

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

### 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**

**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

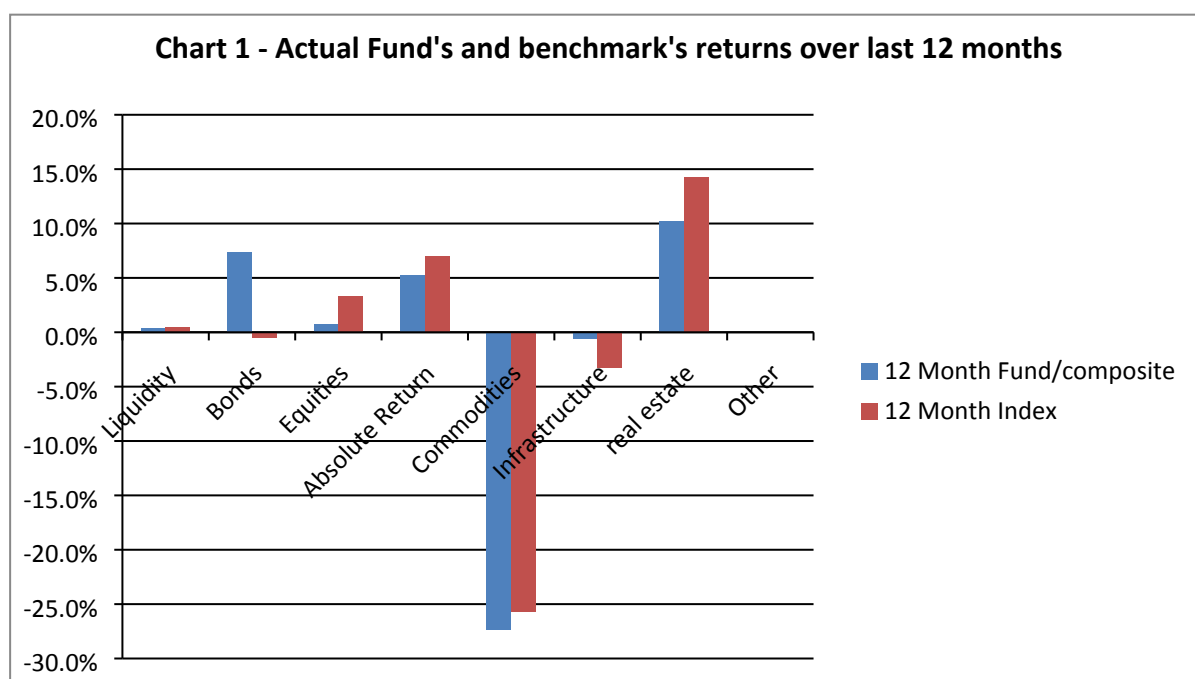
Table 2	30 Nov 2015
Liability reconciliation	£m
<b>Disclosed smoothed liability at 31/03/2013</b>	<b>2,088.8</b>
New liabilities (excluding transfers in)	208.1
Liabilities extinguished	-244.7
Net new liabilities from bulk transfers in/out	-79.8
Interest on liabilities	339.9
Change due to discount rate	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

