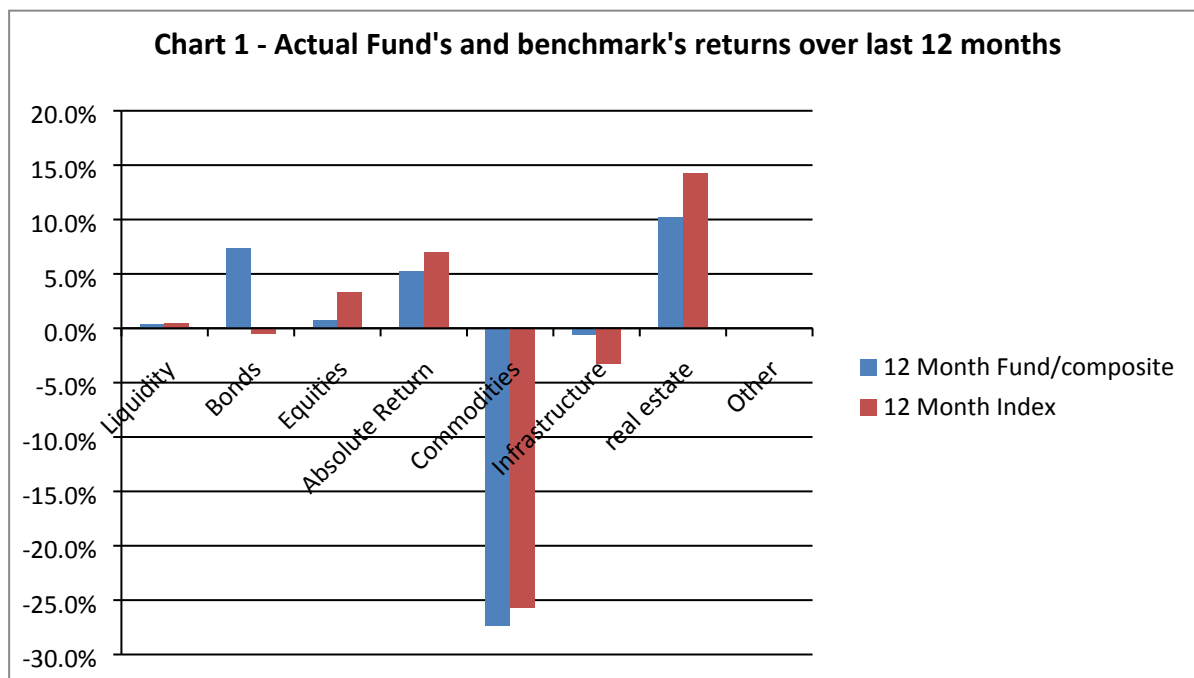
NOTE: The actuary smooths liabilities by taking the average liability figure over the last 6 months.



### 1.3 Market returns

Table 3		3 month	12 month	36 month
<b>Liquidity</b>	<b>Fund</b>	0.09%	0.35%	0.35%
1 Week GBP Libor	<b>Index</b>	0.12%	0.48%	0.48%
	<b>Relative</b>	-0.03%	-0.13%	-0.13%
<b>Bonds</b>	<b>Fund</b>	2.02%	7.38%	n/a
Barclays Global Aggregate	<b>Index</b>	1.21%	-0.47%	-0.05%
	<b>Relative</b>	0.81%	7.85%	n/a
<b>Developed Markets Equities</b>	<b>Fund</b>	4.78%	2.53%	n/a
Morgan Stanley Capital International (MSCI) World	<b>Index</b>	5.67%	3.28%	13.31%
	<b>Relative</b>	-0.89%	-0.75%	n/a
<b>Emerging Markets Equities</b>	<b>Fund</b>	3.03%	-9.15%	4.00%
Morgan Stanley Capital International EM Equities	<b>Index</b>	2.03%	-13.64%	-2.54%
	<b>Relative</b>	1.00%	4.49%	6.54%
<b>Private Equity</b>	<b>Fund</b>	4.98%	11.35%	n/a
9% per annum	<b>Index</b>	2.18%	9.00%	9.00%
	<b>Relative</b>	2.81%	2.36%	n/a
<b>Total Equities</b>	<b>Fund</b>	4.33%	0.65%	n/a
Morgan Stanley Capital International World	<b>Index</b>	5.67%	3.28%	13.31%
	<b>Relative</b>	-1.34%	-2.63%	n/a
<b>Absolute Return</b>	<b>Fund</b>	0.91%	5.15%	n/a
7% per annum	<b>Index</b>	1.70%	7.00%	7.00%
	<b>Relative</b>	-0.79%	-1.85%	n/a
<b>Commodities</b>	<b>Fund</b>	-9.79%	-27.42%	-17.28%
Custom Equal Weights	<b>Index</b>	-8.89%	-25.67%	-15.86%
	<b>Relative</b>	-0.90%	-1.75%	-1.42%
<b>Infra-structure</b>	<b>Fund</b>	0.41%	-0.62%	5.02%
FTSE Global Core 50/50	<b>Index</b>	2.13%	-3.32%	10.54%
	<b>Relative</b>	-1.73%	2.69%	-5.52%
<b>Real Estate</b>	<b>Fund</b>	0.39%	10.20%	7.12%
UK Investment Property Databank	<b>Index</b>	3.23%	14.28%	14.29%
	<b>Relative</b>	-2.83%	-4.09%	-7.16%

## 1.4 Fund performance



## 1.5 Exception Traffic Lights November 2015

**Table 4**

<u>Traffic Lights November 2015</u>				
<u>Colour</u>		<u>£ m</u>	<u>Fund %</u>	<u>Comment</u>
	<b>BONDS</b>			
	<b>Convertible Bonds</b>			
Amber	Aviva	36.1	2.1%	Change in management team & weak performance
Amber	Blue Bay Global	27.1	1.6%	Currency volatility has resulted in disappointing GBP returns.
	<b>EQUITIES</b>			
	<b>Developed World</b>			
Amber	IPM Fundamental Umbrella Fund	169.2	10.0%	Performance remains below target.
	<b>Private Equity</b>			
Amber	South East Growth Fund	4.1	0.2%	Terms of additional extension to fund life agreed
Amber	Stafford Sustainable Fund	4.6	0.3%	Disappointing performance. Buyer not found
	<b>INFRASTRUCTURE</b>			
Amber	Macquarie SBI Infrastructure Ltd	3.0	0.2%	Performance adversely affected by delays in construction of key assets
	<b>COMMODITIES</b>			
Amber	Gresham	37.2	2.2%	Change in ownership. Poor performance continues
	<b>Total Fund Valuation (excl prepaid contribs)</b>	<b>1,687.8</b>		
<b>Key</b>				
<b>Colour</b>	<b>Comment</b>			
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

