

Report for:
INFORMATION



Contains Confidential or Exempt Information	No - Part I
Title	Stewardship Report
Responsible Officer(s)	Nick Greenwood, Pension Fund Manager, Kevin Taylor, Deputy Pension Fund Manager, Pedro Pardo, Investment Manager, Philip Boyton, Pension Administration Manager
Contact officer, job title and phone number	Nick Greenwood, Pension Fund Manager 01628 796701
Member reporting	n/a
For Consideration By	Pension Fund and Pension Fund Advisory Panels
Date to be Considered	18 January 2016
Implementation Date if Not Called In	n/a
Affected Wards	None

Report Summary

1. This report deals with the stewardship of the Pension Fund for the period 1 September to 31 November 2015
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 a regular basis
4. There are no financial implications for RBWM in this report

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

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

1ST SEPTEMBER 2015 TO 30TH 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

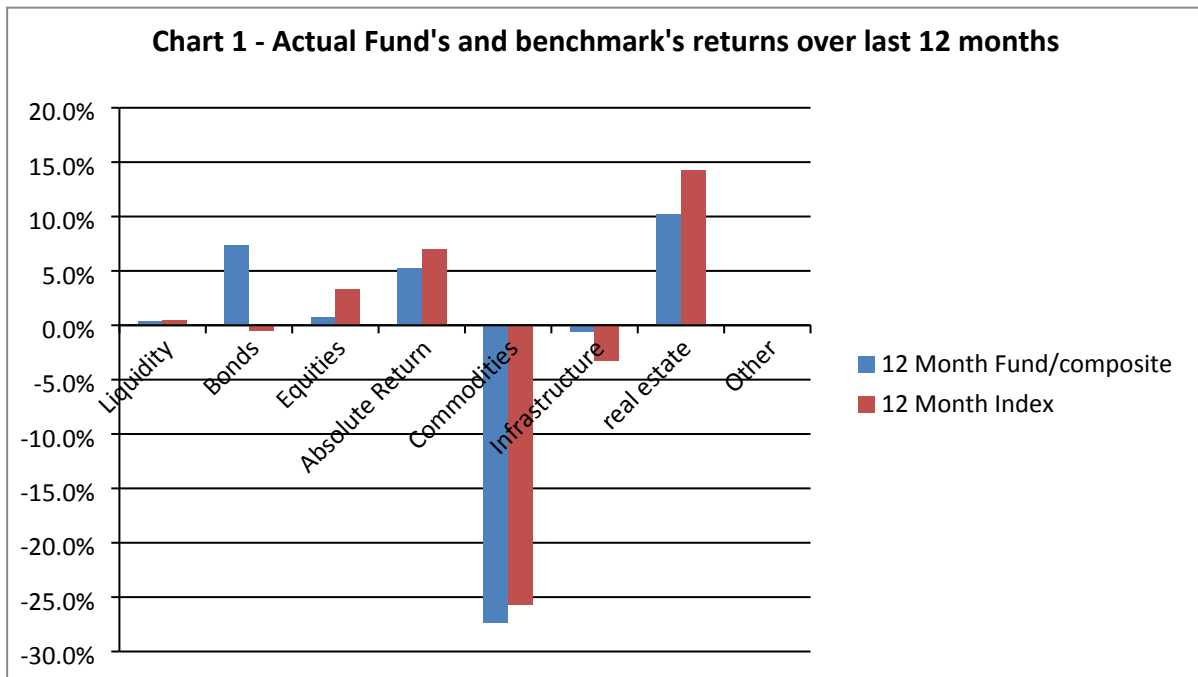
Table 2	30 Nov 2015
Liability reconciliation	£m
Disclosed smoothed liability at 31/03/2013	2,088.8
New liabilities (excluding transfers in)	208.1
Liabilities extinguished	-244.7
Net new liabilities from bulk transfers in/out	-79.8
Interest on liabilities	339.9
Change due to discount rate	47.5
Change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

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
Liquidity	Fund	0.09%	0.35%	0.35%
1 Week GBP Libor	Index	0.12%	0.48%	0.48%
	Relative	-0.03%	-0.13%	-0.13%
Bonds	Fund	2.02%	7.38%	n/a
Barclays Global Aggregate	Index	1.21%	-0.47%	-0.05%
	Relative	0.81%	7.85%	n/a
Developed Markets Equities	Fund	4.78%	2.53%	n/a
Morgan Stanley Capital International (MSCI) World	Index	5.67%	3.28%	13.31%
	Relative	-0.89%	-0.75%	n/a
Emerging Markets Equities	Fund	3.03%	-9.15%	4.00%
Morgan Stanley Capital International EM Equities	Index	2.03%	-13.64%	-2.54%
	Relative	1.00%	4.49%	6.54%
Private Equity	Fund	4.98%	11.35%	n/a
9% per annum	Index	2.18%	9.00%	9.00%
	Relative	2.81%	2.36%	n/a
Total Equities	Fund	4.33%	0.65%	n/a
Morgan Stanley Capital International World	Index	5.67%	3.28%	13.31%
	Relative	-1.34%	-2.63%	n/a
Absolute Return	Fund	0.91%	5.15%	n/a
7% per annum	Index	1.70%	7.00%	7.00%
	Relative	-0.79%	-1.85%	n/a
Commodities	Fund	-9.79%	-27.42%	-17.28%
Custom Equal Weights	Index	-8.89%	-25.67%	-15.86%
	Relative	-0.90%	-1.75%	-1.42%
Infra-structure	Fund	0.41%	-0.62%	5.02%
FTSE Global Core 50/50	Index	2.13%	-3.32%	10.54%
	Relative	-1.73%	2.69%	-5.52%
Real Estate	Fund	0.39%	10.20%	7.12%
UK Investment Property Databank	Index	3.23%	14.28%	14.29%
	Relative	-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>
	BONDS			
	Convertible Bonds			
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.
	EQUITIES			
	Developed World			
Amber	IPM Fundamental Umbrella Fund	169.2	10.0%	Performance remains below target.
	Private Equity			
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
	INFRASTRUCTURE			
Amber	Macquarie SBI Infrastructure Ltd	3.0	0.2%	Performance adversely affected by delays in construction of key assets
	COMMODITIES			
Amber	Gresham	37.2	2.2%	Change in ownership. Poor performance continues
	Total Fund Valuation (excl prepaid contribs)	1,687.8		
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

