

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 - 16 January 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 2016 to 30 September 2016 (pages 7 to 9 updated to 31 October 2016)
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.



THE ROYAL COUNTY OF
BERKSHIRE
PENSION FUND

STEWARDSHIP REPORT

QUARTER 2 – 2016/17

**1 JULY 2016 TO 30 SEPTEMBER 2016
(Note: Investments to 31 October 2016)**

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1. INVESTMENT PERFORMANCE AND ASSET ALLOCATION

1.1 Pension Fund key financial indicators

The Fund Actuary (Barnett Waddingham) are finalising the 2016 triennial actuarial valuation and will report the results to Panel on 13th February 2017. Pending the results the regular Tables 1 and 2 updating the actuarial position have been suspended as the assumptions used have materially changed since the 2013 valuation. Both tables will be updated for the March 2017 Stewardship Report.

1.2 Change in the smoothed liabilities

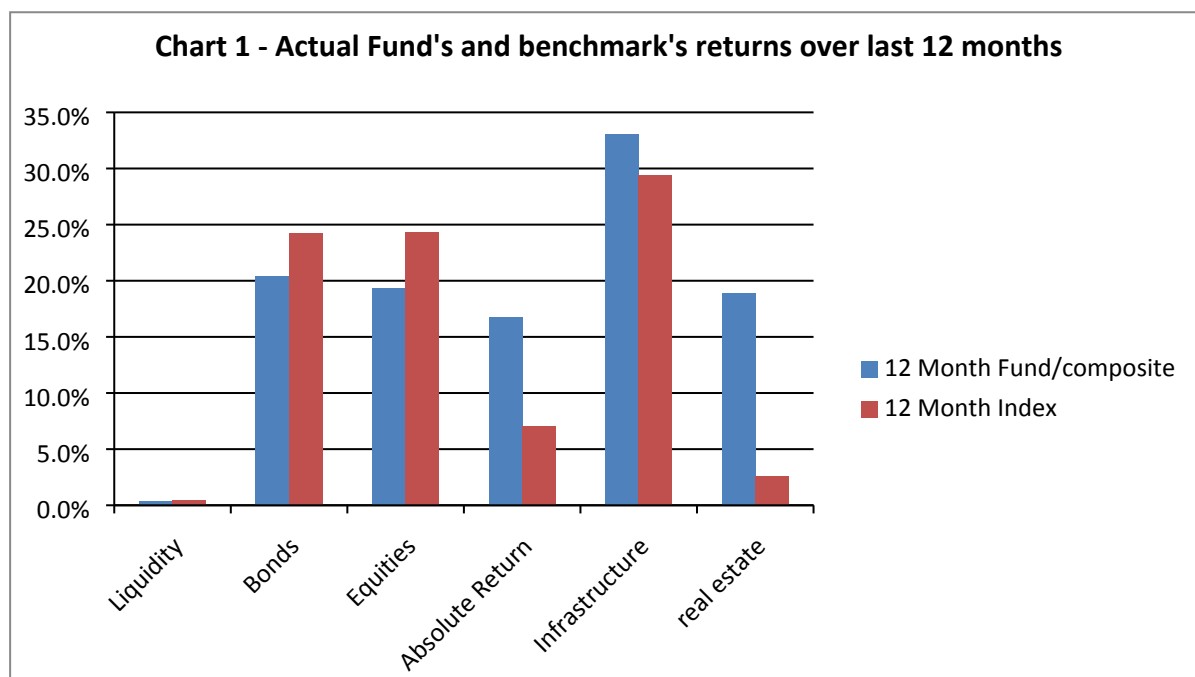
This will be updated once the results of the 2016 actuarial valuation have been published.

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 recent strong depreciation of GBP post Brexit returns of non-Sterling assets are significantly higher in sterling terms than in their local currencies. The right most column show 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	0.05%	0.35%	0.36%	
1 Week GBP Libor	Index	0.06%	0.41%	0.46%	
	Relative	-0.01%	-0.06%	-0.10%	
Bonds	Fund	4.86%	20.38%	13.28%	-0.09%
Barclays Global Aggregate	Index	-1.59%	24.22%	9.20%	3.10%
	Relative	6.45%	-3.84%	4.08%	-3.19%
Developed Markets Equities	Fund	1.65%	15.10%	n/a	-4.47%
Morgan Stanley Capital International (MSCI) World	Index	4.83%	24.28%	n/a	3.15%
	Relative	-3.18%	-9.18%	n/a	-7.62%
Emerging Markets Equities	Fund	-0.79%	21.90%	7.42%	1.18%
Morgan Stanley Capital International EM Equities	Index	1.53%	30.68%	6.06%	8.47%
	Relative	-2.32%	-8.78%	1.36%	-7.29%
Private Equity	Fund	6.56%	25.74%	n/a	4.36%
9% per annum	Index	2.19%	9.02%	n/a	9.02%
	Relative	4.37%	16.72%	n/a	-4.66%
Total Equities	Fund	2.11%	19.37%	10.73%	-0.93%
Morgan Stanley Capital International World	Index	4.83%	24.28%	13.50%	3.15%
	Relative	-2.72%	-4.91%	-2.77%	-4.08%
Absolute Return	Fund	4.95%	16.71%	9.43%	2.28%
7% per annum	Index	1.70%	7.02%	7.01%	7.02%
	Relative	3.25%	9.69%	2.42%	-4.74%
Infra-structure	Fund	3.29%	33.08%	12.02%	10.46%
FTSE Global Core 50/50	Index	0.07%	29.42%	15.58%	7.42%
	Relative	3.22%	3.66%	-3.56%	3.04%
Real Estate	Fund	4.61%	18.90%	11.17%	13.48%
UK Investment Property Databank	Index	1.60%	2.55%	12.00%	
	Relative	3.01%	16.35%	-0.83%	
Total Fund Nominal	Fund	1.53%	12.24%	7.54%	
UK CPI	Index	0.50%	1.25%	0.76%	
Total Fund Real	Relative	1.03%	10.85%	6.73%	
Total Fund Target UK CPI + 4%		1.48%	5.25%	4.76%	