Table 5 Comparison of Strategic Asset Allocation "SSA" changes					
SSA Weights	31/03/2010	31/03/2013	30/11/2015	12 month change	Change since 31 March 2013
<b>Liquidity</b>	<b>7.9%</b>	<b>1.1%</b>	<b>6.0%</b>	<b>0.6%</b>	<b>4.9%</b>
Investment Grade Debt	20.4%	7.9%	5.0%	-1.2%	-2.9%
Other Debt	11.7%	8.7%	8.2%	0.3%	-0.5%
<b>Total Debt</b>	<b>32.1%</b>	<b>16.6%</b>	<b>13.2%</b>	<b>-0.9%</b>	<b>-3.4%</b>
Developed Market Equities	17.3%	17.2%	21.3%	3.1%	4.1%
Developing Market Equities	6.2%	14.7%	11.6%	-1.9%	-3.1%
Private Equity	6.7%	9.2%	9.0%	1.1%	-0.2%
<b>Total Equities</b>	<b>30.2%</b>	<b>41.1%</b>	<b>41.9%</b>	<b>2.3%</b>	<b>0.8%</b>
<b>Absolute Return</b>	<b>9.9%</b>	<b>17.2%</b>	<b>17.6%</b>	<b>1.3%</b>	<b>0.4%</b>
Infrastructure	1.9%	4.7%	4.2%	0.2%	-0.5%
Commodities	8.2%	9.7%	3.4%	-4.4%	-6.3%
Real Estate	7.3%	9.8%	13.0%	1.5%	3.2%
Other	2.5%	-0.3%	0.7%	-0.6%	1.0%
<b>Real Assets</b>	<b>19.9%</b>	<b>23.9%</b>	<b>21.3%</b>	<b>-3.3%</b>	<b>-2.6%</b>
<b>Fund Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

## 1.7 Solvency

Chart 2

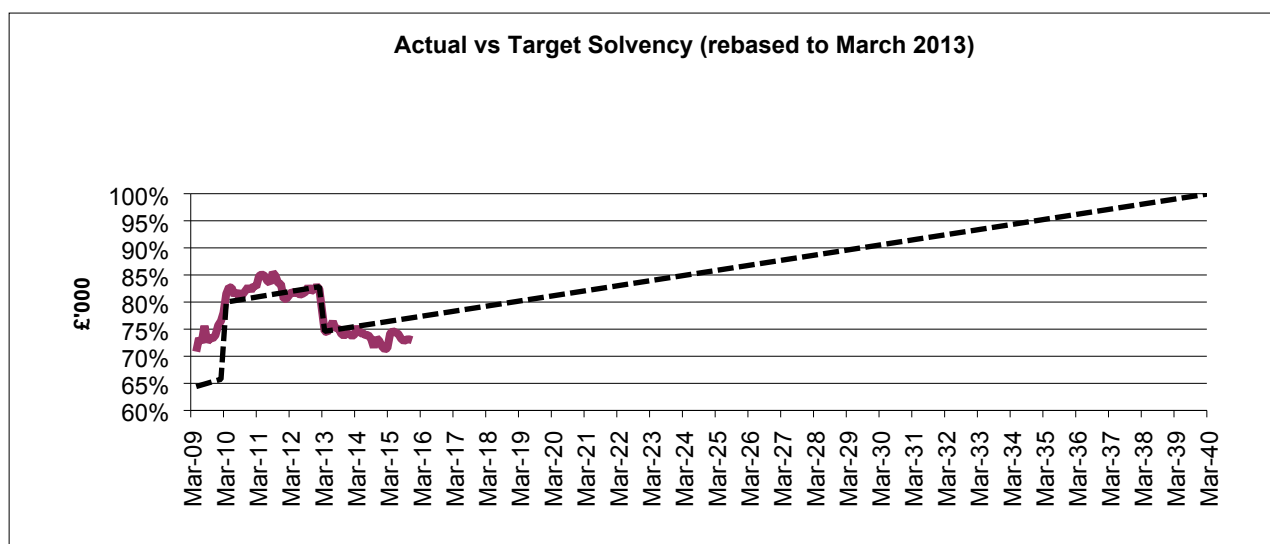
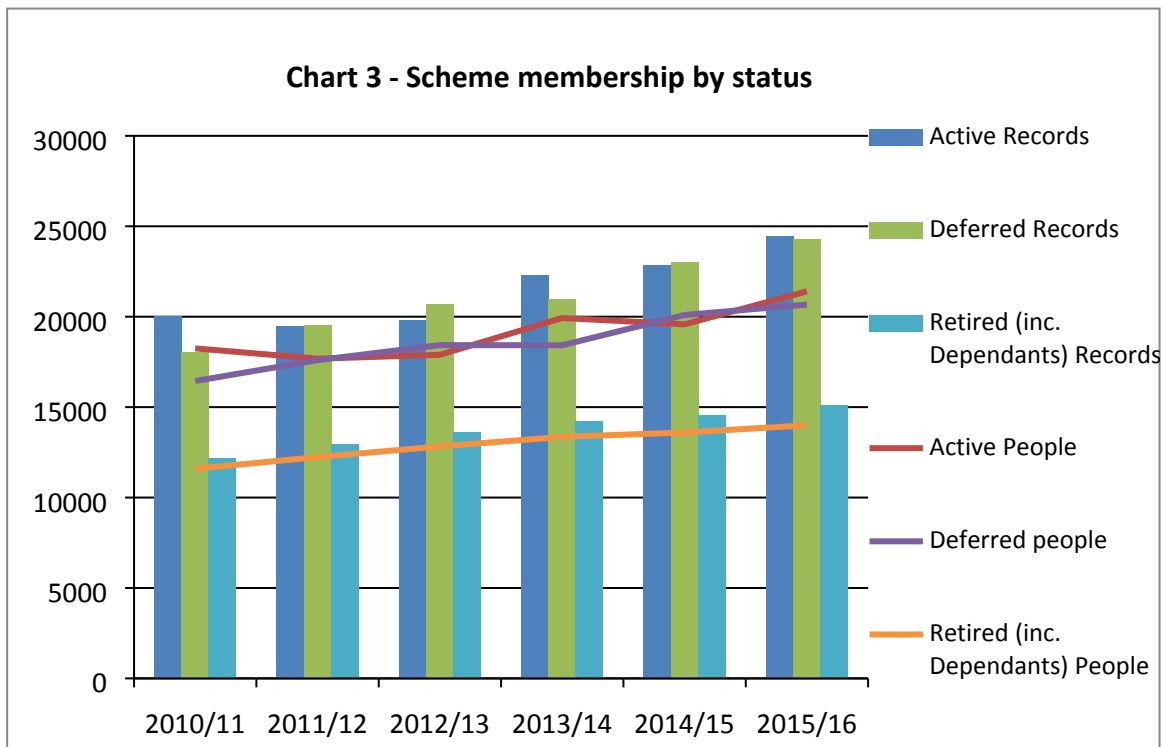


