

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 May 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 October 2016 to 31 March 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. On this particular occasion this report covers 2 periods as an opportunity to report to 31 December 2016 has not previously been available.

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

QUARTERS 3 AND 4– 2016/17

1 October 2016 TO 31 March 2017

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1. INVESTMENT PERFORMANCE AND ASSET ALLOCATION

1.1 Pension Fund key financial indicators

Table 1	March 2013	March 2016	March 2017
Asset Value (Smoothed)	£1,561.8m	£1,645.0m	£1,894.8m
Asset Value (Unsmoothed)	£1,572.4m	£1,655.8m	£1,919.0m
Liabilities (Smoothed)	£2,088.8m	£2,242.0m	£2,555.2m
Liabilities (Unsmoothed)	£2,107.7m	£2,256.2m	£2,534.7m
Deficit (Smoothed)	£527.0m	£597.0m	£660.4m
Deficit (Unsmoothed)	£535.3m	£600.4m	£615.8m
Funding Level (Smoothed)	75%	73%	74%
Funding Level (Unsmoothed)	75%	73%	76%
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%	2.9%
Investment Performance Target (CPI + 4%)	6.7%	6.4%	6.8%
Nominal Earnings Inflation Assumption	4.5%	3.9%	4.3%
Consumer Price Index Inflation Assumption	2.7%	2.4%	2.8%
Employers Contributions – Future Service	12.7%	14.3%	16.0%
Employers Contributions – Past Service Deficit	6.9%	7.7%	7.8%

1.2 Change in the smoothed liabilities

Table 2	31 March 2017
Liability reconciliation	£m
Disclosed smoothed liability at 31/03/2016	2,242.0
New liabilities (excluding transfers in)	98.8
Liabilities extinguished	-104.2
Net new liabilities from bulk transfers in/out	-
Interest on liabilities	132.4
Change due to discount rate	-14.4
Change due to inflation assumption	200.5
Increase in Liabilities	313.2
Smoothed liability at 31 March 2017	2,555.2

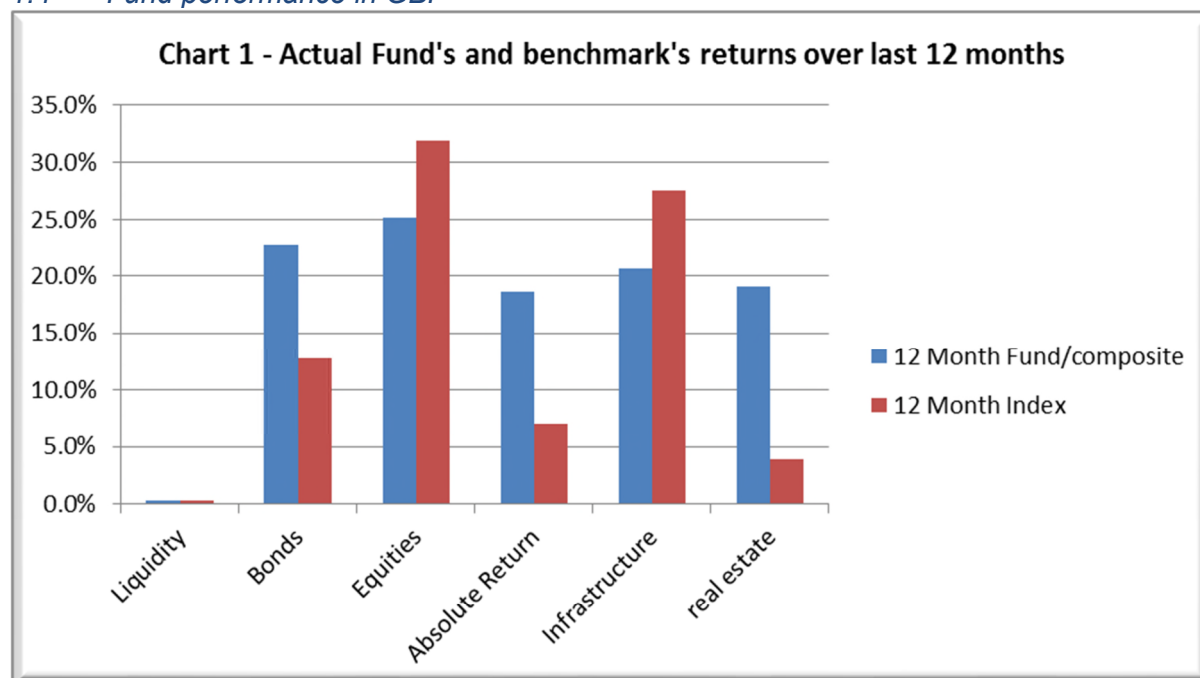
NOTE: The actuary smooths liabilities by taking the average liability figure over the last 6 months. The liabilities are now valued on the 2016 basis and consistent with the 2016 actuarial valuation, the value of the longevity swap is now included in the asset value rather than the liability value (but 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 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	0.08%	0.33%	0.35%	
1 Week GBP Libor	Index	0.06%	0.33%	0.43%	
	Relative	0.03%	0.00%	-0.07%	
Bonds	Fund	1.27%	22.79%	13.85%	6.83%
Barclays Global Aggregate	Index	0.56%	12.76%	9.63%	-1.90%
	Relative	0.72%	10.03%	4.22%	8.73%
Developed Markets Equities	Fund	5.20%	25.59%	n/a	9.26%
Morgan Stanley Capital International (MSCI) World	Index	5.12%	31.92%	n/a	14.77%
	Relative	0.08%	-6.33%	n/a	-5.51%
Emerging Markets Equities	Fund	9.60%	30.29%	11.49%	13.35%
Morgan Stanley Capital International EM Equities	Index	10.13%	34.73%	11.35%	17.21%
	Relative	-0.52%	-4.44%	0.13%	-3.86%
Private Equity	Fund	-1.79%	17.80%	n/a	2.48%
9% per annum	Index	2.17%	9.01%	n/a	9.01%
	Relative	-3.97%	8.78%	n/a	-6.53%
Total Equities	Fund	4.67%	25.13%	12.80%	8.86%
Morgan Stanley Capital International World	Index	5.12%	31.92%	16.13%	14.77%
	Relative	-0.44%	-6.79%	-3.34%	-5.91%
Absolute Return	Fund	0.67%	18.57%	10.81%	7.37%
7% per annum	Index	1.68%	7.00%	7.00%	7.00%
	Relative	-1.02%	11.57%	3.81%	0.37%
Infra-structure	Fund	0.41%	20.65%	12.49%	4.97%
FTSE Global Core 50/50	Index	6.96%	27.46%	17.97%	10.89%
	Relative	-6.54%	-6.81%	-5.49%	-5.92%
Real Estate	Fund	3.57%	19.09%	12.61%	6.37%
UK Investment Property Databank	Index	2.35%	3.89%	11.14%	
	Relative	1.23%	15.20%	1.47%	
Total Fund Nominal	Fund	3.19%	15.83%	8.67%	
UK CPI	Index	0.59%	2.30%	0.94%	
Total Fund Real	Relative	2.59%	13.24%	7.66%	
Total Fund Target (4% real)		0.97%	4.00%	4.00%	