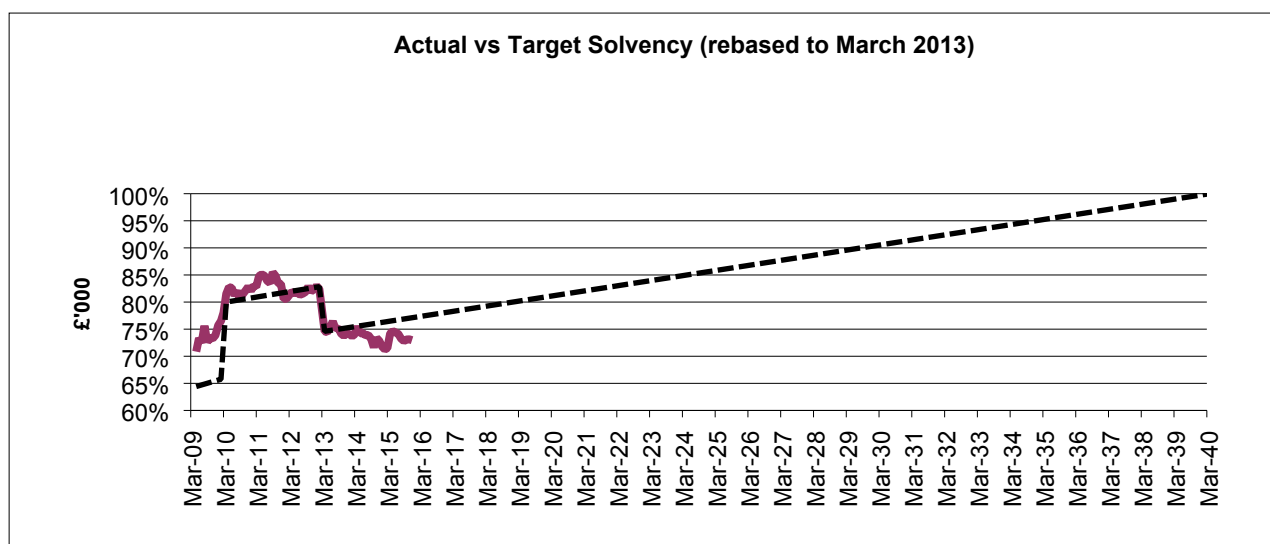
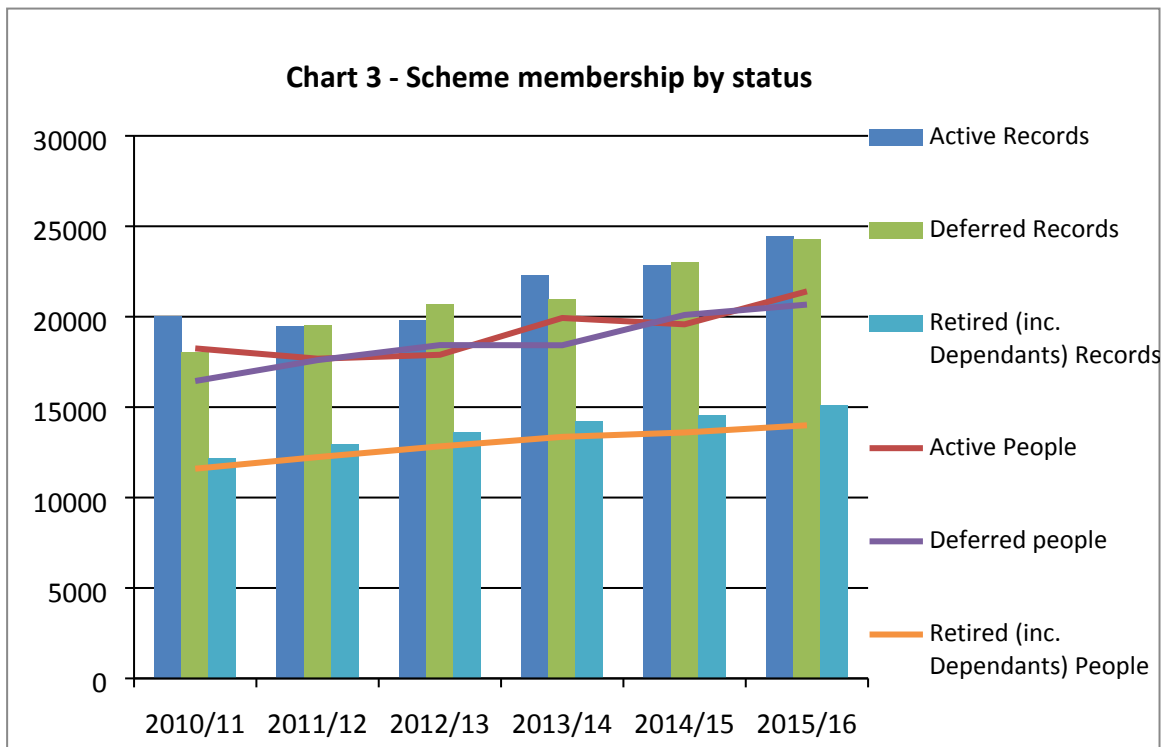


Table 6 - Cashflow	Year to 31/03/2014 (actual) £'000's	Year to 31/03/15 (actual) £'000's	Year to 31/03/16 (forecast) £'000's
Contributions	81,272	87,691	93,700
Transfers received	5,924	1,916	1,900
Employers' early retirement payments	2,602	1,400	3,000
Investment income via Custodian	15,928	23,762	17,000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