1.4 Fund performance in GBP



1.5 Exception Traffic Lights

Table 4

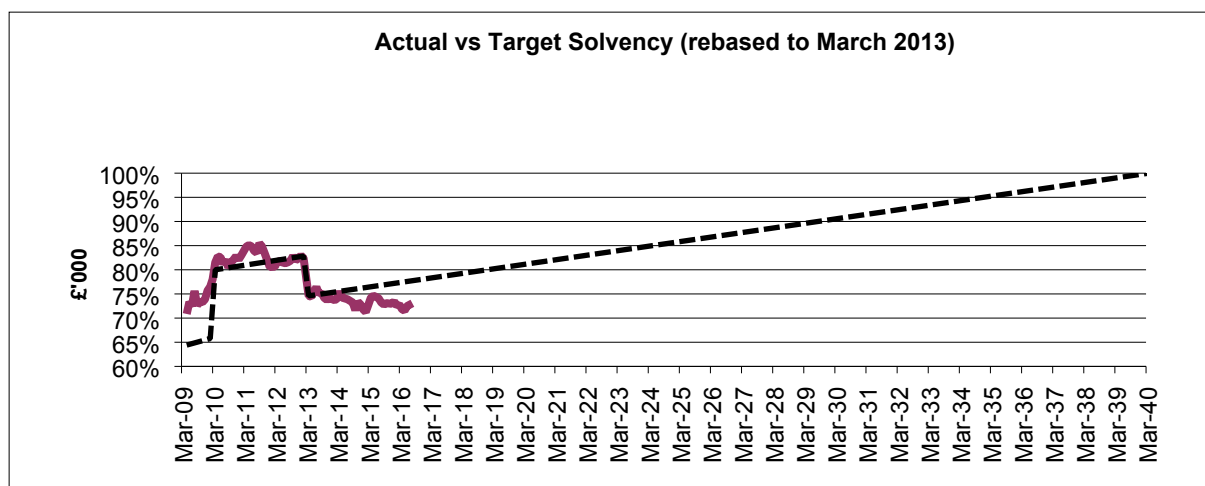
<u>Traffic Lights November 2016</u>					
<u>Colour</u>		<u>£ m</u>	<u>Fund %</u>	<u>Comment</u>	<u>Date Traffic Light Changed</u>
	<u>BONDS</u>				
	<u>Convertible Bonds</u>				
Amber	Aviva	35.3	1.9%	Change in management team & weak performance	Jul-14
Amber	Blue Bay Global	26.3	1.4%	Currency volatility has resulted in disappointing GBP returns.	Jul-14
	<u>EQUITIES</u>				
	<u>Private Equity</u>				
Amber	South East Growth Fund	2.4	0.1%	Terms of additional extension to fund life agreed	Jul-13
Amber	Stafford Sustainable Fund	5.0	0.3%	Disappointing performance. Buyer not found	Jul-13
	<u>Absolute Return</u>				
Red	Grosvenor	231.9	12.3%	Disappointing performance in 2016	Oct-16
	<u>INFRASTRUCTURE</u>				
Amber	Macquarie SBI Infrastructure Ltd	4.1	0.2%	Performance adversely affected by delays in construction of key assets	Jul-13
	<u>Total Fund Valuation (excl prepaid contribs)</u>	1,888.6			
<u>Key</u>					
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	Comparison of Strategic Asset Allocation "SSA" changes				
	31/03/2013	31/03/2016	30/11/2016	12m change	36m change
Liquidity	1.1%	5.1%	11.6%	6.7%	9.0%
Investment Grade Debt	7.9%	5.0%	3.2%	-1.8%	-4.9%
Other Debt	8.7%	9.4%	9.6%	1.0%	0.7%
Total Debt	16.6%	14.3%	12.9%	-0.8%	-4.2%
Developed Market Equities	17.2%	22.1%	22.7%	0.5%	5.2%
Developing Market Equities	14.7%	12.4%	11.7%	-0.2%	-2.3%
Private Equity	9.2%	10.1%	11.6%	2.0%	2.6%
Total Equities	41.1%	44.6%	46.0%	2.3%	5.5%
Absolute Return	17.3%	17.4%	12.2%	-5.6%	-5.0%
Infrastructure	4.7%	4.7%	4.8%	0.5%	0.8%
Commodities	9.8%	2.6%	2.2%	-1.0%	-6.1%
Real Estate	9.8%	11.1%	12.4%	-0.5%	2.0%
Other	-0.3%	0.2%	-1.9%	-1.7%	-2.2%
Real Assets	23.9%	18.5%	17.4%	-2.6%	-5.4%
Fund Total	100%	100%	100%		

1.7 Solvency

Chart 2



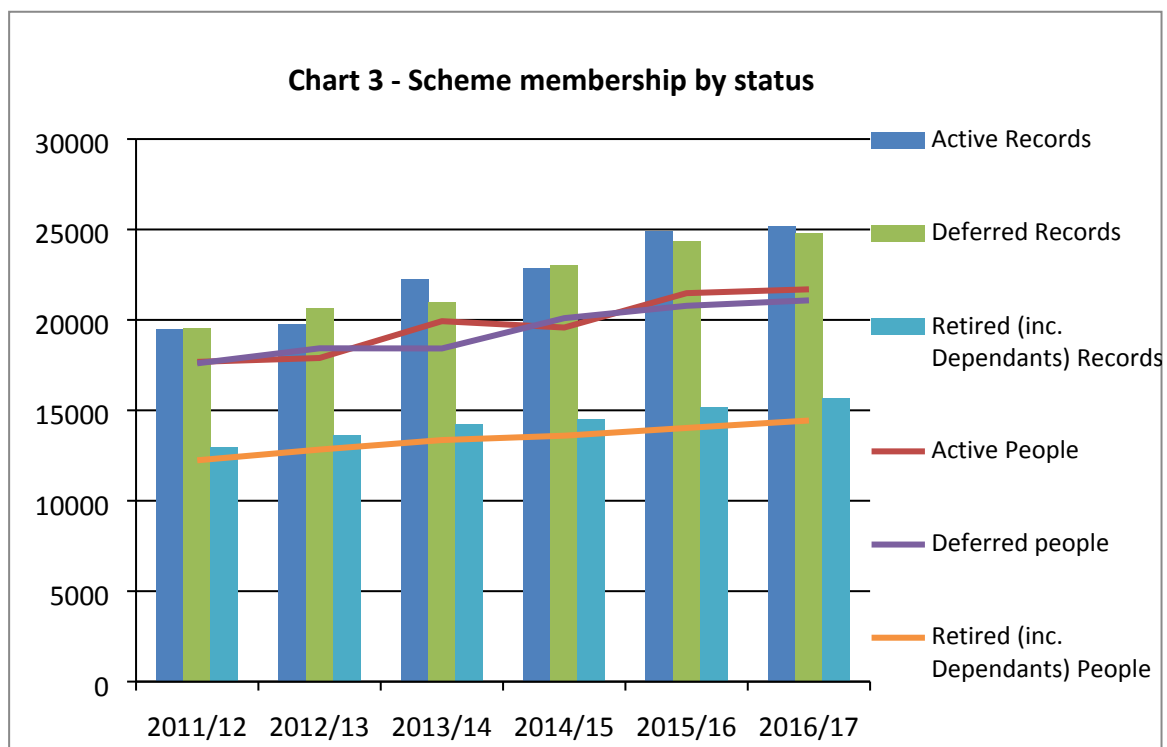
NOTE – to be revised once the valuation results for 2016 are available

Table 6 - 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?