1.4 Fund performance in GBP



1.5 Exception Traffic Lights

Table 4

Traffic Lights March 2017					
Colour		£ m	Fund %	Comment	Date Traffic Light Changed
	BONDS				
	Convertible Bonds				
Amber	Aviva	36.9	1.9%	Change in management team & weak performance Currency volatility has resulted in disappointing GBP returns.	Jul-14
Amber	Blue Bay Global	27.5	1.4%		Jul-14
	EQUITIES				
	Private Equity				
Amber	South East Growth Fund	2.4	0.1%	Terms of additional extension to fund life agreed Disappointing performance. Buyer not found	Jul-13
Amber	Stafford Sustainable Fund	4.9	0.2%		Jul-13
	Absolute Return				
Red	Grosvenor	175.9	8.9%	Disappointing performance in 2016	Oct-16
	INFRASTRUCTURE				
Amber	Macquarie SBI Infrastructure Ltd	4.4	0.2%	Performance adversely affected by delays in construction of key assets	Jul-13
	Total Fund Valuation (excl prepaid contribs)		1,985.8		

Key

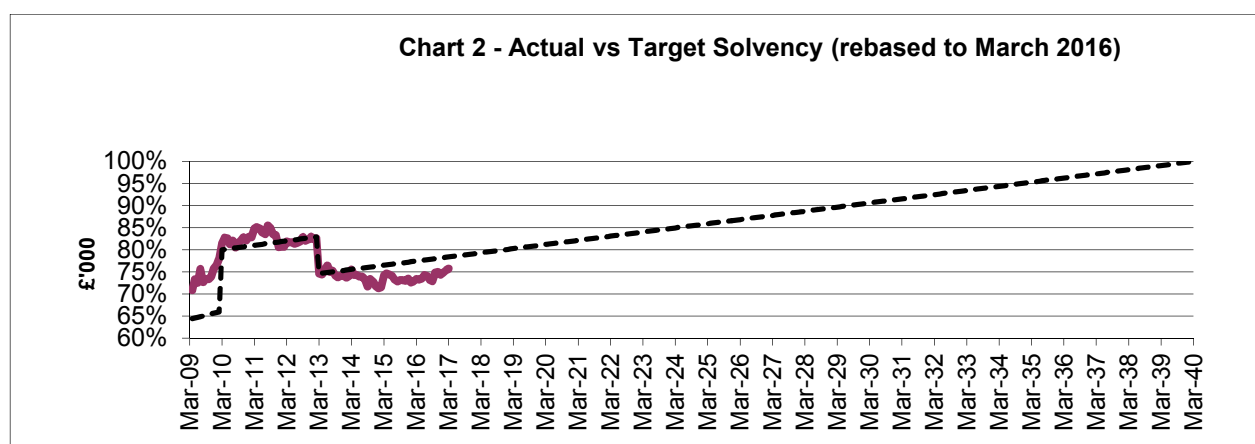
Colour Comment

- 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	31/03/2017	12m	36m
				change	change
Liquidity	1.1%	5.1%	5.7%	0.6%	3.4%
Investment Grade Debt	7.9%	5.0%	3.2%	-1.7%	-3.3%
Other Debt	8.7%	9.4%	10.0%	0.6%	1.5%
Total Debt	16.6%	14.3%	13.2%	-1.1%	-1.8%
Developed Market Equities	17.2%	22.1%	24.1%	2.1%	6.4%
Developing Market Equities	14.7%	12.4%	12.6%	0.2%	-1.4%
Private Equity	9.2%	10.1%	11.7%	1.6%	2.3%
Total Equities	41.1%	44.6%	48.4%	3.8%	7.4%
Absolute Return	17.3%	17.4%	9.1%	-8.3%	-7.9%
Infrastructure	4.7%	4.7%	6.7%	2.0%	2.7%
Commodities	9.8%	2.6%	2.8%	0.2%	-5.8%
Real Estate	9.8%	11.1%	13.1%	2.0%	1.0%
Other	-0.3%	0.2%	1.1%	0.8%	0.9%
Real Assets	23.9%	18.5%	23.6%	5.0%	-1.1%
Fund Total	100%	100%	100%		