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
Liquidity	7.9%	1.1%	6.0%	0.6%	4.9%
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%
Total Debt	32.1%	16.6%	13.2%	-0.9%	-3.4%
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%
Total Equities	30.2%	41.1%	41.9%	2.3%	0.8%
Absolute Return	9.9%	17.2%	17.6%	1.3%	0.4%
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%
Real Assets	19.9%	23.9%	21.3%	-3.3%	-2.6%
Fund Total	100%	100%	100%		

1.7 Solvency

Chart 2

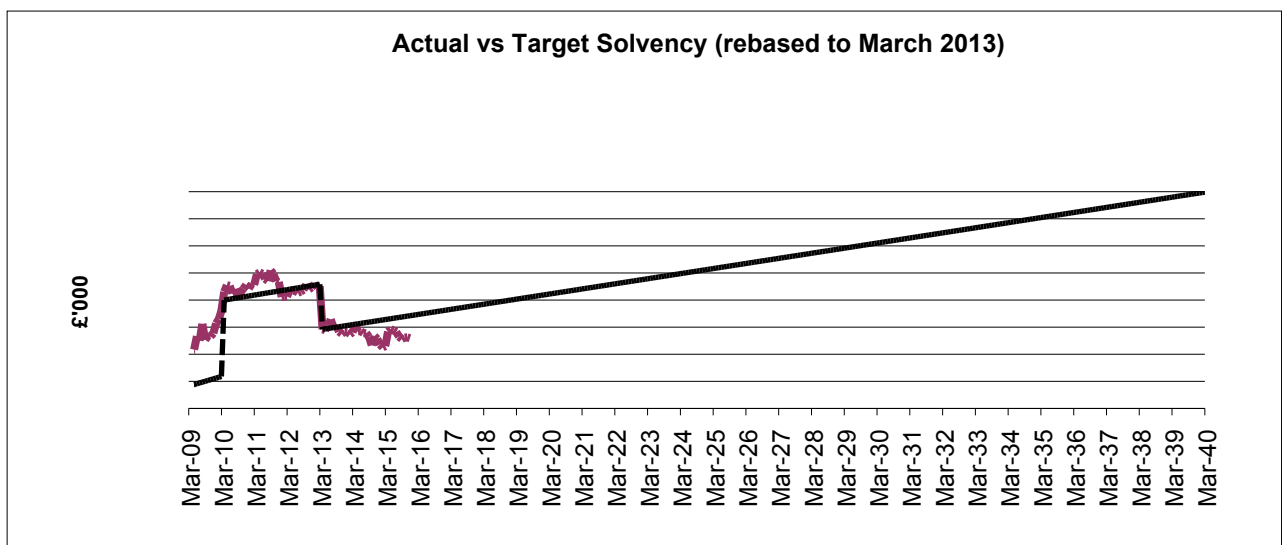
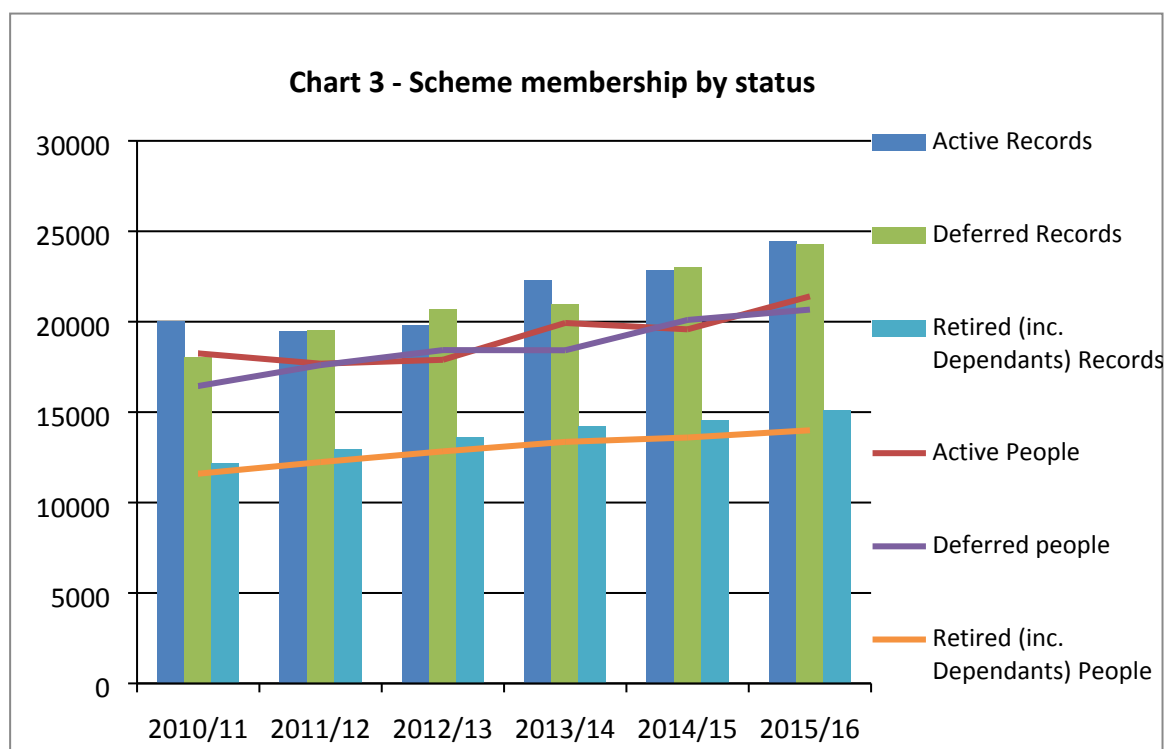