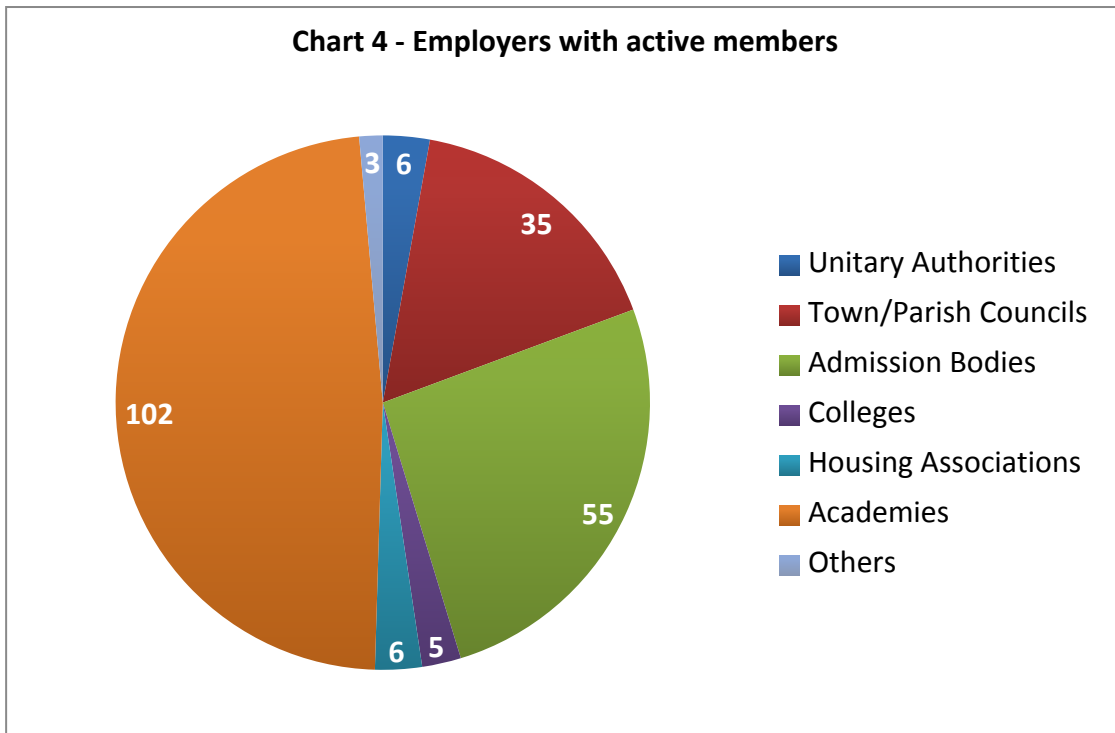
2 GOVERNANCE AND ADMINISTRATION

2.1 Scheme membership



TOTAL MEMBERSHIP			
Active Records	25162	Active People	21652
Deferred Records	24539	Deferred People	20909
Retired Records	15449	Retired People	14238
TOTAL	65150	TOTAL	56799

2.2 Scheme Employers

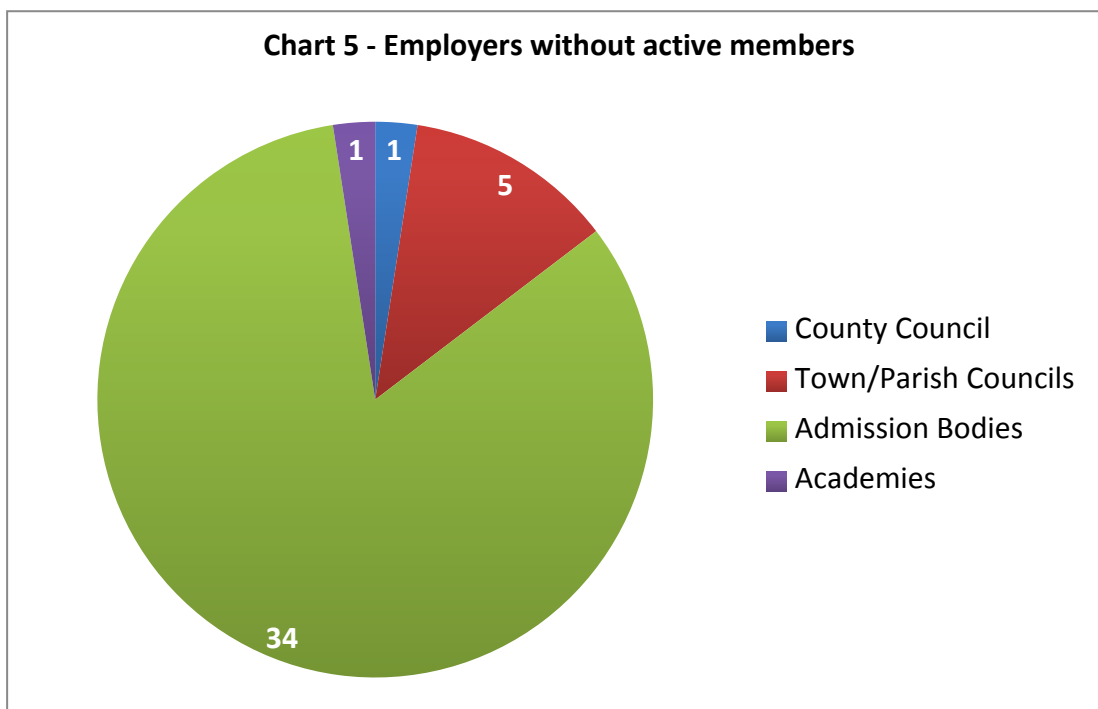


New employers since last report:

Admission Bodies: Get Active Sports Ltd (St Anne's School Wokingham), Innovate Services (Prospect School Reading).