Table 6 - Cashflow	Year to 31/03/2014 (actual) £'000's	Year to 31/03/15 (actual) £'000's	Year to 31/03/16 (forecast) £'000's
Contributions	81,272	87,691	93,700
Transfers received	5,924	1,916	1,900
Employers' early retirement payments	2,602	1,400	3,000
Investment income via Custodian	15,928	23,762	17,000
Pension paid (gross)	-70,625	-73,625	-74,400
Retirement lump sums	-16,818	-18,045	-17,300
Transfers paid	-5,641	-67,201	-1,900
Investment management costs	-2,694	-3,654	-3,700
Employee costs	-824	-693	-700
Other costs	-978	-1,106	-700
<b>Net cash flow</b>	<b>8,147</b>	<b>-49,555</b>	<b>16,900</b>

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.

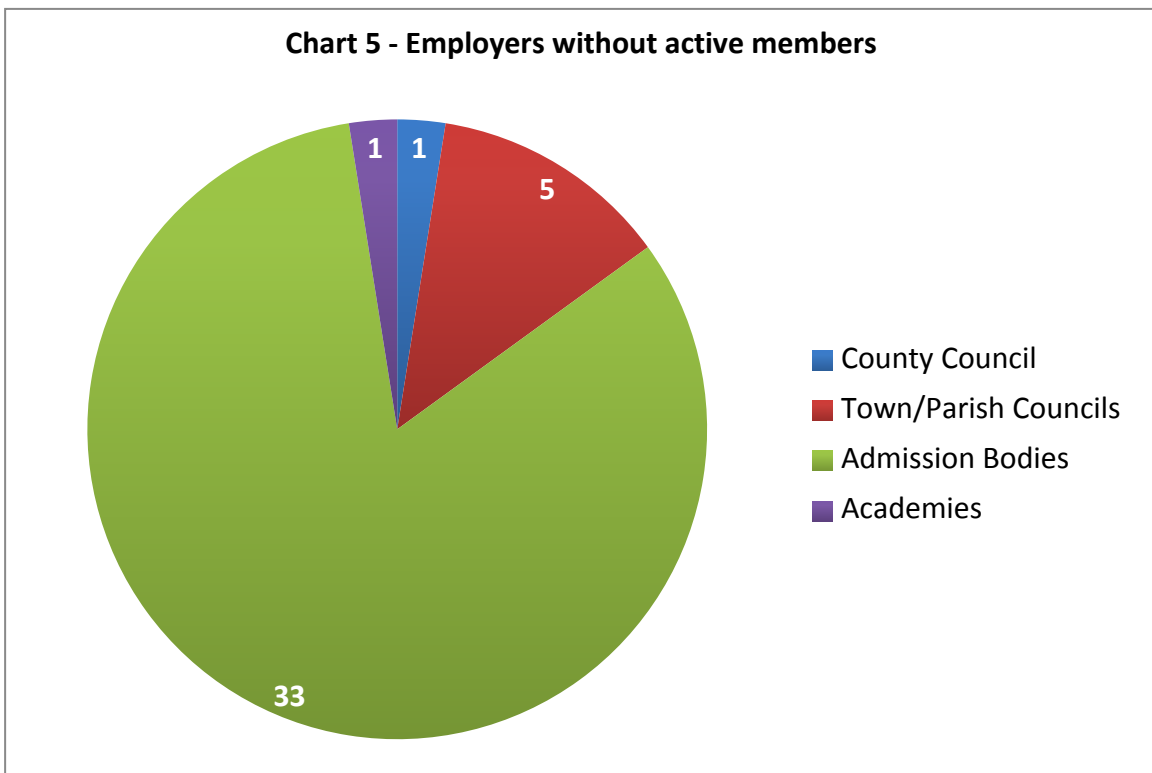
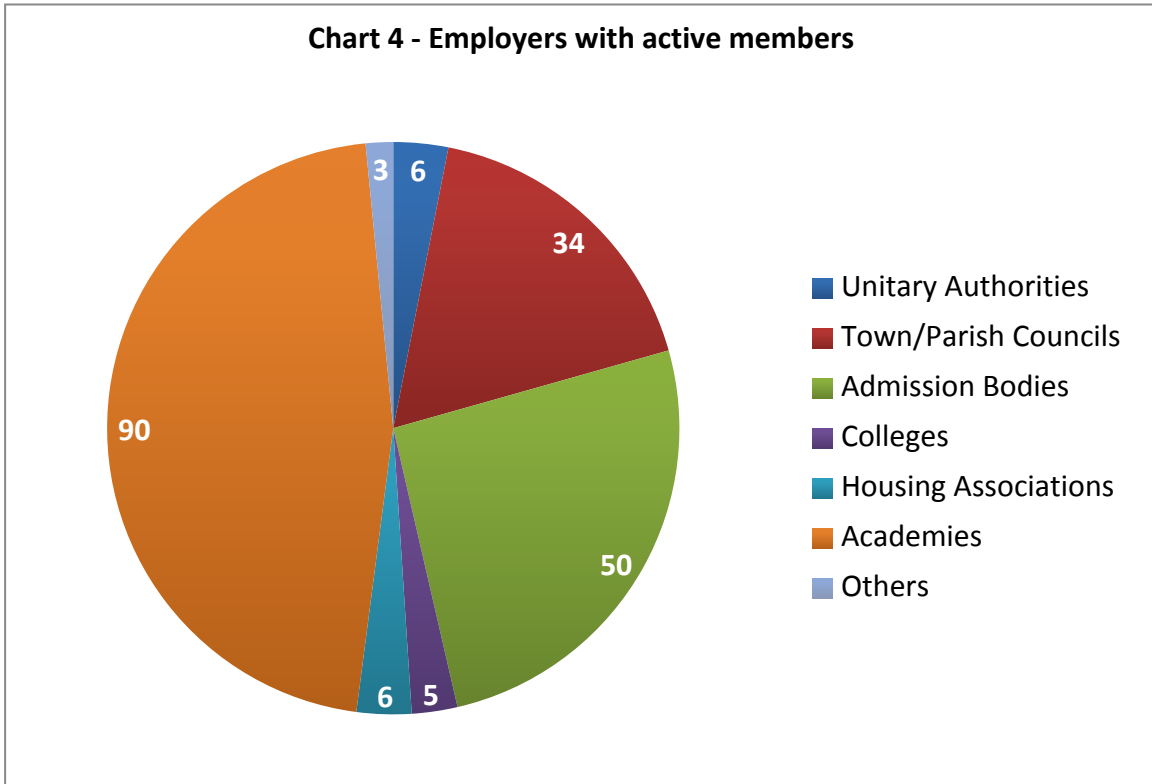
## 2 GOVERNANCE AND ADMINISTRATION