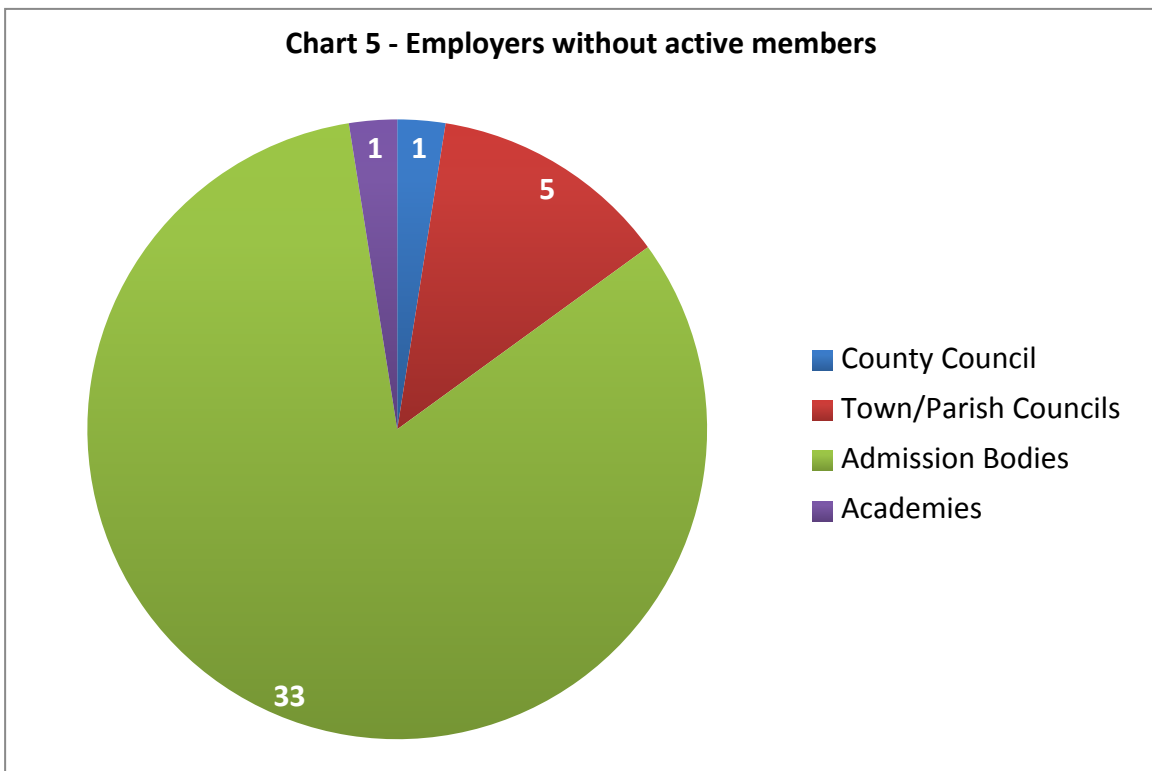
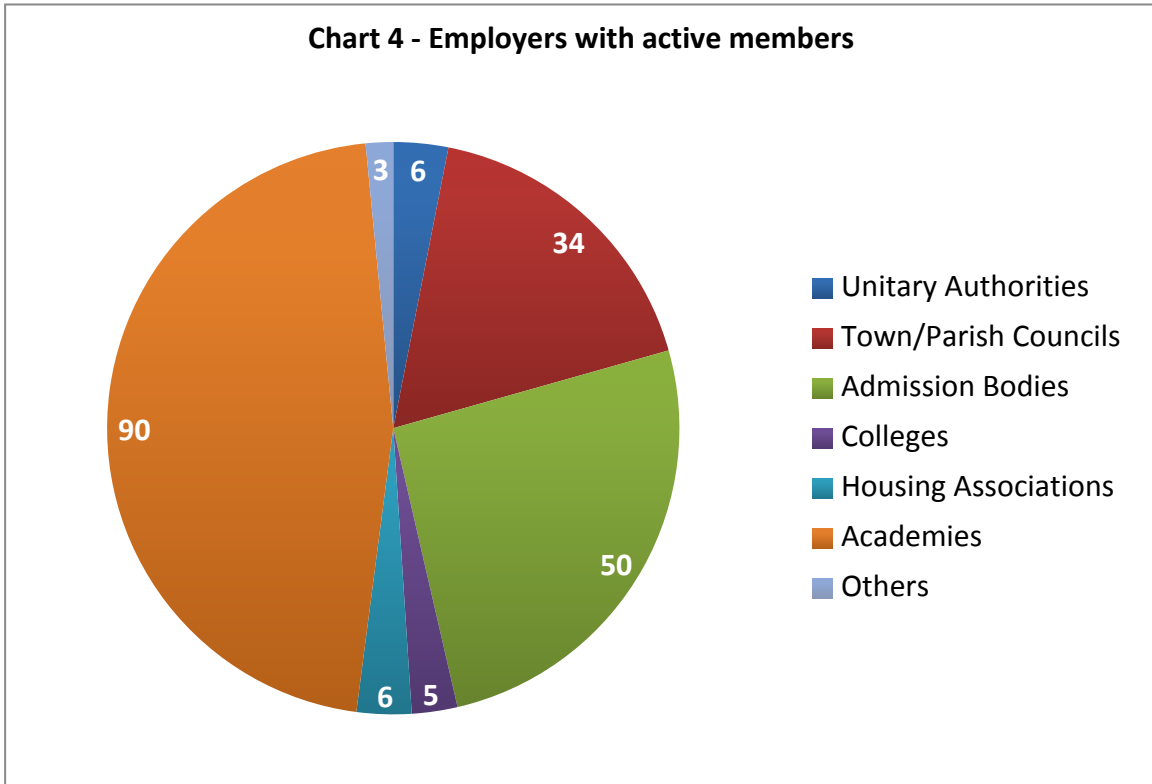
## 2 GOVERNANCE AND ADMINISTRATION