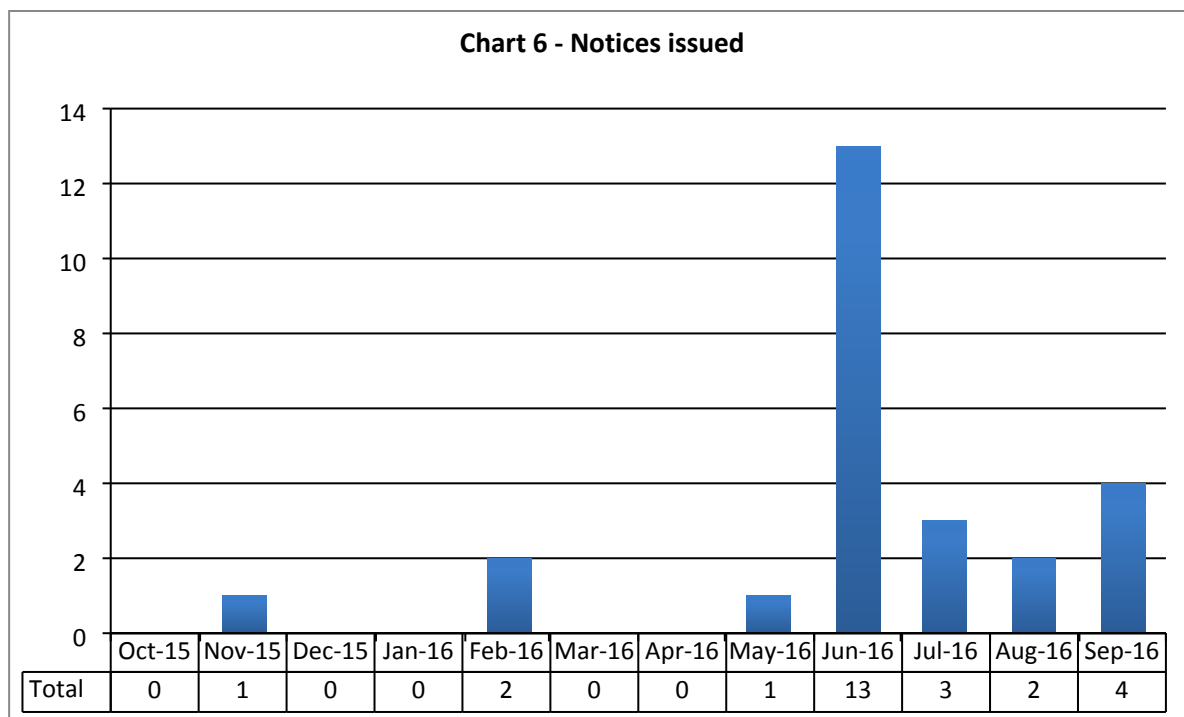
Academies: Floreat Montague Park Primary (Wokingham), Bohunt School (Wokingham), John O'Gaunt School (West Berkshire), Beechwood School (Slough).

Town/Parish Councils: None.



No exits recorded in this report.

2.3 Notices of unsatisfactory performance



NOTE: No cases have been deemed to be of material significance - no reports to TPR

2.4 Scheme Employer Key Performance Indicators

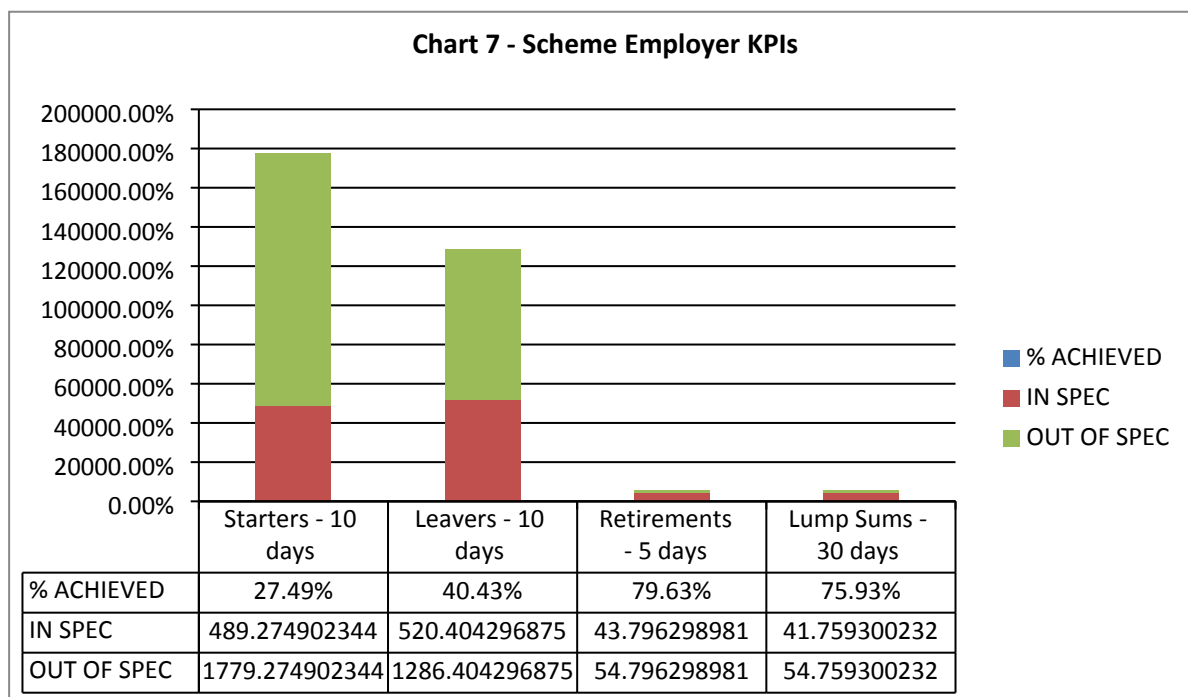


Table 8	TREND	STARTERS	LEAVERS	RETIREMENTS	LUMP SUMS
2016-17	Q1 - OUT	984	235	21	22
	Q1 - IN	362	153	48	46
	% ACHIEVED	26.89%	39.43%	69.57%	67.65%
2015-16	Q4 - OUT	422	162	8	13
	Q4 - IN	298	89	21	16
	% ACHIEVED	41.39%	35.46%	72.41%	55.17%
2015-16	Q3 - OUT	148	653	7	7
	Q3 - IN	529	529	28	28
	% ACHIEVED	78.14%	44.75%	80.00%	80.00%