### 2.1 Scheme membership

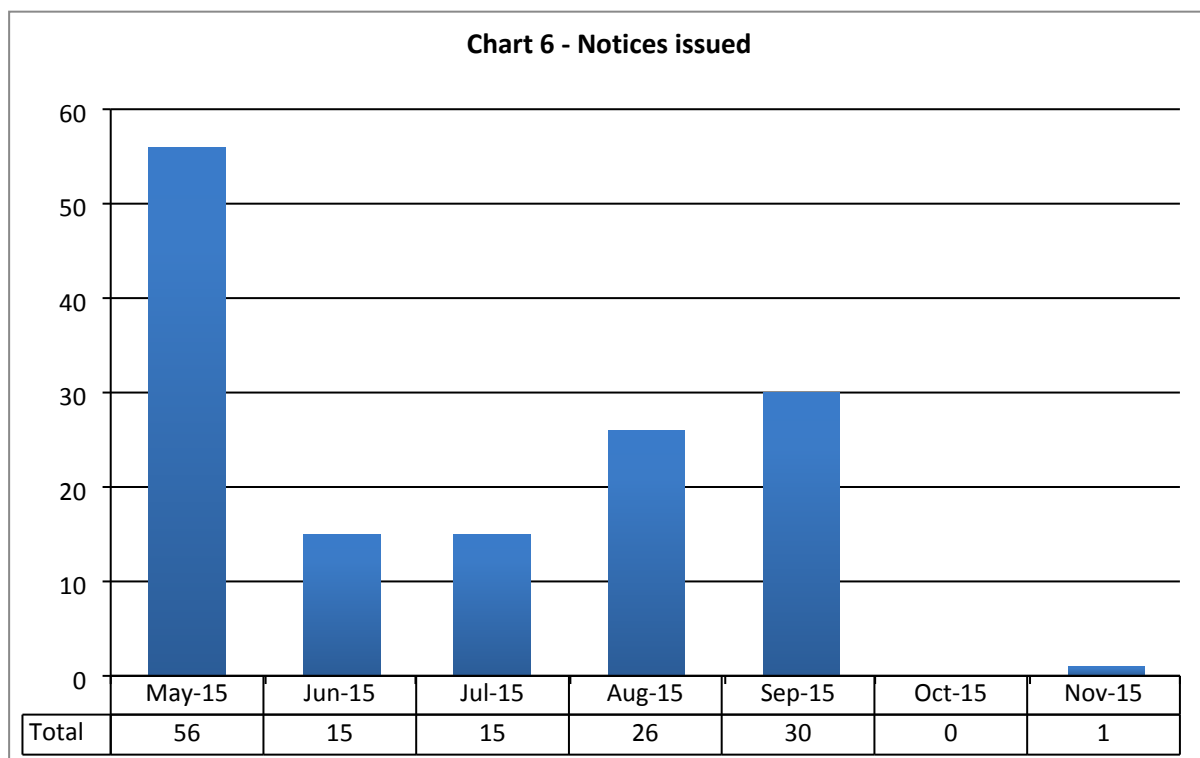


TOTAL MEMBERSHIP			
Active Records	24484	Active People	21401
Deferred Records	24293	Deferred People	20670
Retired Records	15098	Retired People	13996
<b>TOTAL</b>	<b>63875</b>	<b>TOTAL</b>	<b>56067</b>