Table 6 - Cashflow	Year to 31/03/2014 (actual) £'000's	Year to 31/03/15 (actual) £'000's	Year to 31/03/16 (forecast) £'000's
Contributions	81,272	87,691	93,700
Transfers received	5,924	1,916	1,900
Employers' early retirement payments	2,602	1,400	3,000
Investment income via Custodian	15,928	23,762	17,000
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
Net cash flow	8,147	-49,555	16,900

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.

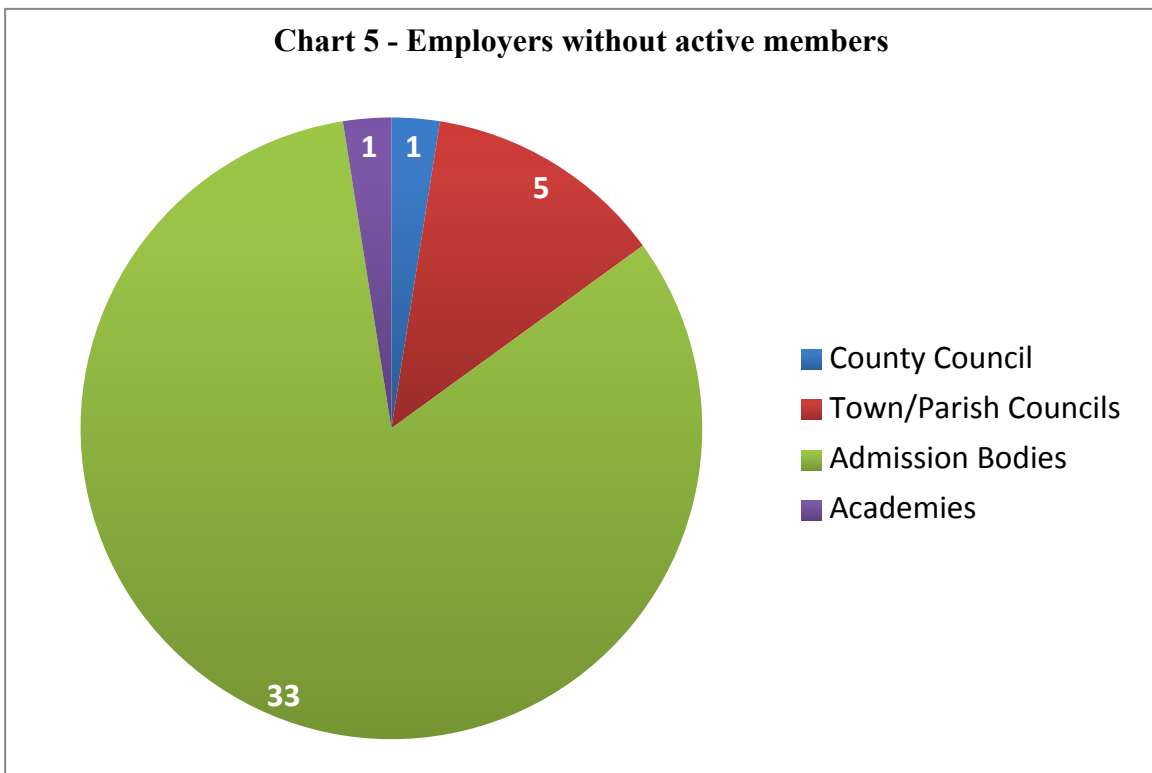
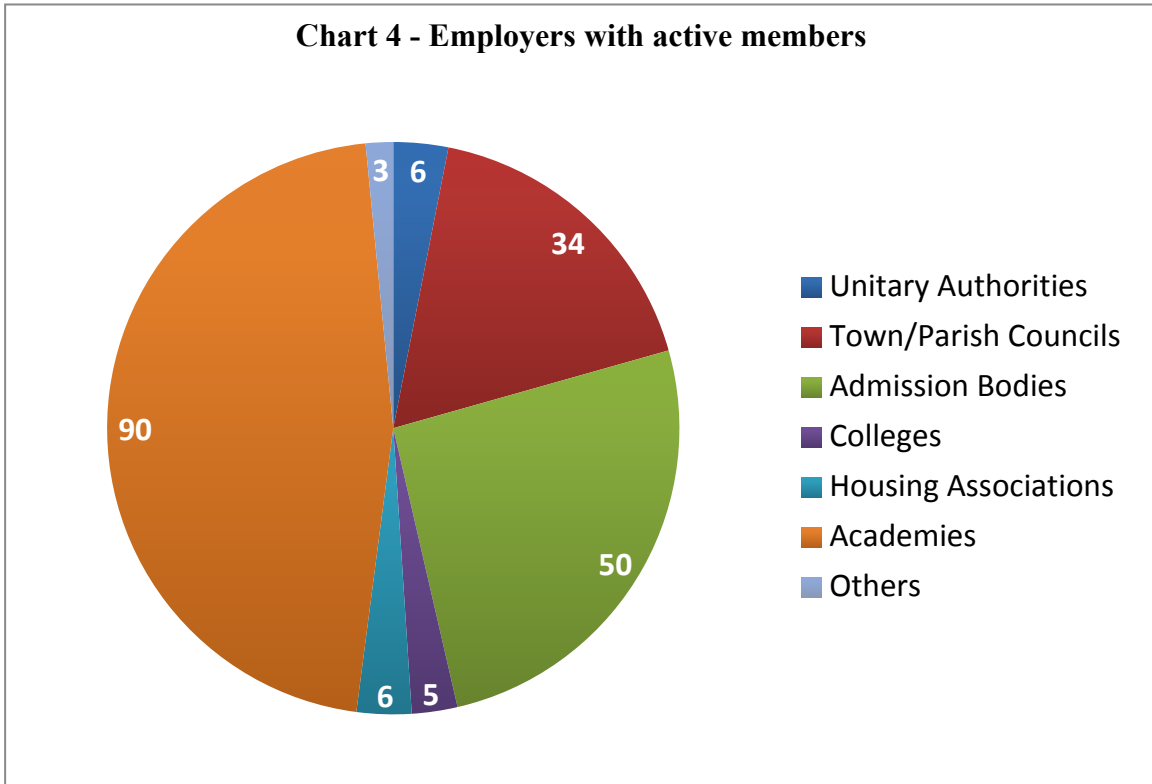
2 GOVERNANCE AND ADMINISTRATION