1.7 Solvency



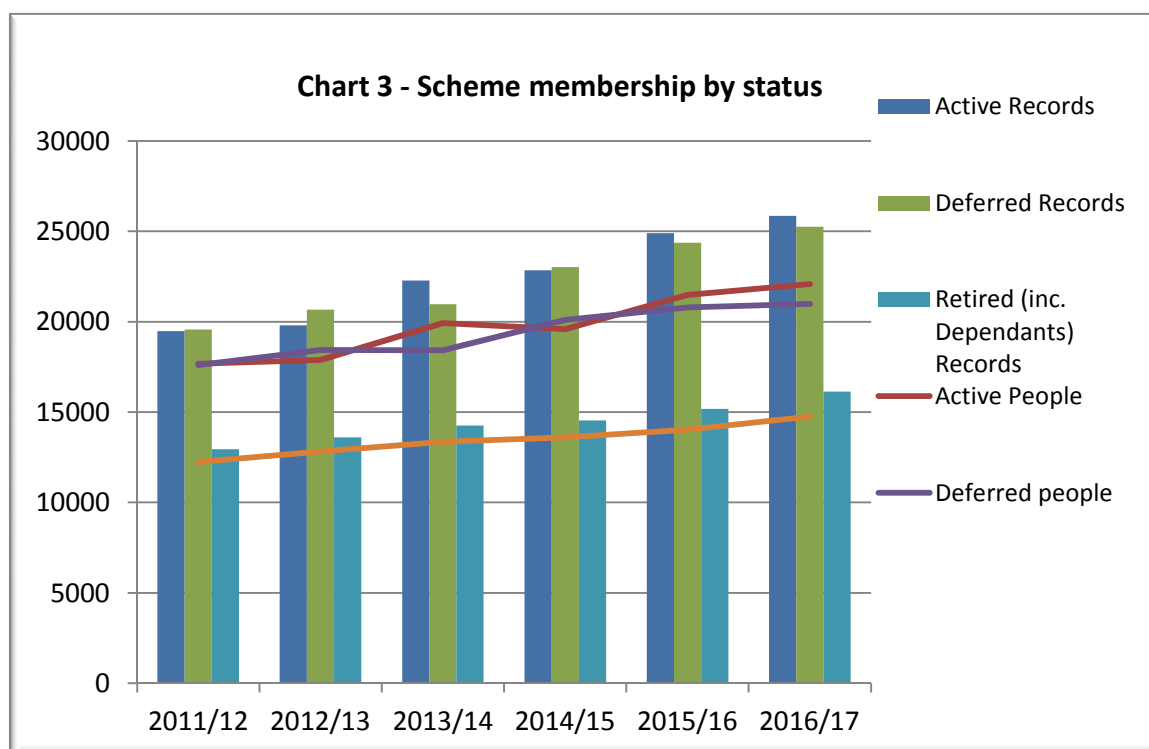
Month	Smoothed		Unsmoothed	
	Surplus/Deficit £000s	Funding Level	Surplus/Deficit £000s	Funding Level
April 2016	(610,743)	73%	(606,411)	73%
May 2016	(624,046)	73%	(603,573)	73%
June 2016	(606,181)	74%	(603,343)	74%
July 2016	(631,662)	74%	(621,480)	74%
August 2016	(660,867)	73%	(658,752)	73%
September 2016	(666,477)	73%	(674,843)	73%
October 2016	(616,716)	75%	(623,205)	75%
November 2016	(635,182)	75%	(608,174)	75%
December 2016	(657,657)	74%	(640,167)	74%
January 2017	(634,263)	75%	(631,781)	75%
February 2017	(650,028)	74%	(623,114)	75%
March 2017	(660,393)	74%	(615,796)	76%

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?