2.2 Scheme Employers

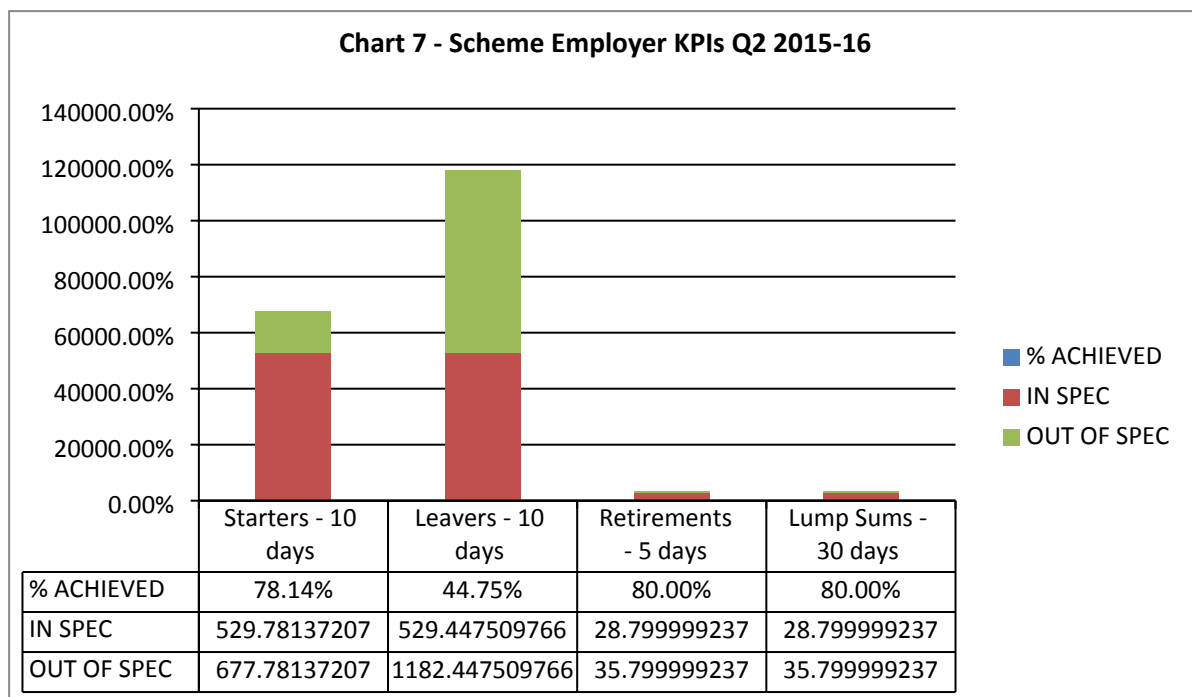


## 2.3 Notices of unsatisfactory performance



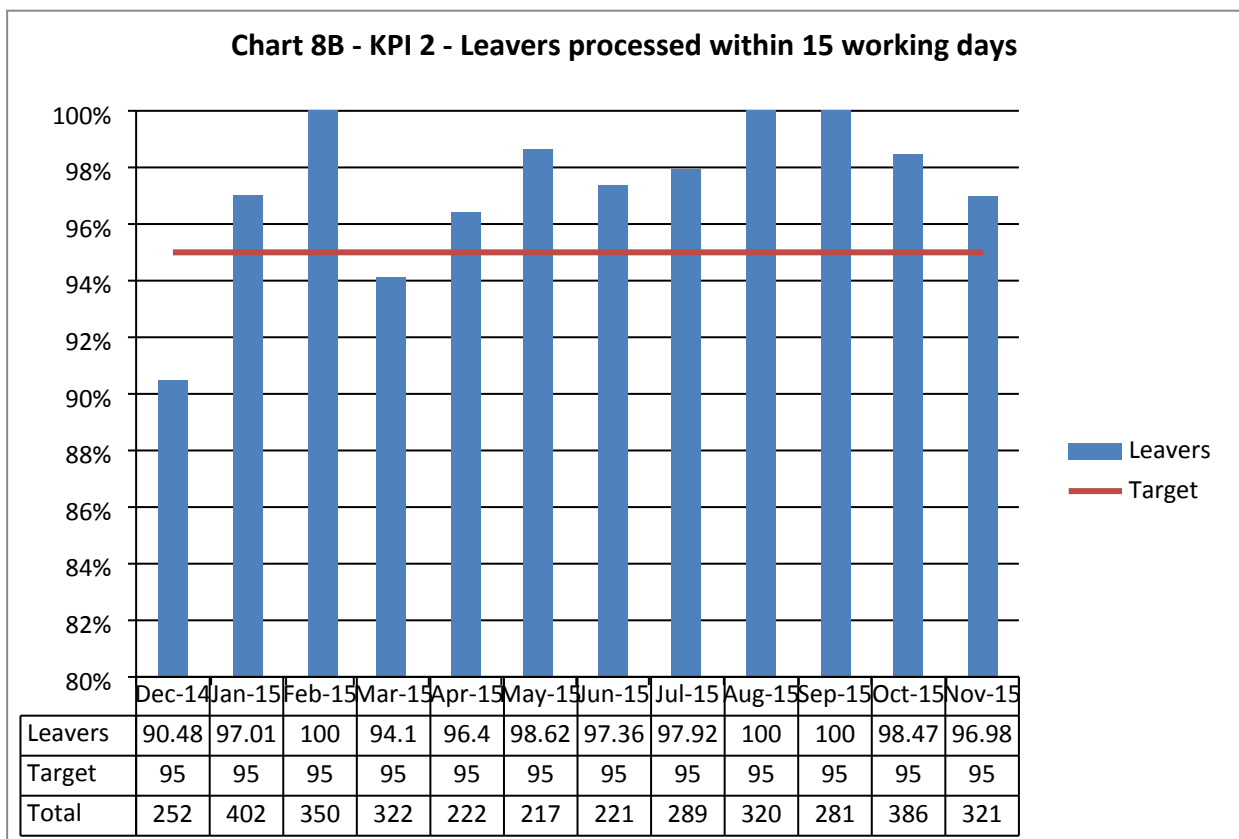
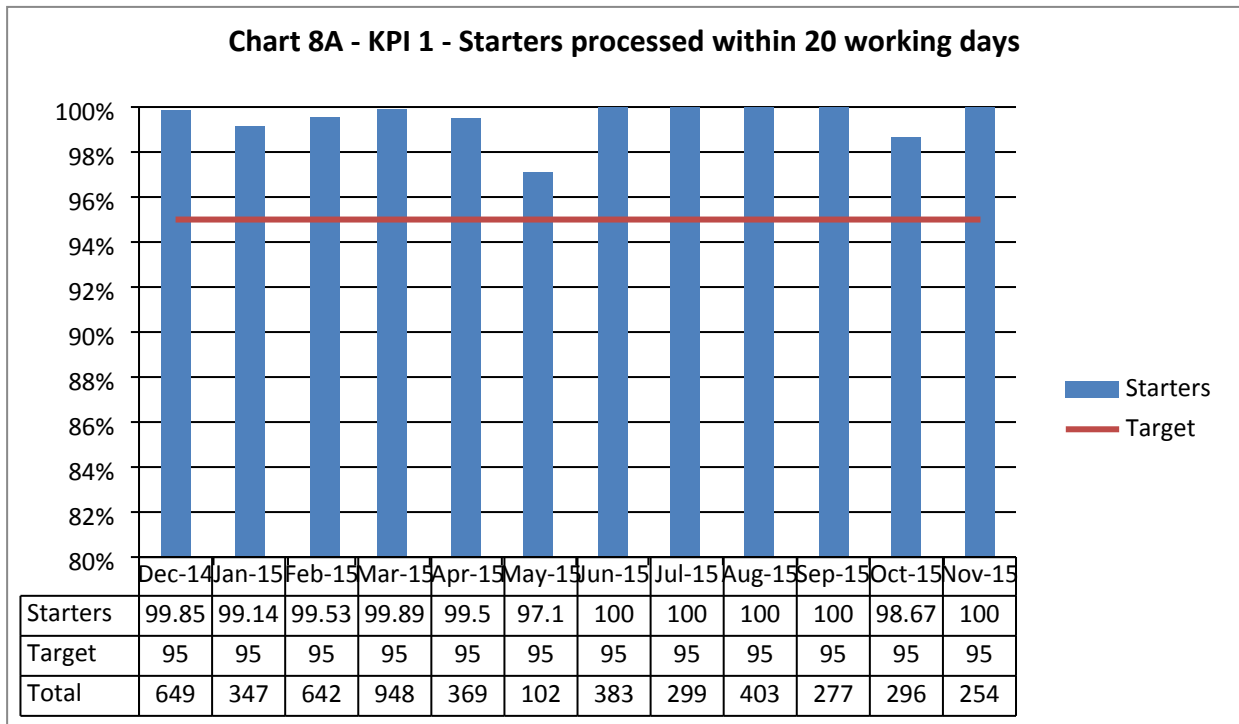
NOTE: No cases have been deemed to be of material significance and so have not been reported to the Pensions Regulator. A summary of cases can be found at Annex 1 to this report