2.1 Scheme membership

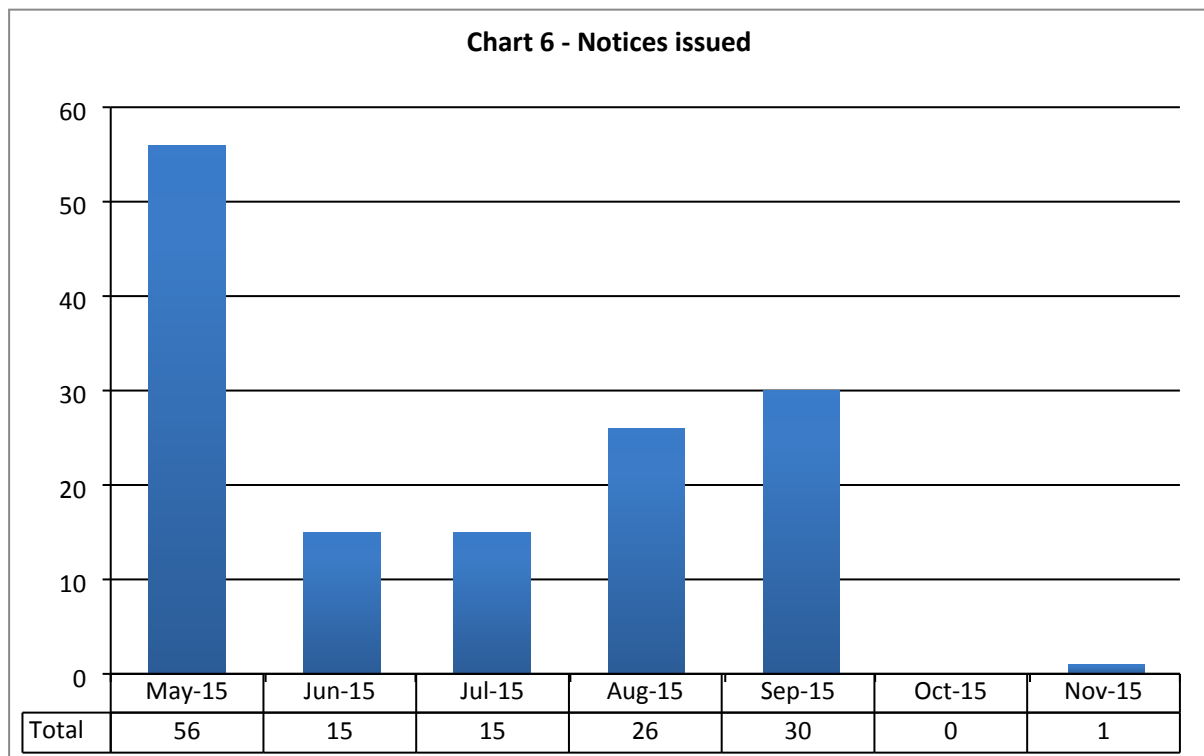


TOTAL MEMBERSHIP			
Active Records	24484	Active People	21401
Deferred Records	24293	Deferred People	20670
Retired Records	15098	Retired People	13996
TOTAL	63875	TOTAL	56067