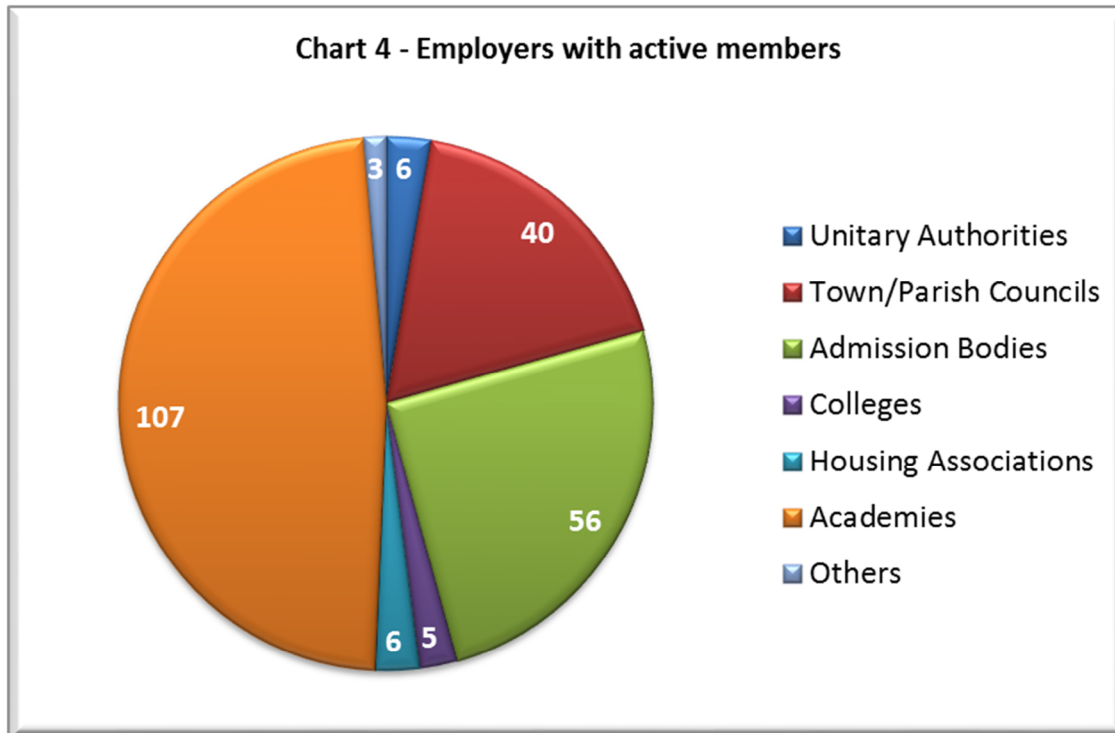
2 GOVERNANCE AND ADMINISTRATION

2.1 Scheme membership



TOTAL MEMBERSHIP			
Active Records	25845	Active People	22073
Deferred Records	25256	Deferred People	20985
Retired Records	16126	Retired People	14757
TOTAL	67227	TOTAL	57815

2.2 Scheme Employers

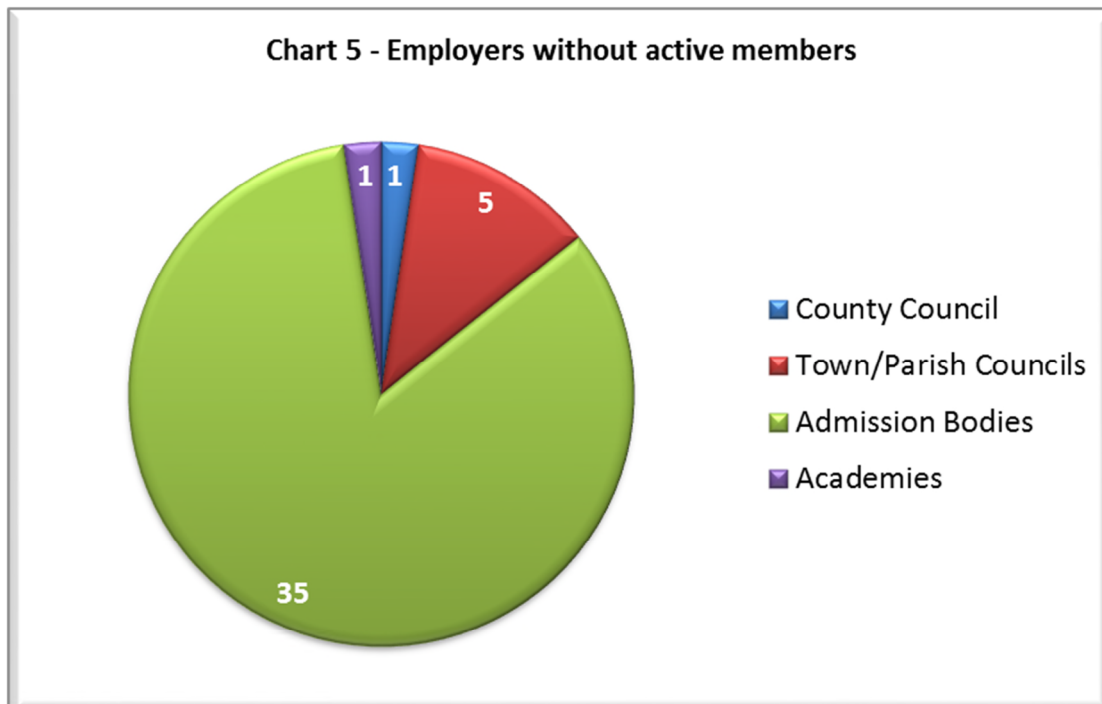


New employers since last report:

Admission Bodies: Innovate Services Ltd (Emmbrook School).

Academies: St Anthony's School (Slough), St Ethelbert's School (Slough), St Joseph's School (Slough), Northern House School (Wokingham), Speenhamland Primary School (West Berkshire)

Town/Parish Councils: Lambourn Parish Council, Greenham Parish Council, Yattendon Parish Council



Exiting employers: VolkerHighways (West Berkshire contract).

2.3 Scheme Employer Key Performance Indicators

Employer	Starters	Leavers	Changes	Total	Errors	Achieved
RBWM	209	378	659	1246	59	95.26%
Reading BC	282	155	1103	1540	111	92.79%
Academies	76	20	243	339	22	93.51%
Colleges	14	7	444	465	12	97.42%
Others	-	-	-	-	-	-
Totals	581	560	2449	3590	204	94.32%

NOTES: Table 8A above shows all transactions through i-Connect is the final quarter of 2016/17. Changes include hours/weeks updates, address amendments and basic details updates.

The 'errors' identified arise where manual updates have been made to pension records by scheme administrators in advance of the i-Connect file being uploaded to altair (normally upon receipt of a paper document by the Fund ahead of the file upload date). Although flagged up by i-Connect, all 'errors' are quickly resolved ahead of the next file upload date.