2.5 Administration – Key Performance Indicators

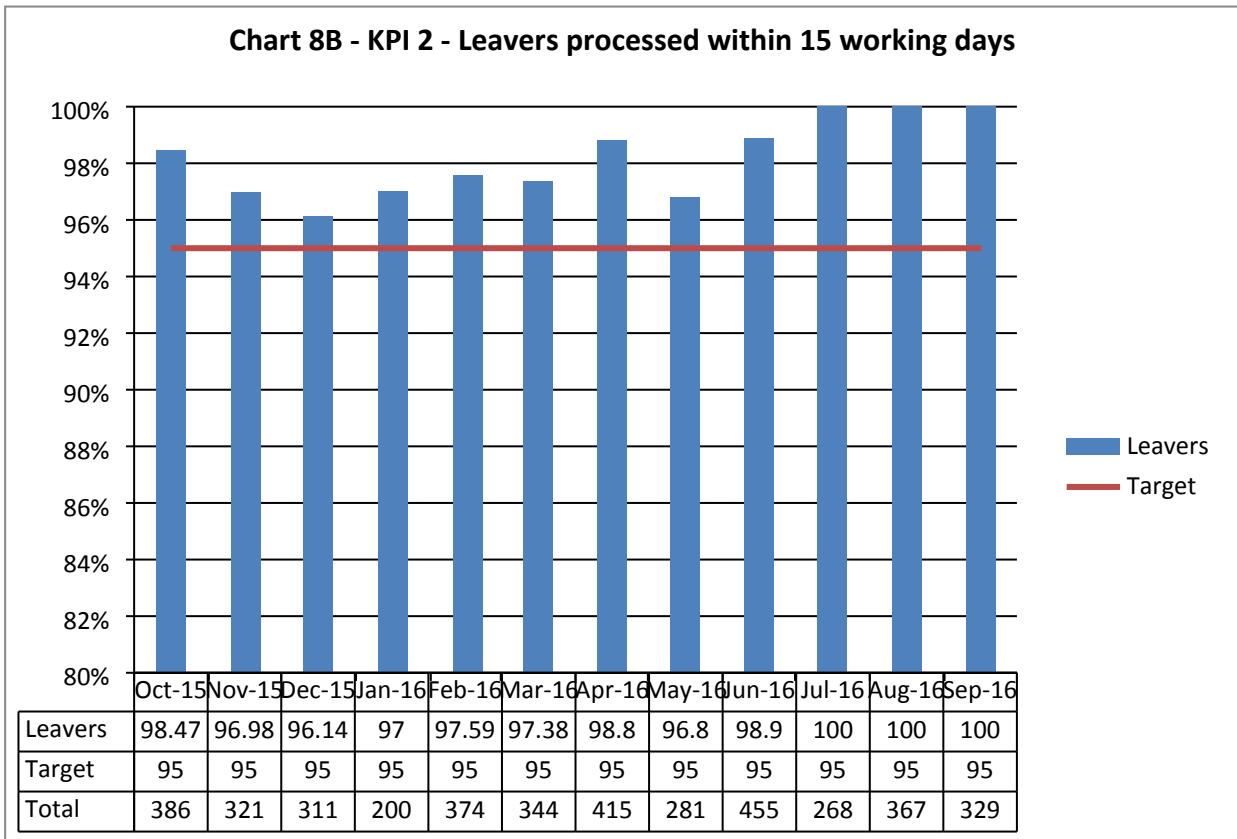