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

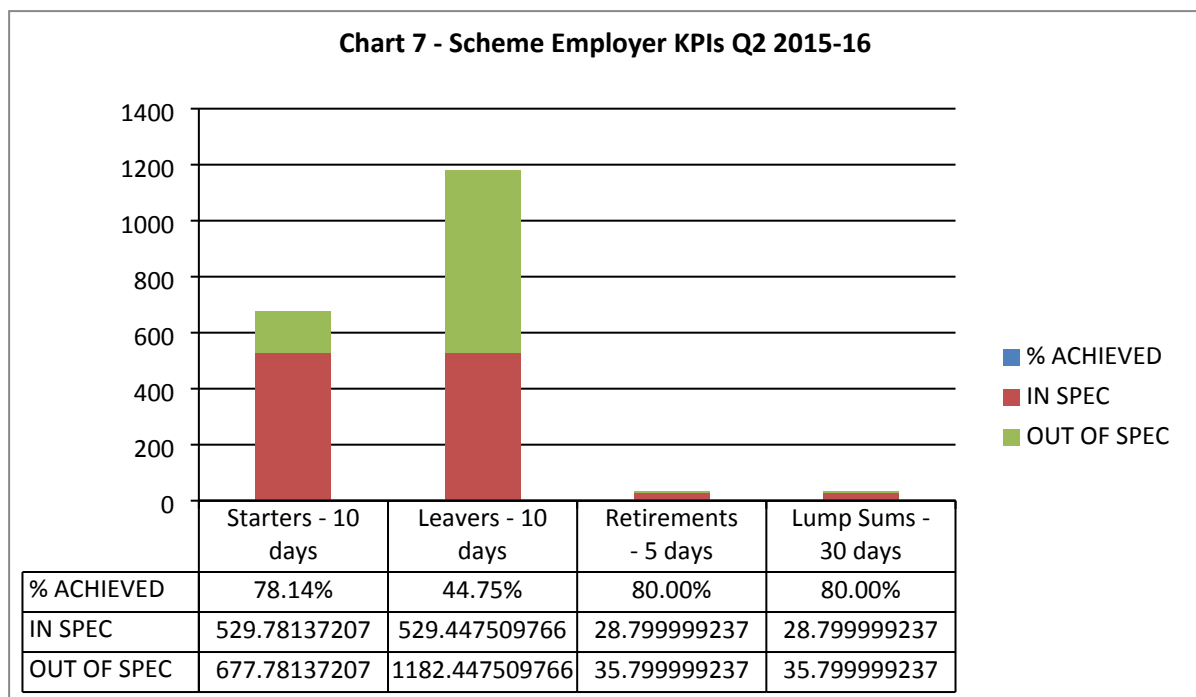


Table 8	TREND	STARTERS	LEAVERS	RETIREMENTS	LUMP SUMS
2015-16	Q2 –OUT	1168	171	18	22
	Q2 – IN	307	82	30	25
	% ACHIEVED	20.81%	32.41%	62.50%	53.19%
2015-16	Q1 –OUT	593	477	8	8
	Q1 – IN	212	262	6	6
	% ACHIEVED	26.34%	35.45%	42.86%	42.86%