In this way records are maintained in 'real-time' so that scheme members accessing member self-service are presented with up to date and accurate information at all times. In this way the scheme employer's payroll data will match the Pension Fund's data for each scheme member and so providing the employee has notified their payroll of any changes (name, address etc.) they will not need to notify the Pension Fund as well (although of course this can also be achieved and/or through member self-service).

Employer	Starters	Leavers	Total	Achieved	Trend		
					Quarter >1	Quarter >2	Quarter >3
Bracknell	118	133	251	71.79%	70.11%	53.61%	75.56%
RBWM	38	99	137	33.35%	60.57%	43.03%	20.14%
Reading	6	90	196	49.45%	53.91%	16.24%	26.55%
Slough	103	72	175	50.65%	39.36%	70.41%	60.09%
W Berkshire	229	266	495	32.19%	27.17%	11.11%	35.00%
Wokingham	69	62	131	39.90%	67.41%	46.15%	29.19%
WBC Schs.	134	65	199	14.64%	18.18%	20.81%	4.44%
Academies	121	128	249	39.44%	41.29%	38.42%	19.20%
Colleges	40	43	83	34.94%	38.10%	29.95%	46.06%
Others	101	83	184	45.73%	47.36%	41.40%	36.66%
Totals	959	1041	2000	41.21%	48.79%	34.96%	35.07%

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.

2.4 Administration – Key Performance Indicators

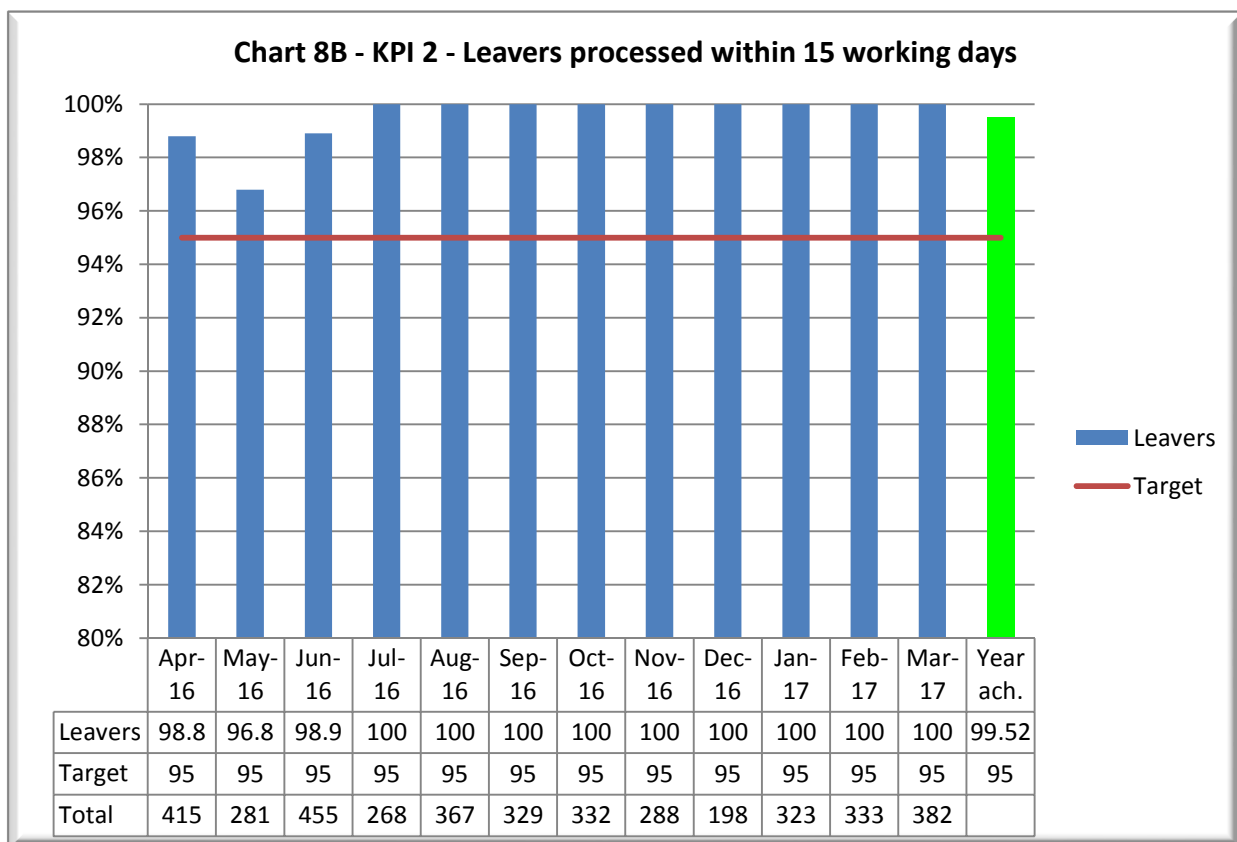
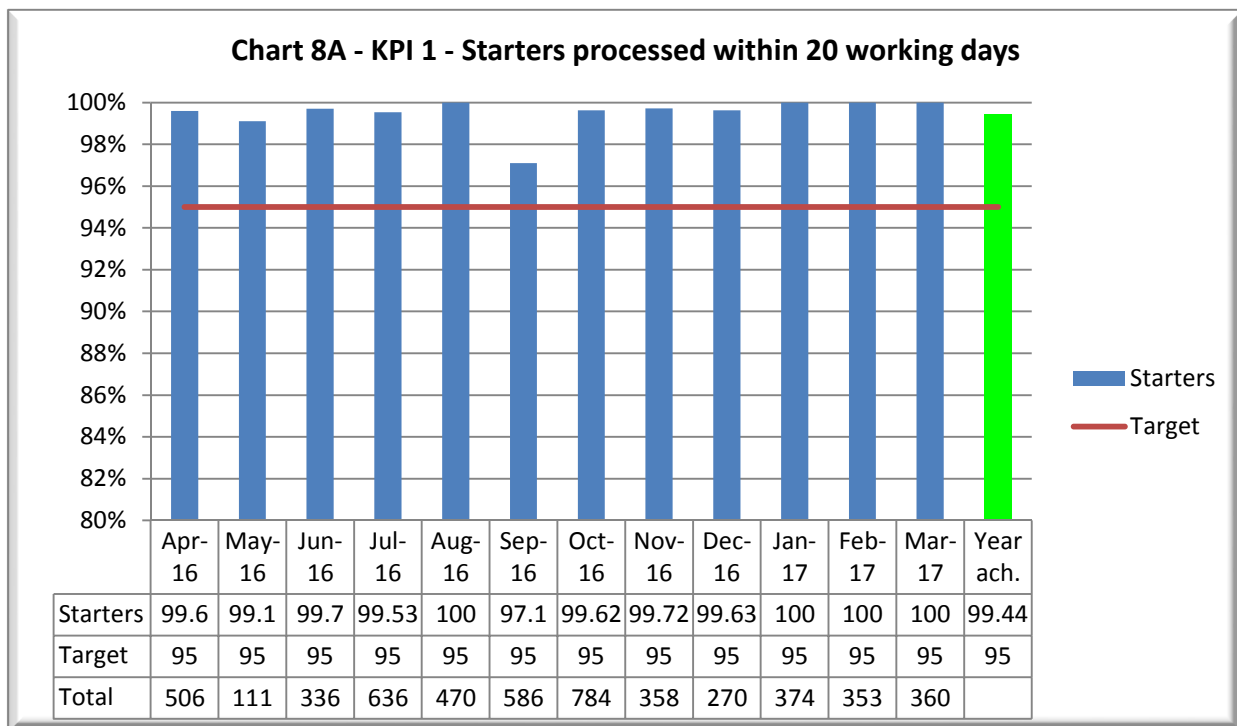