## 2.4 Scheme Employer Key Performance Indicators

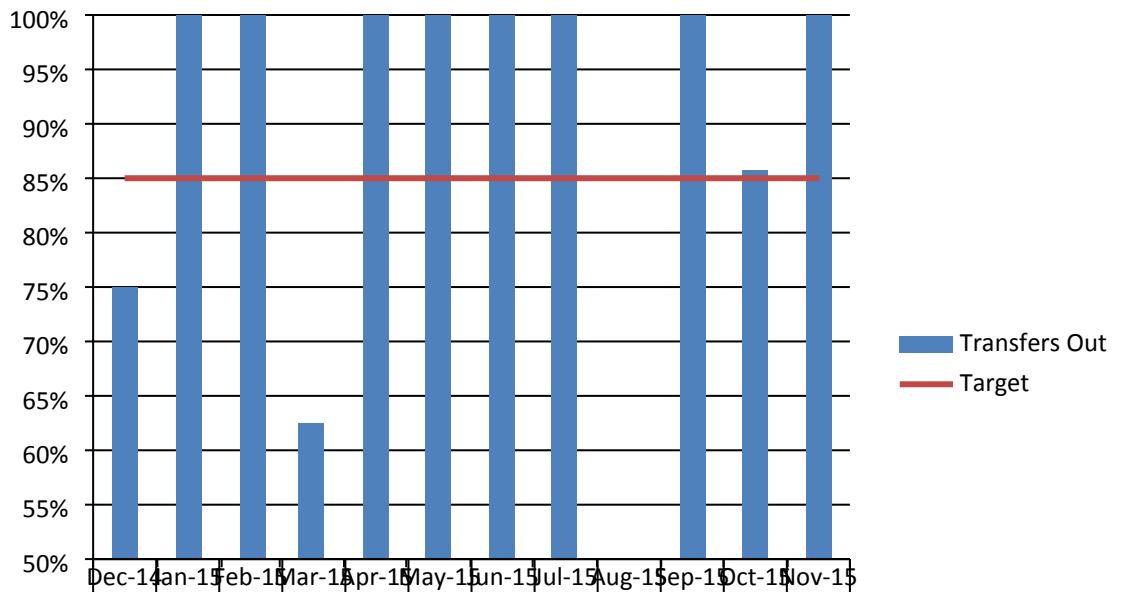


<b>Table 8</b>	<b>TREND</b>	<b>STARTERS</b>	<b>LEAVERS</b>	<b>RETIREMENTS</b>	<b>LUMP SUMS</b>
2015-16	Q2 –OUT	1168	171	18	22
	Q2 – IN	307	82	30	25
	<b>% ACHIEVED</b>	<b>20.81%</b>	<b>32.41%</b>	<b>62.50%</b>	<b>53.19%</b>
2015-16	Q1 –OUT	593	477	8	8
	Q1 – IN	212	262	6	6
	<b>% ACHIEVED</b>	<b>26.34%</b>	<b>35.45%</b>	<b>42.86%</b>	<b>42.86%</b>

2.5 Administration – Key Performance Indicators

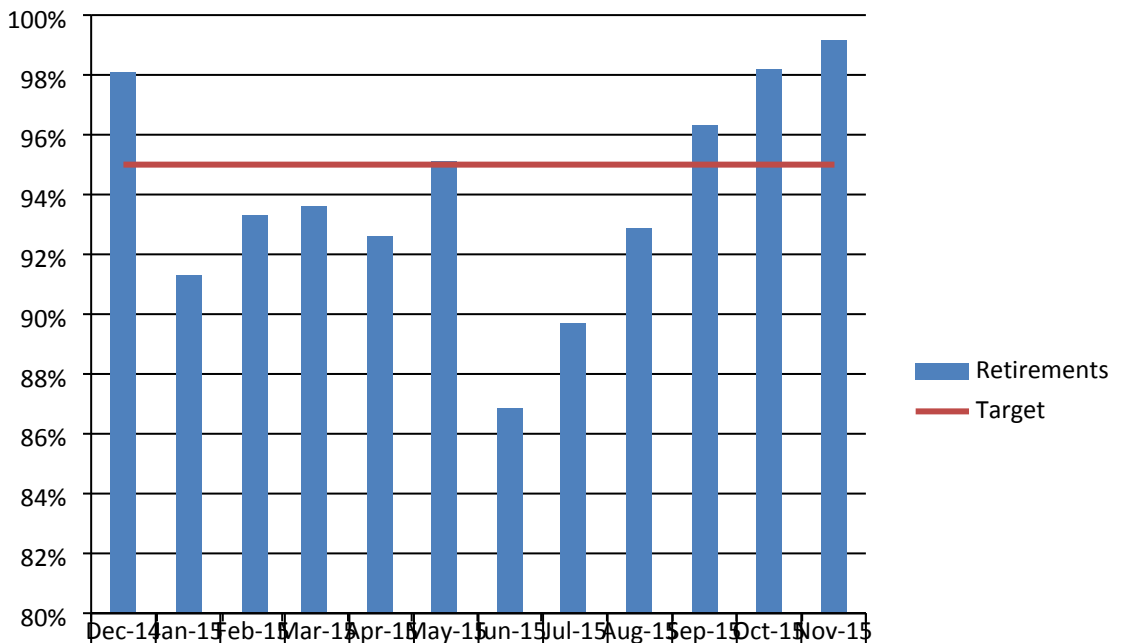


**Chart 8C - KPI 3 - Transfers out processed within 15 working days**



	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Transfers Out	75	100	100	62.5	100	100	100	100	0	100	85.71	100
Target	85	85	85	85	85	85	85	85	85	85	85	85
Total	4	3	3	5	1	5	3	3	1	7	6	3