2.5 Administration – Key Performance Indicators

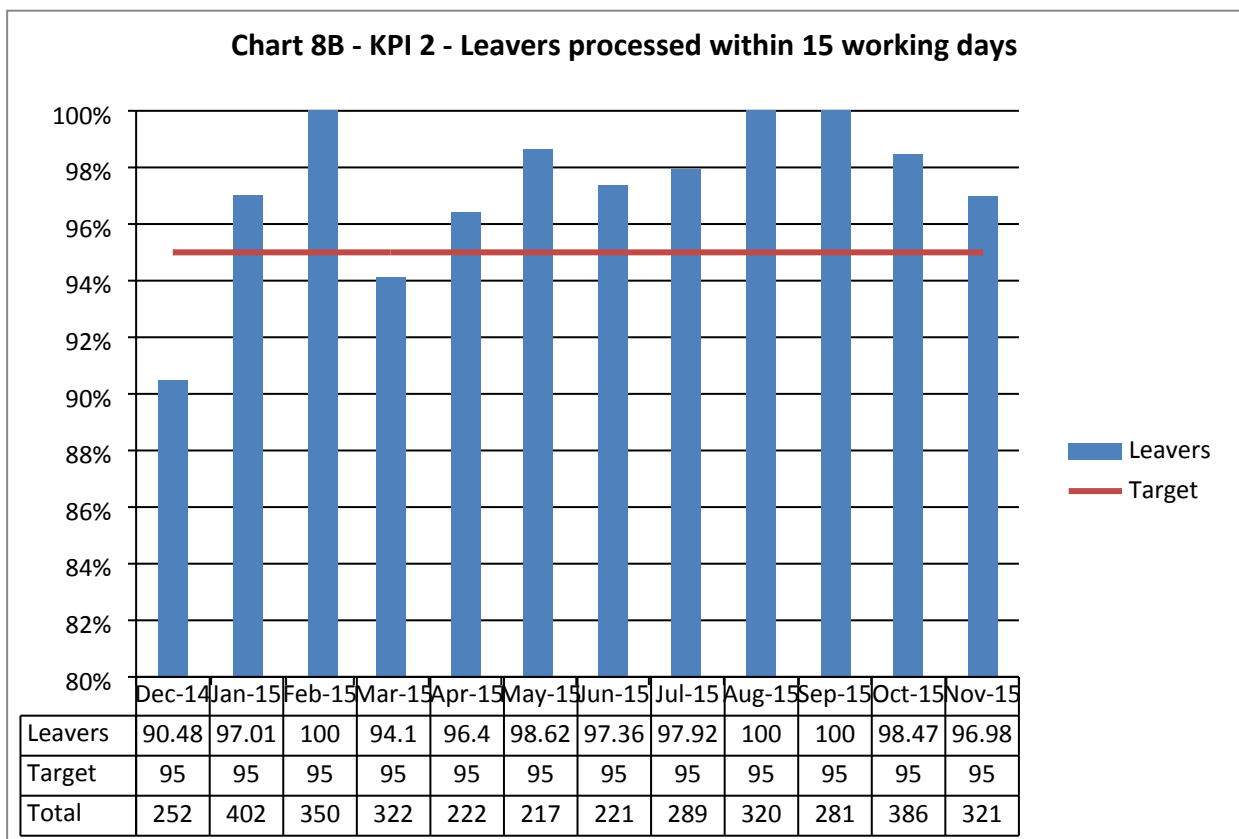
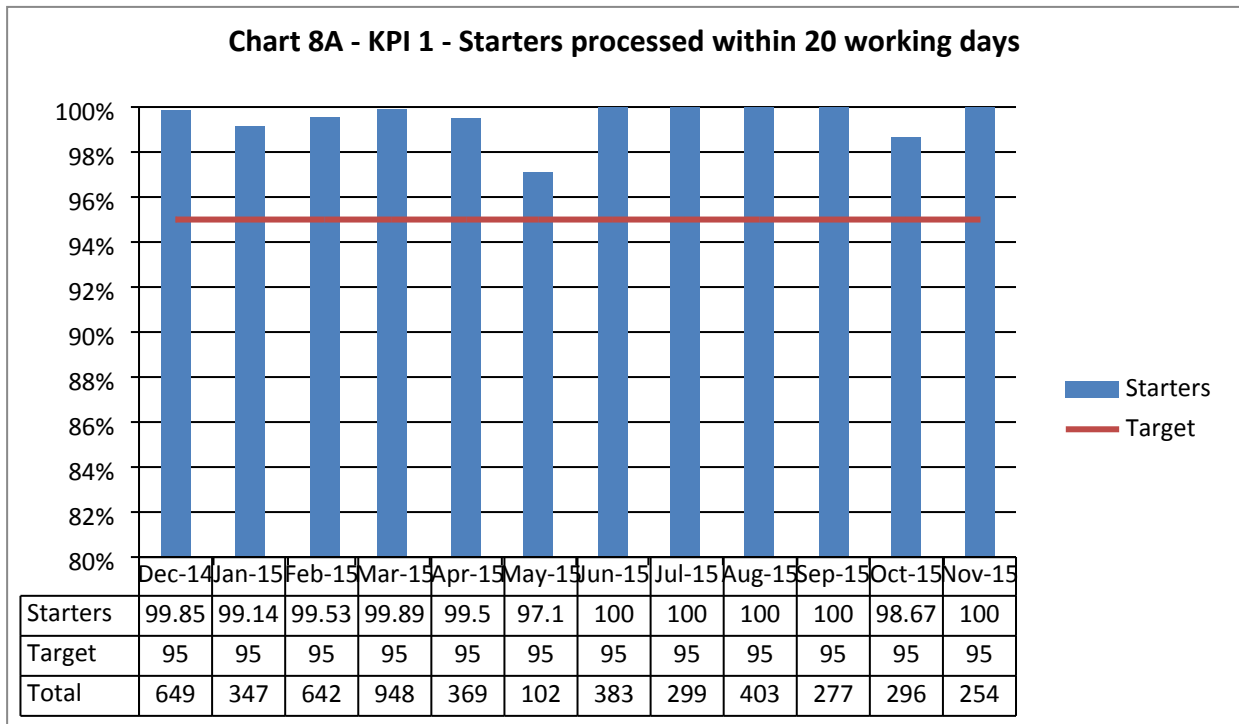
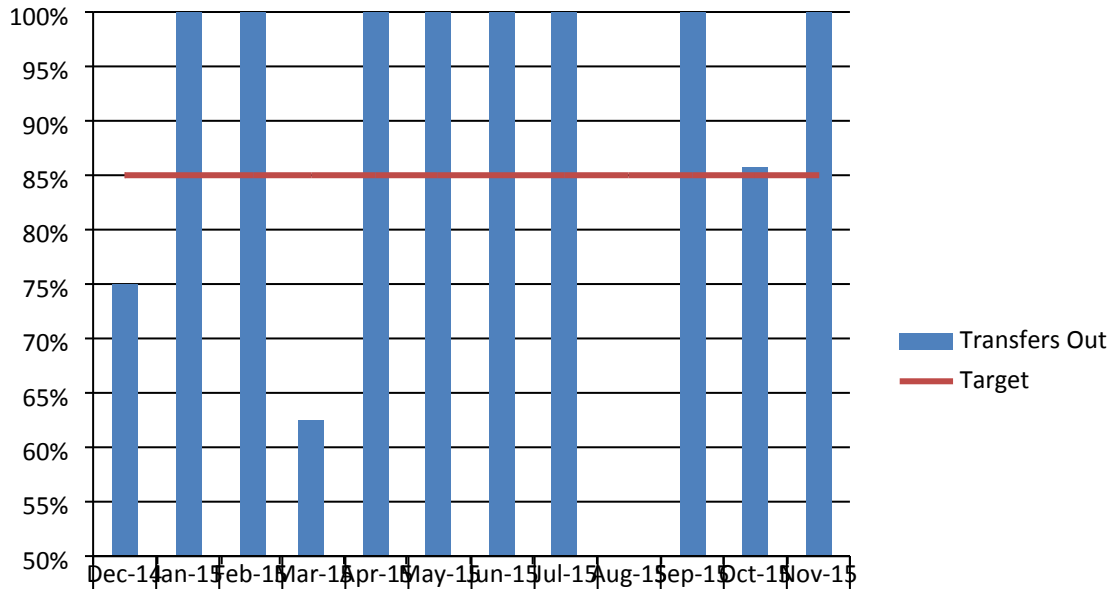
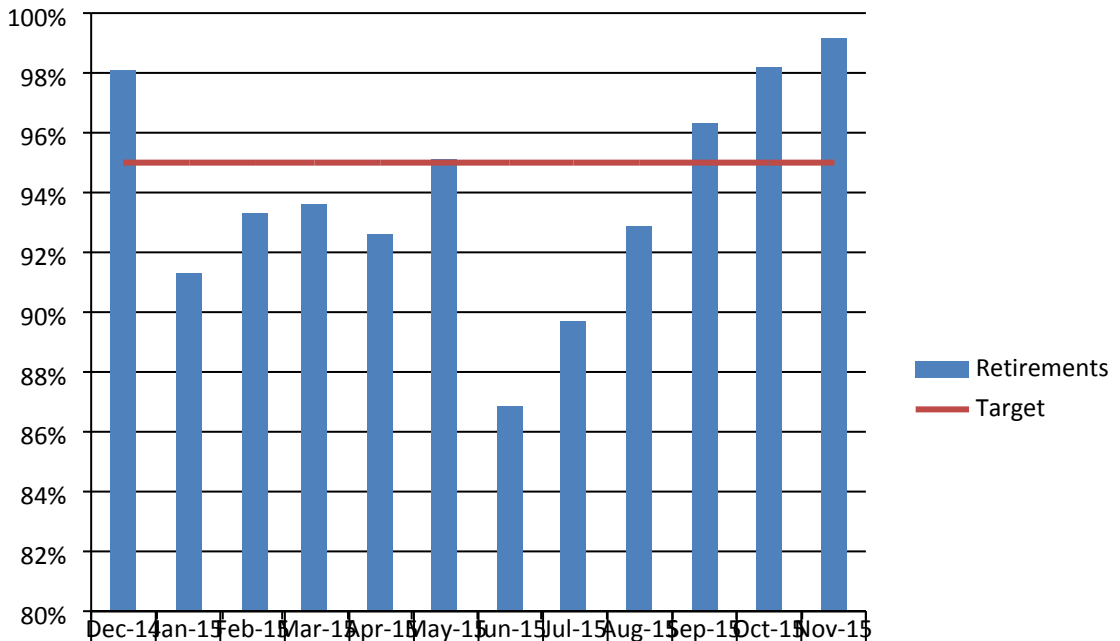