Chart 8C - KPI 3 - Transfers out processed within 15 working days

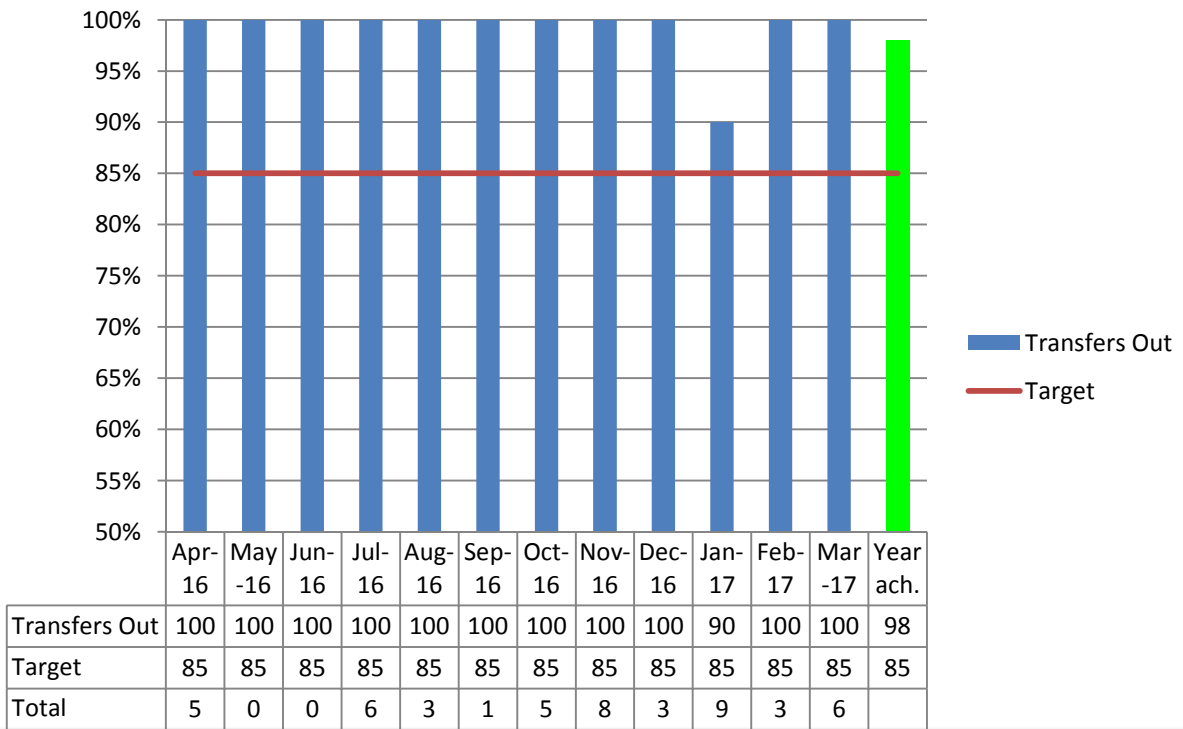