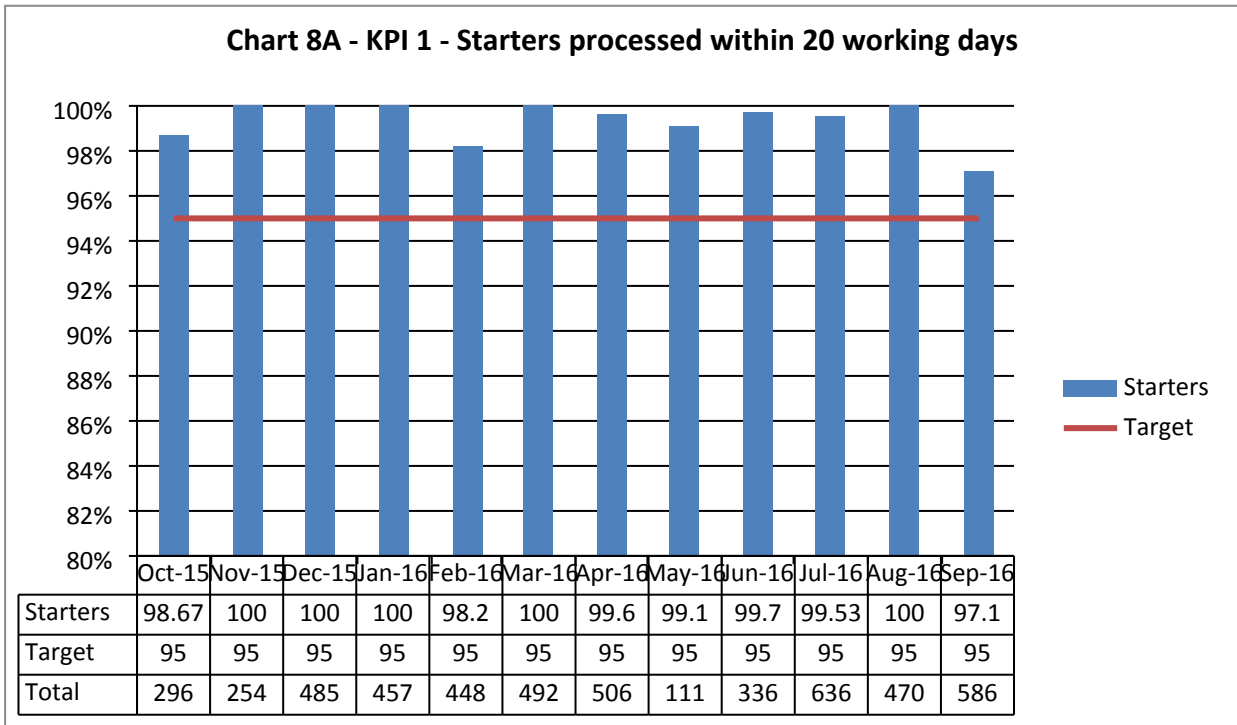
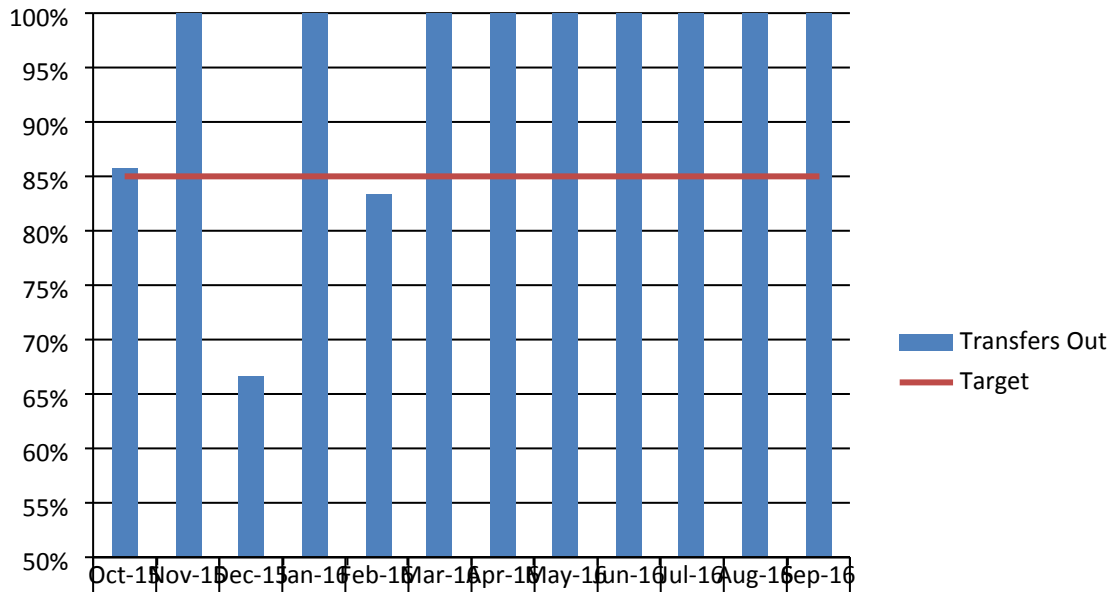
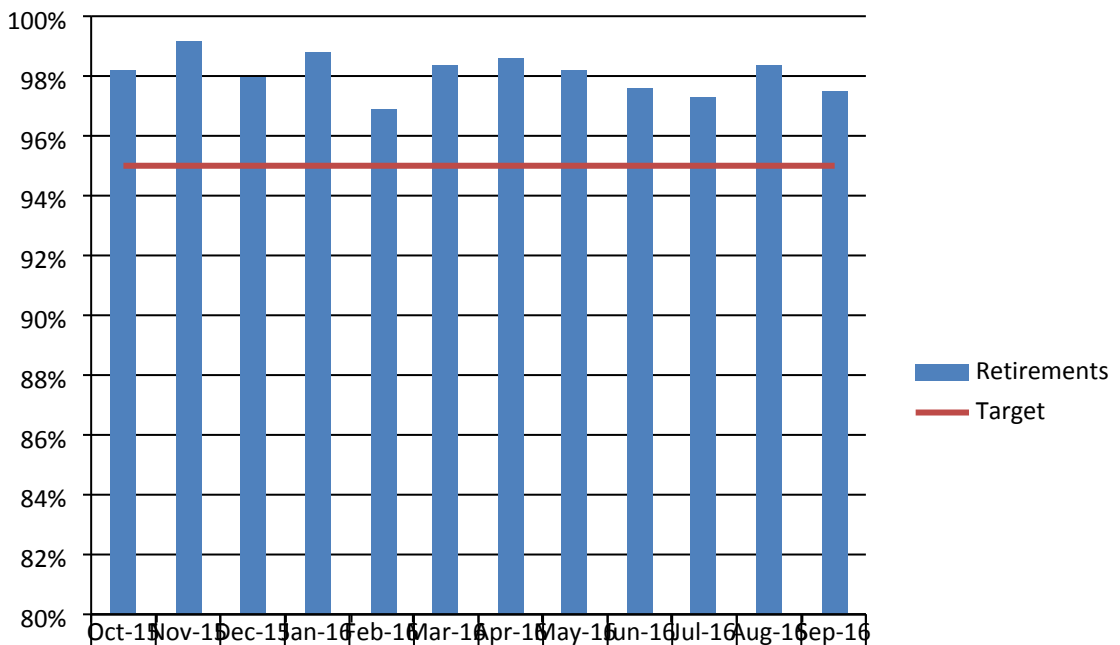