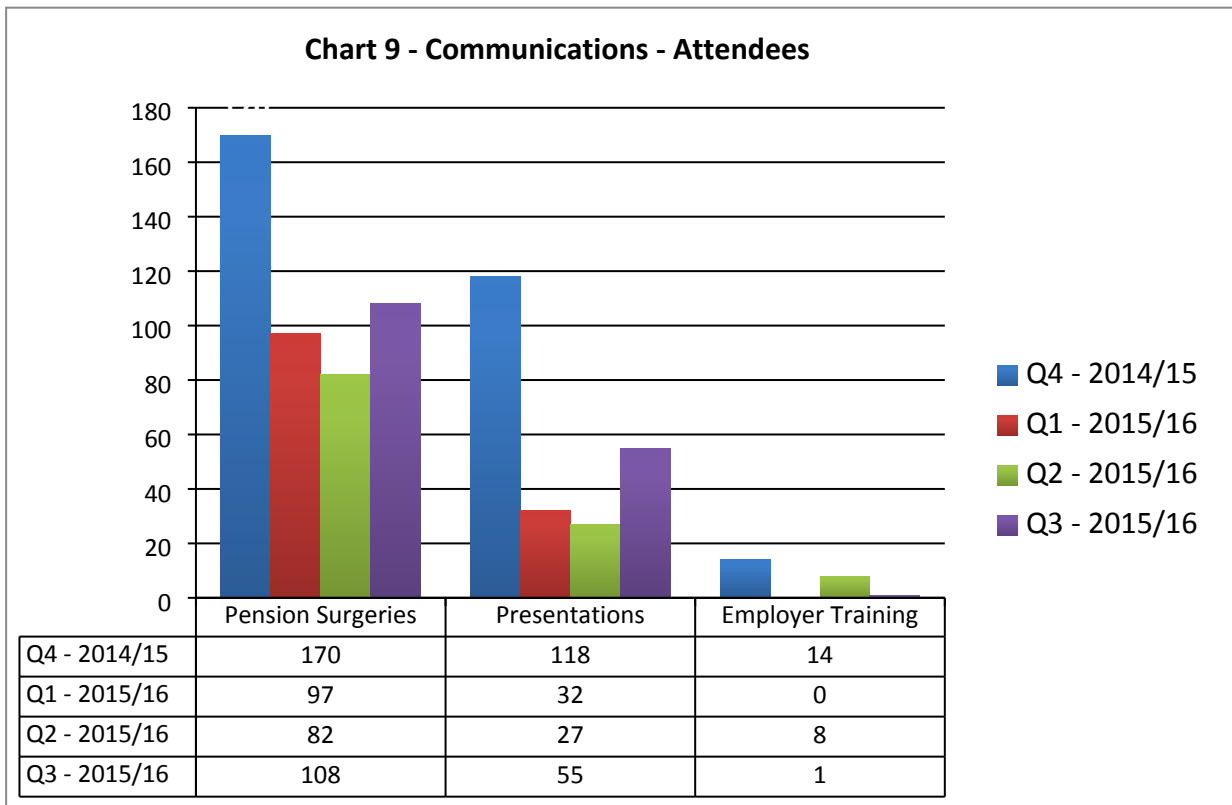
**Chart 8D - KPI 4 - Retirements processed within 7 working days**



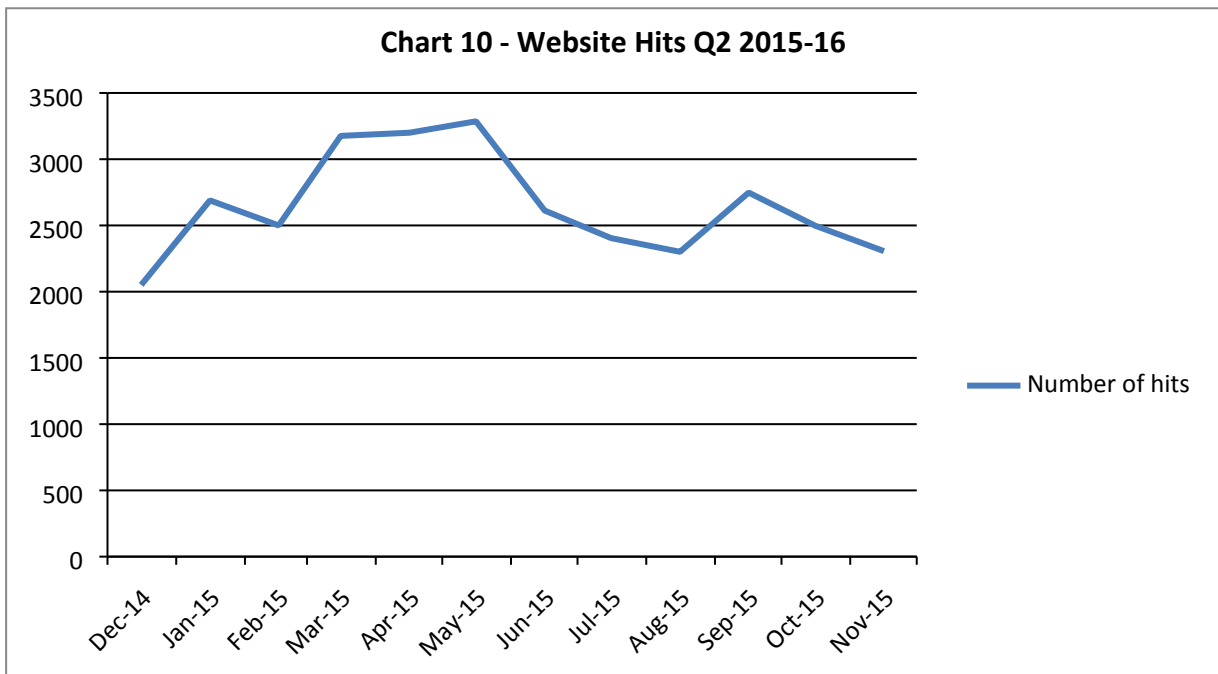
	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Retirements	98.1	91.3	93.3	93.6	92.59	95.12	86.84	89.69	92.86	96.3	98.18	99.15
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	53	92	75	94	222	41	76	97	98	104	108	116