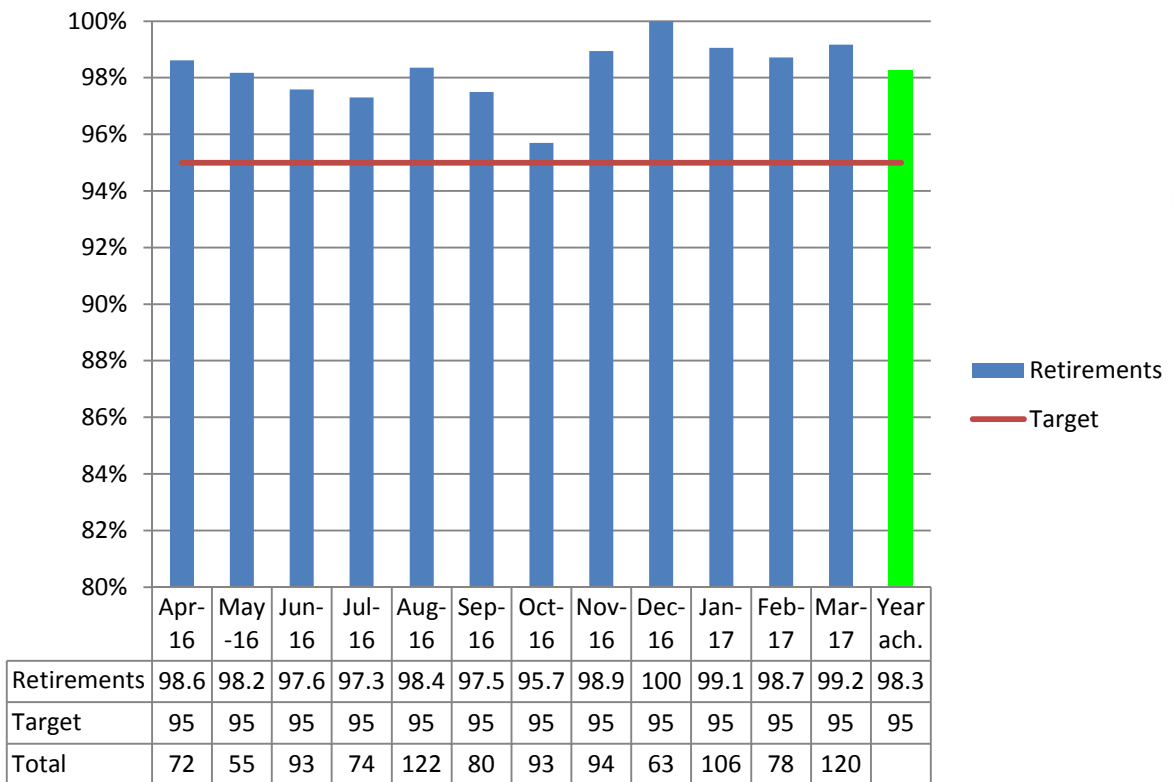
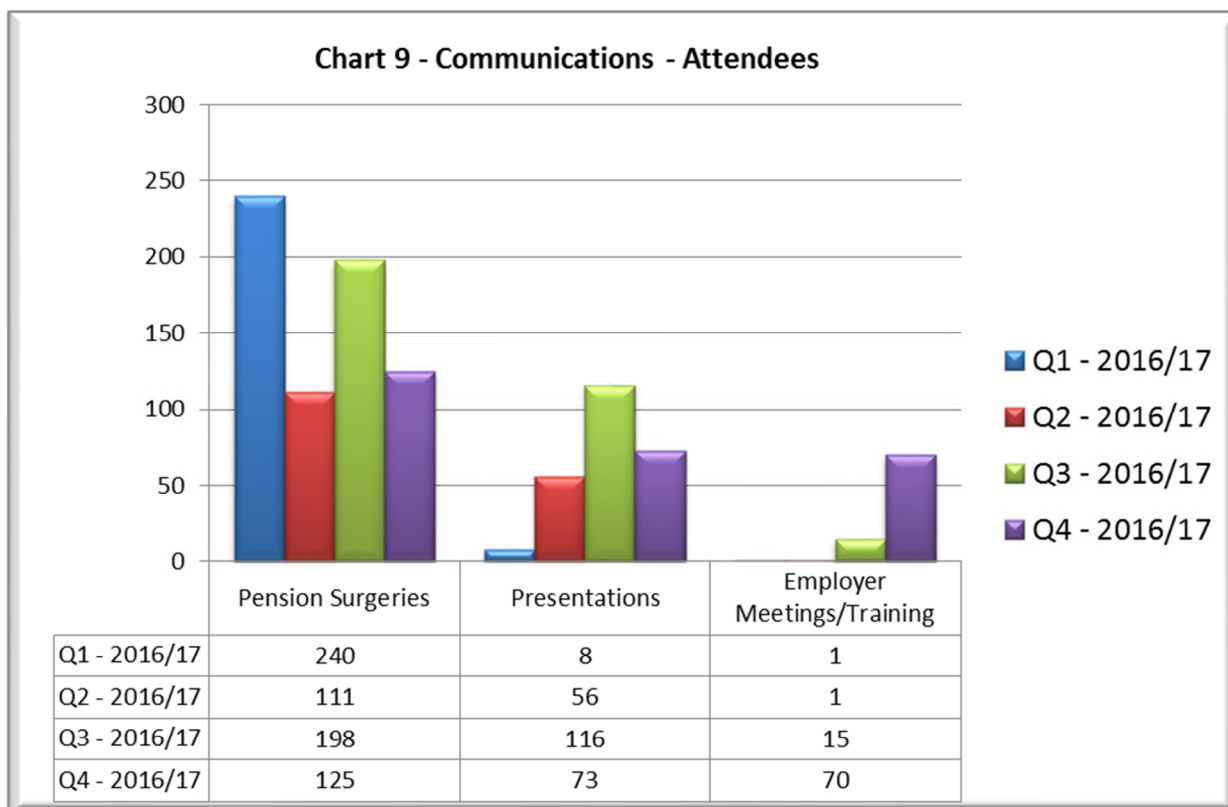