Chart 8C - KPI 3 - Transfers out processed within 15 working days



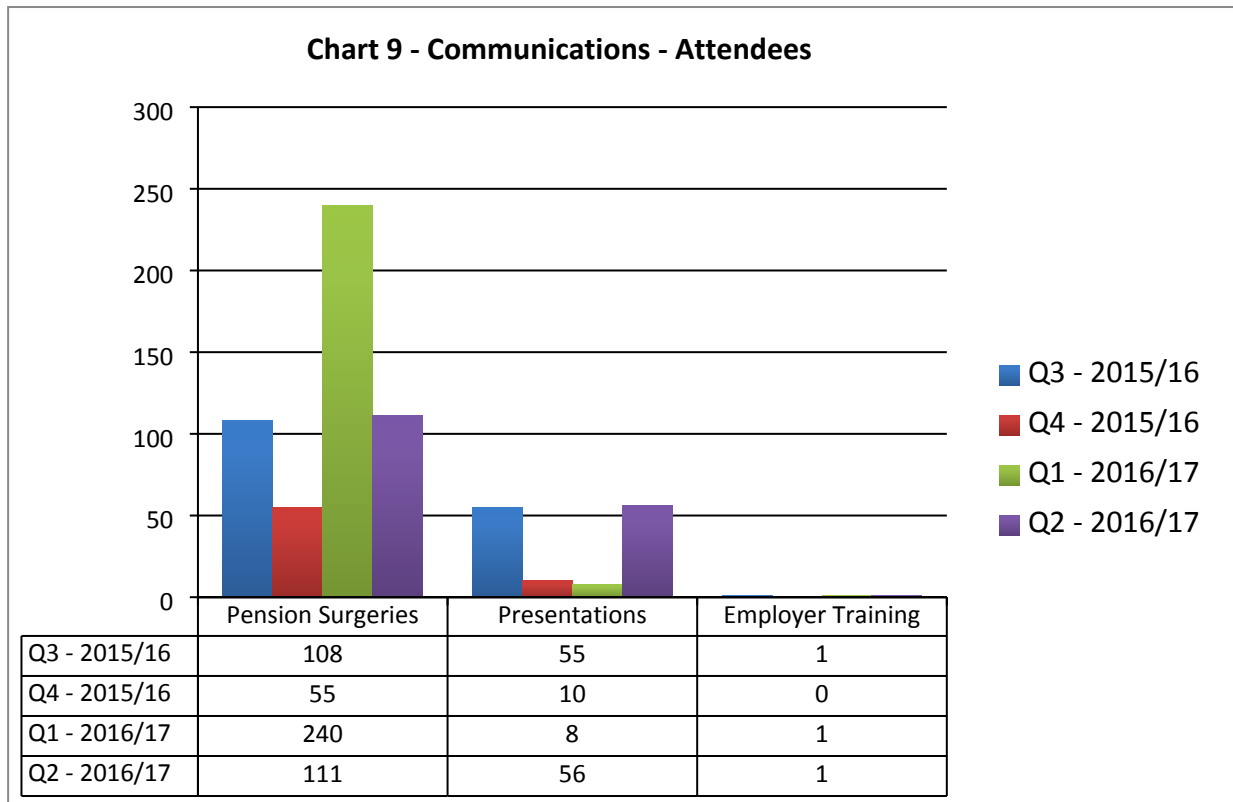
	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Transfers Out	85.71	100	66.67	100	83.33	100	100	100	100	100	100	100
Target	85	85	85	85	85	85	85	85	85	85	85	85
Total	6	3	3	5	6	3	5	0	0	6	3	1

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

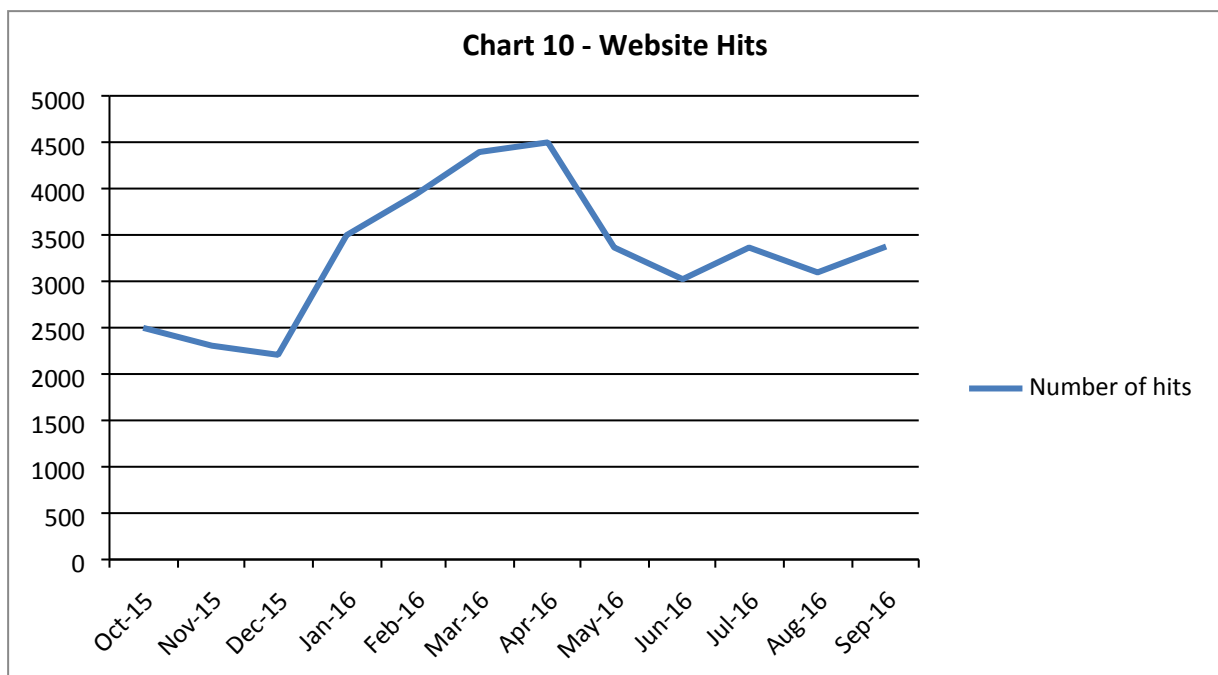


	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Retirements	98.18	99.15	97.96	98.81	96.88	98.36	98.61	98.18	97.59	97.3	98.36	97.5
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	108	116	49	84	64	122	72	55	93	74	122	80

2.6 Administration – Communications



2.7 Website hits



2.8 Special projects

- GMP reconciliation
 - With the removal of the contracted-out nature of public service pension schemes the Pension Fund will be entering into a period of reconciliation with DWP records to ensure that the correct GMP (Guaranteed Minimum Pension) values are held by the Fund. To be concluded by March 2018.

- i-Connect
 - Reading BC have indicated that they wish to implement i-Connect in December 2016
 - Initial discussions have been held with Bracknell Forest, Slough BC and Wokingham BC
- PASA
 - Ongoing with a target date of March 2017 to have all desktop procedures written and accreditation applied for.