### 2.1 Scheme membership

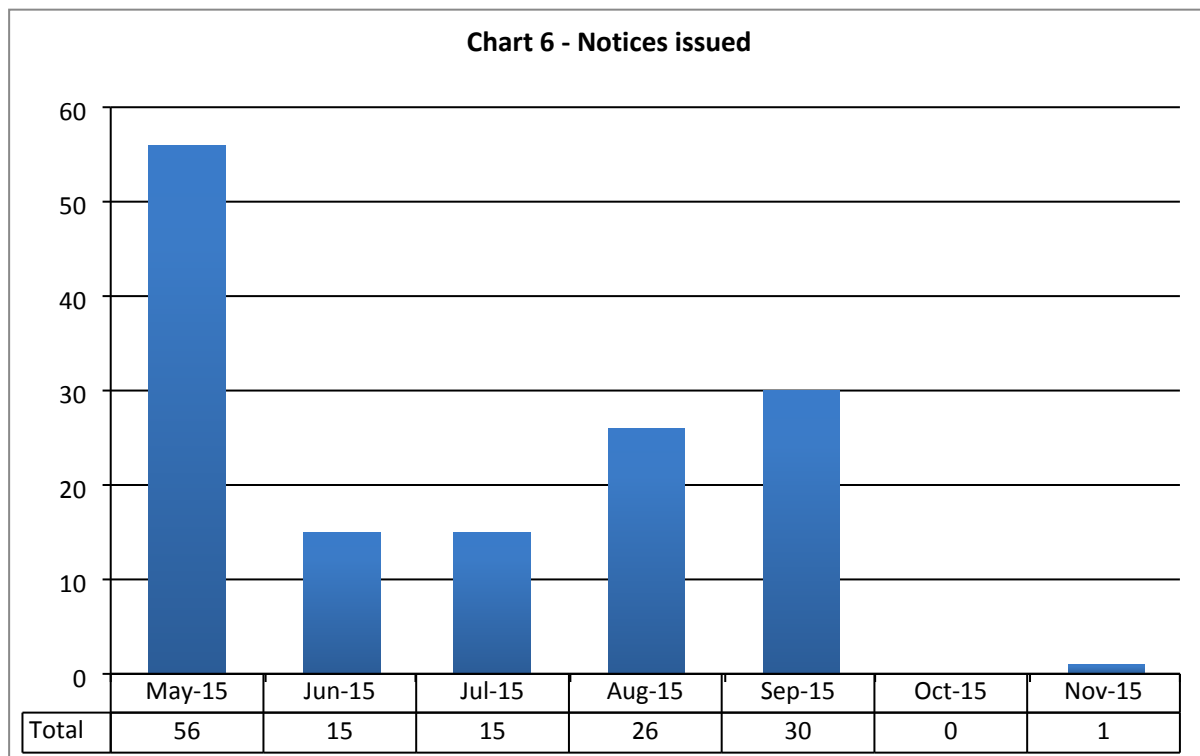


TOTAL MEMBERSHIP			
Active Records	24484	Active People	21401
Deferred Records	24293	Deferred People	20670
Retired Records	15098	Retired People	13996
<b>TOTAL</b>	<b>63875</b>	<b>TOTAL</b>	<b>56067</b>