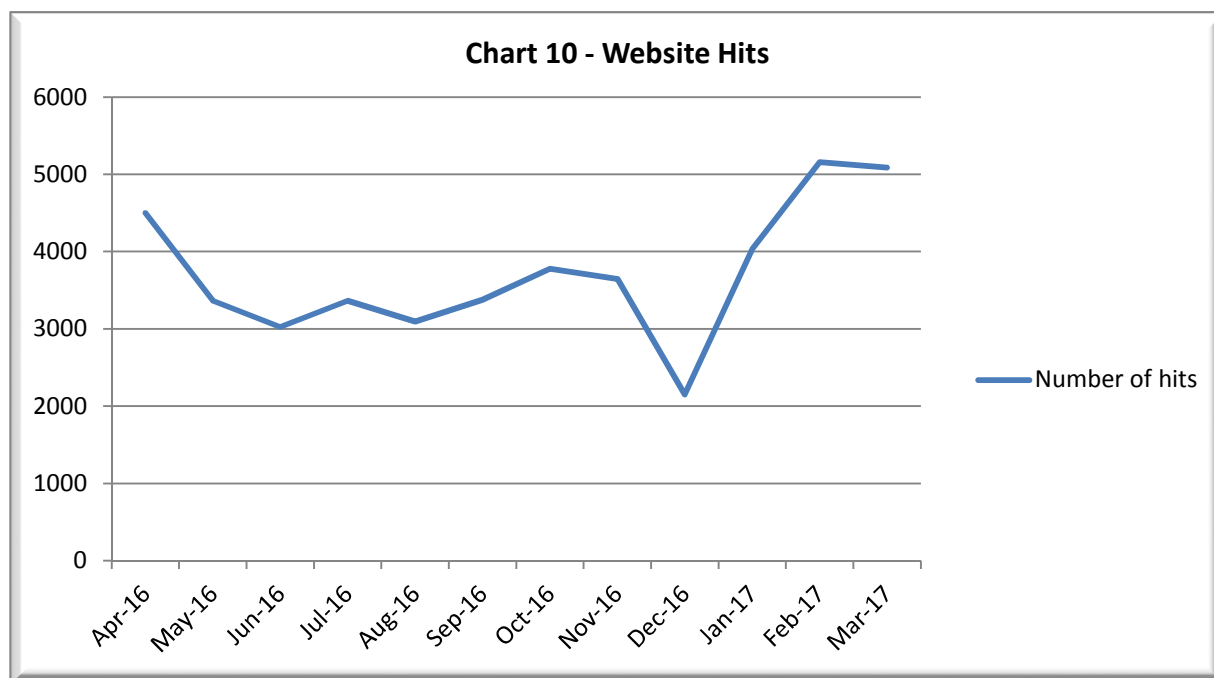
Chart 8D - KPI 4 - Retirements processed within 7 working days



2.5 Administration – Communications



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 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 went live on i-Connect in December 2016
 - Wokingham BC in-house payroll, West Berkshire and Slough expected to go live summer 2017. Some resistance from Bracknell Forest. Berkshire College of Agriculture went live from January 2017.
- PASA
 - Ongoing with a target date of March 2018 to have all desktop procedures written and accreditation applied for.
- ESS
 - Employer Self Service expected to go live in October 2017.
- MSS
 - Upgraded version went live 1 March 2017. Demonstration to Panel Members can be arranged upon request.
- Multi-Academy Trusts
 - Following consultation with academies that form part of a Multi-Academy Trust (MAT) administration practices have been amended to reflect that the MAT is the scheme employer and not the individual academy within the MAT. Over 2,000 scheme member records have been amended meaning that 78 individual academy employers have been amalgamated into 35 MAT employers for administration and accounting purposes.
- Abaka
 - Discussions are currently be held with a company called Abaka which provides pension benefit modelling tools that could be linked to the member self-service facility *mypension ONLINE*. 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.

2.8 *Items of material significance*

- Year-end procedures 2016-17
 - As part of a Service Level Agreement between the Pension Fund and its Scheme employers an annual 'year-end' contribution return is due to be submitted by each employer by 30th April each year. (Please note i-Connect users do not have to submit this file). Receipt of this year-end return leads to the issue of Annual Benefit Statements for scheme members and it is important that the relevant information as requested by the Pension Fund is received from its scheme employers in a timely manner.

The Pension Fund circulates to each scheme employer a template document for completion and return ensuring consistency of data. Of the 238 year-end returns sent by the Fund 189 were submitted within the agreed timeframe. Therefore, 49 employers have failed to meet the deadline set out in the SLA.

This matter continues to be monitored with scheme employers being chased. Further information will be supplied as part of future stewardship reports. However, any employer that fails to submit their return, which leads to the Annual Benefits Statements of their scheme members not being issued within the statutory deadline, will be reported to the Pension Panels and Pension Board and ultimately to The Pensions Regulator if this failure is deemed to be of a material significance.