2.6 Administration - Communications



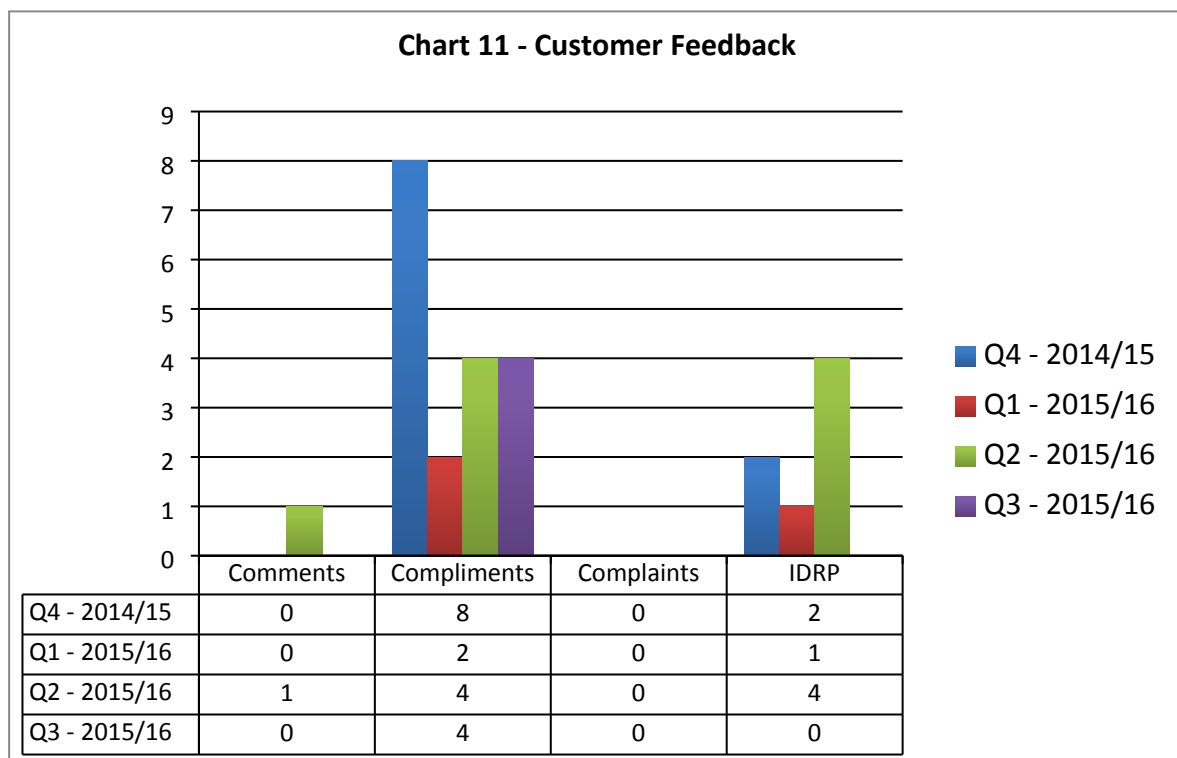
2.7 Website hits



2.8 Special projects

- GMP reconciliation
- i-Connect
- PASA
- Software Tender

## 2.9 Comments, compliments and complaints



<b>TABLE 9 - INTERNAL DISPUTE RESOLUTION PROCEDURES (IDRP)</b>						
Period	Case	Summary of complaint	Stage 1	Stage 2	Stage 3	Resolution
Q4 – 2014/15	1	Request for early release of deferred benefits due to permanent ill health.	√	√	X	Case rejected at both stage 1 and 2. Not referred to PO.
	2	Claim made for survivor's pension not due under regulation	√	X	X	Rejected at Stage 1 as no statutory right to benefit.
Q1 – 2015/16	1	Request for early release of benefits due to permanent ill health.	√	√	X	Case rejected at stage 1 but accepted at Stage 2.
Q2 – 2015/16	1	Disputing the tier awarded for ill health retirement.	√	√		Case rejected at stage 1. Currently under review at stage 2.
	2	Request for early release of deferred benefits on compassionate grounds.	√	X	X	Case rejected at stage 1. No application made under stage 2.
	3	Disputing termination of employment and affect on pension benefits	√			Case currently under review at stage 1.
	4	Request for early release of deferred benefits due to permanent ill health.	√	√		Case rejected at stage 1. Currently under review at stage 2.

NOTE: Stage 1 refers to Adjudicator at Scheme Employer level  
 Stage 2 refers to adjudicator at Administering Authority level  
 Stage 3 refers to the Pensions Ombudsman

*Annex 1 – Notices of unsatisfactory performance*

<b>Form</b>	<b>May-15</b>	<b>Jun-15</b>	<b>Jul-15</b>	<b>Aug-15</b>	<b>Sep-15</b>	<b>Oct-15</b>	<b>Nov-15</b>
<b>1</b>	0	0	0	0	0	0	0
<b>2A</b>	4	6	1	0	0	0	0
<b>2B</b>	3	0	0	6	7	0	0
<b>2C</b>	46	9	11	20	23	0	0
<b>3</b>	3	0	3	0	0	0	1
<b>Total</b>	<b>56</b>	<b>15</b>	<b>15</b>	<b>26</b>	<b>30</b>	<b>0</b>	<b>1</b>

Key: Form 1: Administering Authority additional costs arising from employers' poor performance  
 Form 2A: Contributions unpaid  
 Form 2B: Contributions paid late  
 Form 2C: Contribution breakdown not received  
 Form 3: Late settlement of Capital Cost invoices

## Annex 2 - Summary of employer KPIs

### Starters received within specification Q3

Employer	IN	OUT	Total	% IN	Q2	Q1
Academies	74	32	106	69.81%	10.99%	0.07%
Bracknell Forest Council	72	3	75	96.00%	69.89%	73.20%
RBWM	59	6	65	90.77%	15.54%	16.33%
Reading BC	58	27	85	68.24%	12.00%	0.00%
Slough BC	51	3	54	94.44%	47.06%	59.62%
University of West London	0	0	0	0.00%	0.00%	n/a
West Berkshire Council	151	15	166	90.96%	19.42%	27.12%
Wokingham BC	19	8	27	70.37%	20.80%	12.96%
Wokingham BC (Selima)	2	5	7	28.57%	22.64%	39.13%

### Leavers received within specification Q3

Employer	IN	OUT	Total	% IN Spec	Q2	Q1
Academies	61	100	161	37.89%	15.97%	15.50%
Bracknell Forest Council	98	77	175	56.00%	49.19%	46.94%
RBWM	63	72	135	46.67%	42.74%	45.21%
Reading BC	106	108	214	49.53%	27.47%	29.09%
Slough BC	50	29	79	63.29%	58.67%	58.93%
University of West London	1	0	1	100.00%	100.00%	66.67%
West Berkshire Council	58	99	157	36.94%	62.42%	64.00%
Wokingham BC	29	23	52	55.77%	7.14%	10.34%
Wokingham BC (Selima)	9	52	61	14.75%	4.88%	9.09%

### Retirements not notified within 5 days from retirement date – Q3 2015-16

Employer	Member	Days Over 5
Mott MacDonald	DLW	7
Optalis Ltd	DAD	4
Park House School Newbury	JBL	12
Reading BC	MP	11
Reading BC	GMW	4
West Berkshire Council	IEV	8
Wokingham BC	PG	3

### Lump sums paid >30 days after retirement date – Q3 2016-16

Employer	Member	Days Over 30	Interest	Reason
Mott MacDonald	DLW	21	£15.17	2
Optalis Ltd	DAD	14	£23.25	2
Park House School Newbury	JBL	13	£0.86	1
Reading BC	MP	11	£21.59	1
Reading BC	GMW	4	£28.95	2
West Berkshire Council	IEV	8	£47.88	1,2
Wokingham BC	SFV	25	£5.95	2

NOTE: All interest paid by the pension fund.

Reason key:

- 1 Scheme employer delay in sending leaver from
- 2 Member delay in returning retirement forms
- 3 Pension Fund delay in calculation and/or making payment

# Agenda Item 8

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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# Agenda Item 9

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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