Chart 8C - KPI 3 - Transfers out processed within 15 working days



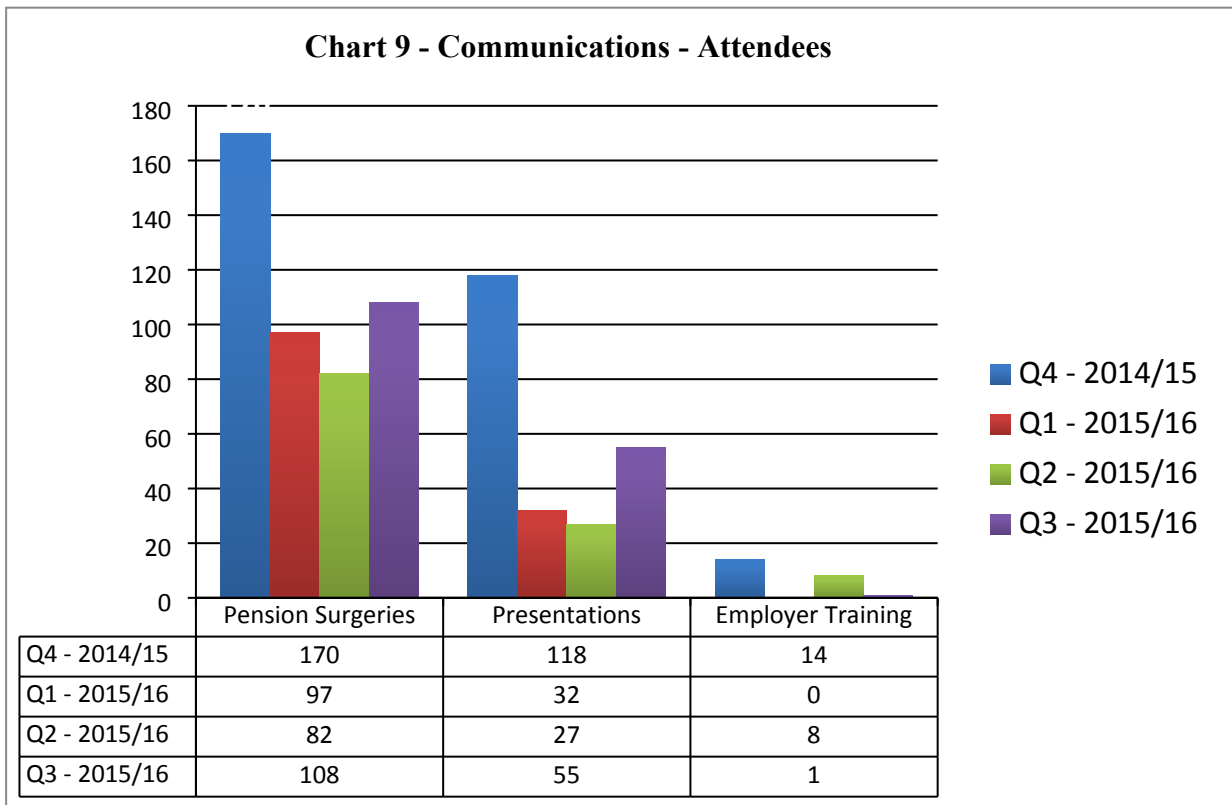
	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Transfers Out	75	100	100	62.5	100	100	100	100	0	100	85.71	100
Target	85	85	85	85	85	85	85	85	85	85	85	85
Total	4	3	3	5	1	5	3	3	1	7	6	3