2.2 Scheme Employers

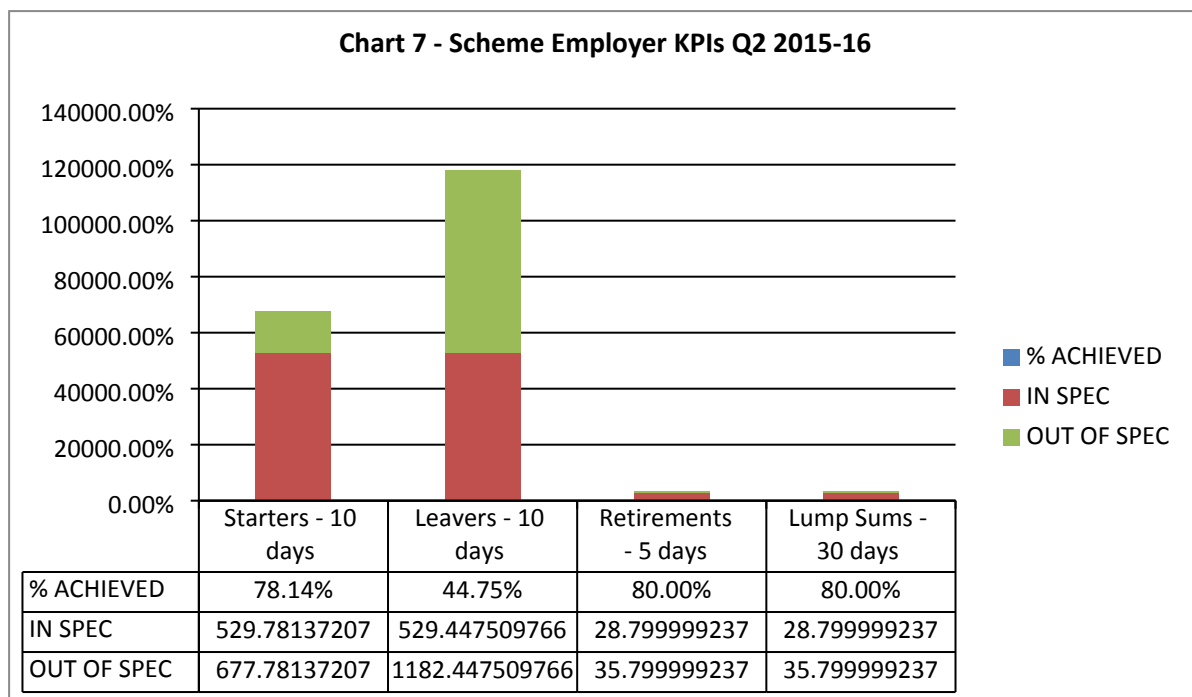


## 2.3 Notices of unsatisfactory performance



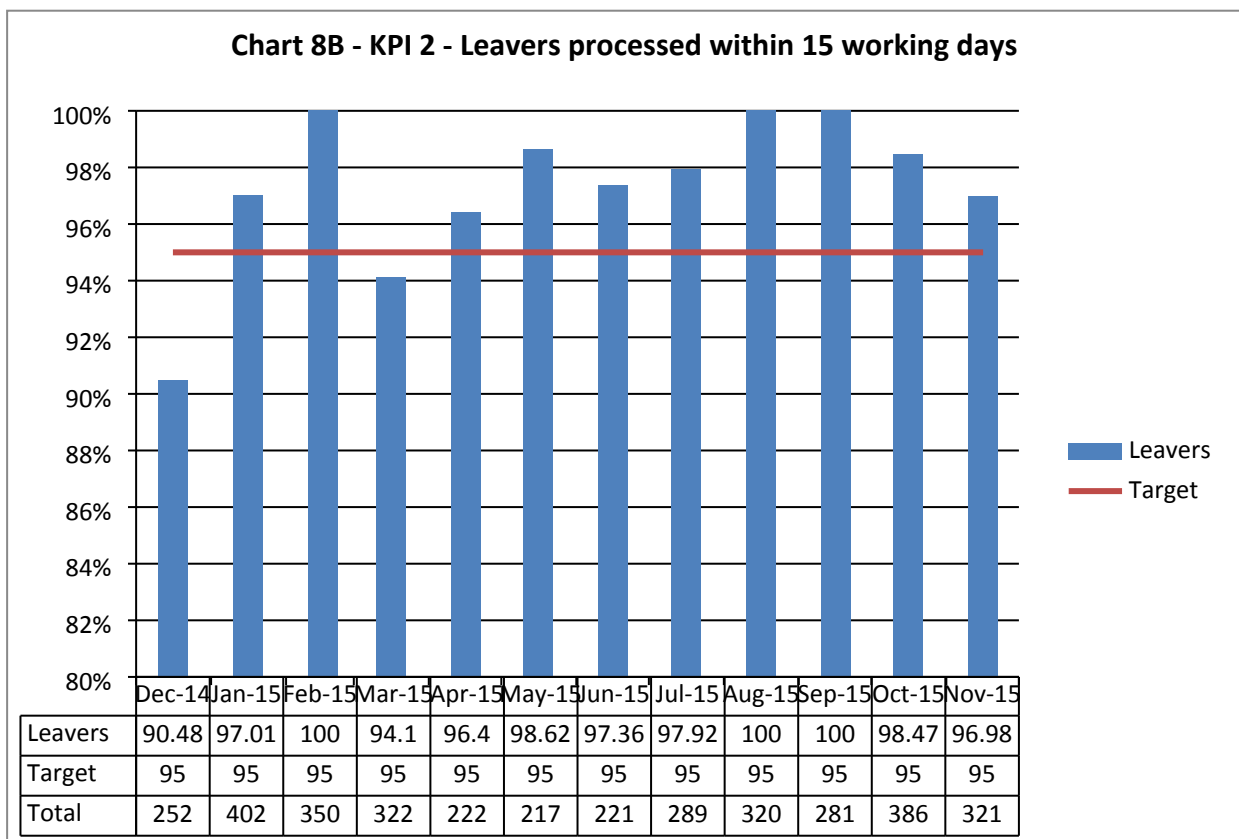
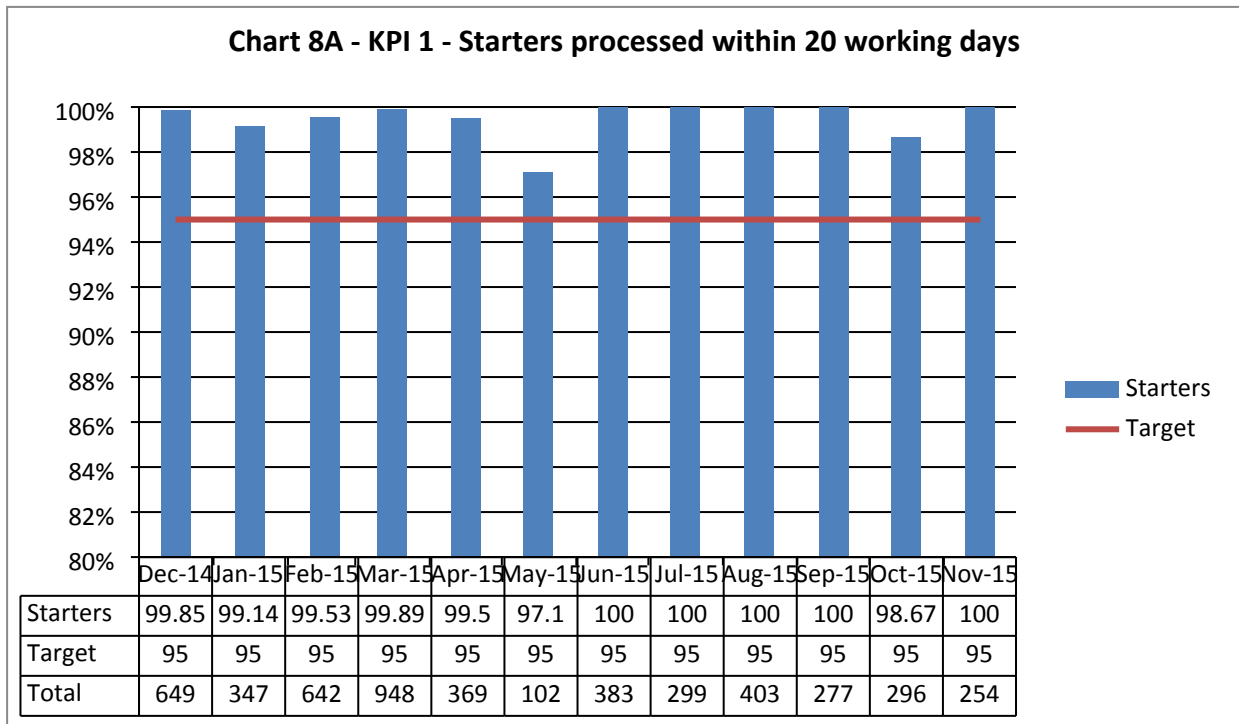
NOTE: No cases have been deemed to be of material significance and so have not been reported to the Pensions Regulator. A summary of cases can be found at Annex 1 to this report