2.9 Comments, compliments and complaints

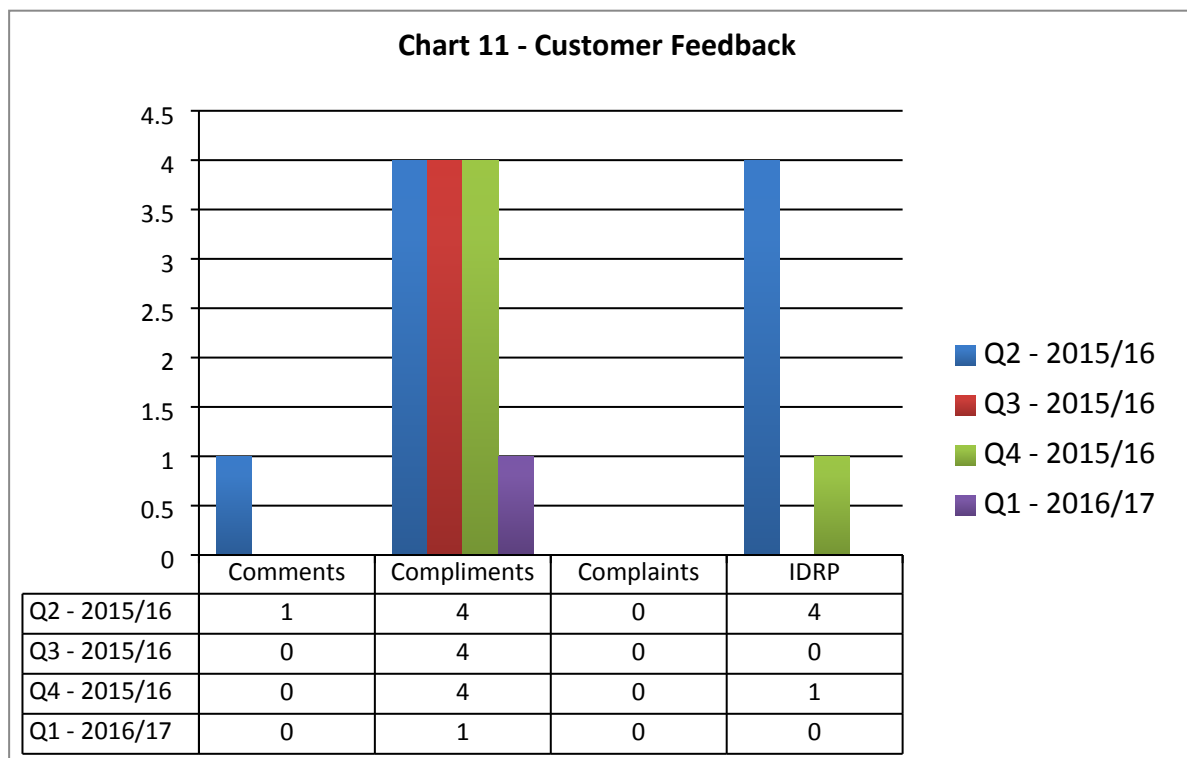


TABLE 9 - INTERNAL DISPUTE RESOLUTION PROCEDURES (IDRP)						
Period	Case	Summary of complaint	Stage 1	Stage 2	Stage 3	Resolution
Q2 – 2015/16	1	Disputing the tier awarded for ill health retirement.	√	√		Case rejected at stage 1. Currently under review at stage 2.
	2	Request for early release of deferred 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.
Q4 – 2015-16	1	Request for release of deferred benefits due to permanent ill health	√			Case rejected at stage 1. No application yet made under 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

Form	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16
1	0	0	0	0	0	0	0	0	0	0	0	0
2A	0	0	0	0	0	0	0	0	0	0	0	0
2B	0	0	0	0	0	0	0	0	0	0	0	0
2C	0	0	0	0	0	0	0	0	8	0	0	0
3	0	1	0	0	2	0	0	1	5	3	2	4
Total	0	1	0	0	2	0	0	1	13	3	2	4

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 Q2 2016-17

Employer	IN	OUT	Total	% IN	Q1	Q4	Q3
Academies	63	154	217	29.03%	14.52%	24.15%	69.81%
Bracknell Forest Council	145	173	318	45.60%	73.33%	84.96%	96.00%
RBWM	0	4	4	0.00%	3.13%	61.18%	90.77%
Reading BC	25	300	325	7.69%	24.77%	40.51%	68.24%
Slough BC	147	36	183	80.33%	58.11%	66.67%	94.44%
University of West London	n/a	n/a	n/a	n/a	n/a	n/a	n/a
West Berkshire Council	32	495	527	6.07%	20.00%	4.24%	90.96%
Wokingham BC	36	70	106	33.96%	13.93%	70.37%	70.37%
Wokingham BC (Selima)	2	5	7	28.57%	0.00%	0.00%	28.57%

Note: the figures supplied in the above table for RBWM do not include starters received via i-Connect. The statistics represent starters received from employers in the Royal Borough who choose not to use RBWM payroll services. All new starters set up via i-Connect have been done so within the specification deadline.

Leavers received within specification Q2 2016-17

Employer	IN	OUT	Total	% IN Spec	Q1	Q4	Q3
Academies	109	104	213	51.17%	14.29%	41.46%	37.89%
Bracknell Forest Council	138	86	224	61.61%	77.78%	60.00%	56.00%
RBWM	71	94	165	43.03%	26.53%	26.53%	46.67%
Reading BC	29	88	117	24.79%	28.33%	44.44%	49.53%
Slough BC	49	32	81	60.49%	62.07%	33.33%	63.29%
University of West London	n/a	n/a	n/a	n/a	0.00%	n/a%	100.00%
West Berkshire Council	42	218	260	16.15%	50.00%	9.52%	36.94%
Wokingham BC	35	25	60	58.33%	44.44%	27.57%	55.77%
Wokingham BC (Selima)	3	26	29	10.34%	0.00%	0.00%	14.75%

Note: the figures supplied in the above table for RBWM do not include leavers received via i-Connect. The statistics represent leavers received from employers in the Royal Borough who choose not to use RBWM payroll services. All leavers received via i-Connect were done so within the specification deadline.

Retirements not notified within 5 days from retirement date – Q2 2016-17

Employer	Member	Days Over 5
RBWM	AC	25
RBWM	AC	25
RBWM	SG	22
Reading BC	JC	19
Reading BC	RW	5
West Berkshire Council	ST	17
West Berkshire Council	JL	46
West Berkshire Council	MN	39
West Berkshire Council	JB	10
Wokingham BC (Selima)	CS	37
Wokingham BC (Selima)	MH	25

Lump sums paid >30 days after retirement date – Q2 2016-17

Employer	Member	Days Over 30	Interest	Reason
Berkshire Fire & Rescue	AAGN	22	£24.00	1
Bracknell Forest Council	JAM	43	£6.00	2
Bracknell Forest Homes	ADP	25	£19.00	
East Berkshire College	EP	17	£25.00	1
Newbury College	NB	5	£11.00	1
RBWM	SAN	56	£74.00	1
RBWM	SS	15	£24.00	1
Reading BC	LH	26	£15.00	1
Reading BC	MS	34	£47.00	1
Reading BC	SL	29	£46.00	1
West Berkshire Council	JMS	20	£35.00	1
Wokingham BC	VMC	16	£49.97	1

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