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

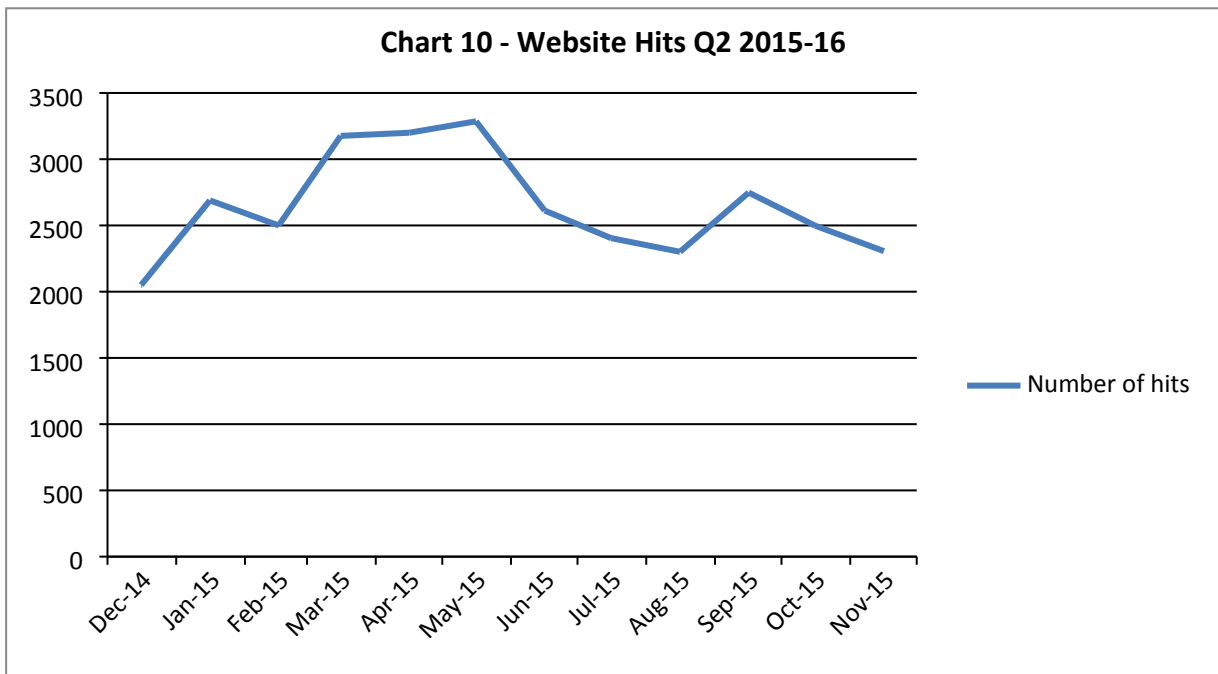


	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Retirements	98.1	91.3	93.3	93.6	92.59	95.12	86.84	89.69	92.86	96.3	98.18	99.15
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	53	92	75	94	222	41	76	97	98	104	108	116

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

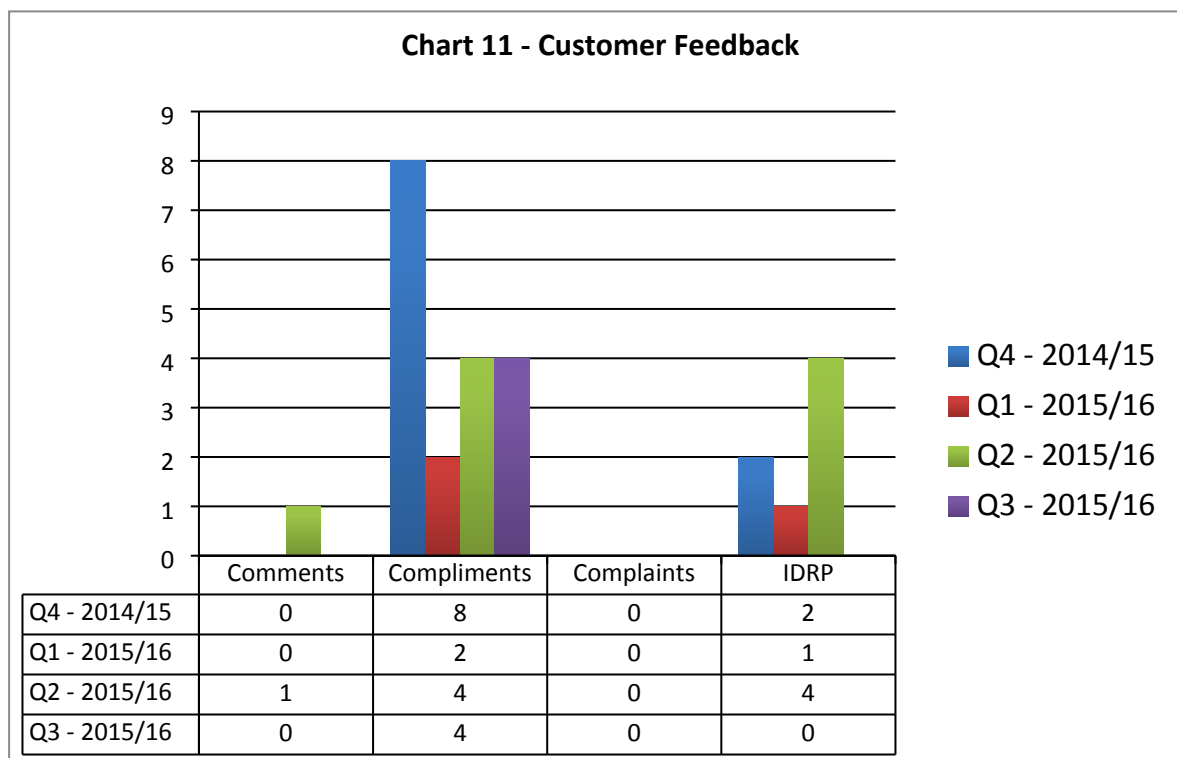


TABLE 9 - INTERNAL DISPUTE RESOLUTION PROCEDURES (IDRP)						
Period	Case	Summary of complaint	Stage 1	Stage 2	Stage 3	Resolution
Q4 – 2014/15	1	Request for early release of deferred benefits due to permanent ill health.	√	√	X	Case rejected at both stage 1 and 2. Not referred to PO.
	2	Claim made for 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

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

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