## 2.4 Scheme Employer Key Performance Indicators

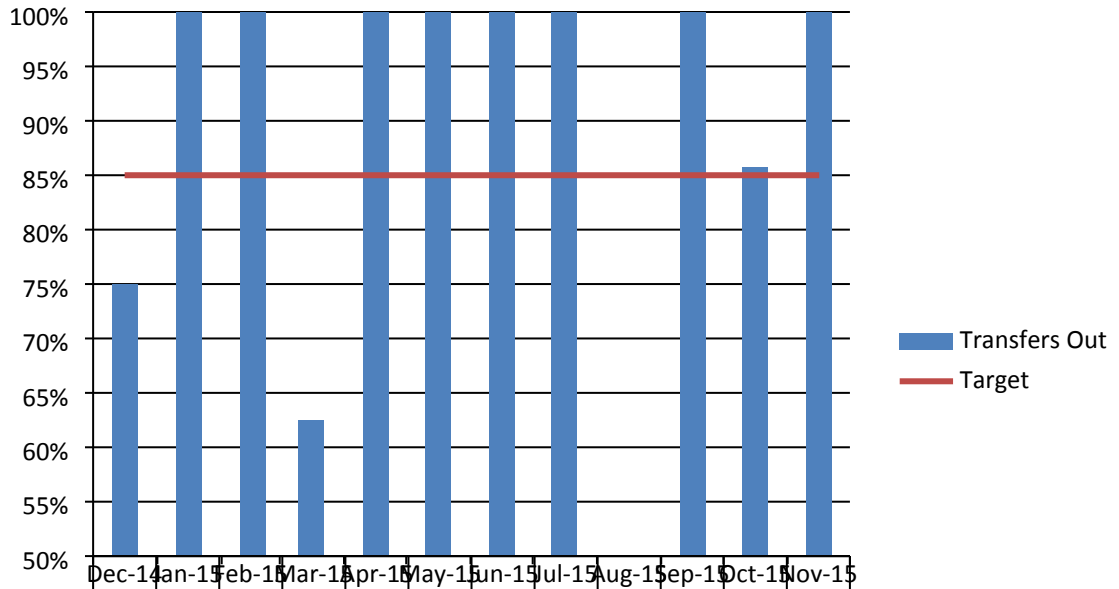


<b>Table 8</b>	<b>TREND</b>	<b>STARTERS</b>	<b>LEAVERS</b>	<b>RETIREMENTS</b>	<b>LUMP SUMS</b>
2015-16	Q2 –OUT	1168	171	18	22
	Q2 – IN	307	82	30	25
	<b>% ACHIEVED</b>	<b>20.81%</b>	<b>32.41%</b>	<b>62.50%</b>	<b>53.19%</b>
2015-16	Q1 –OUT	593	477	8	8
	Q1 – IN	212	262	6	6
	<b>% ACHIEVED</b>	<b>26.34%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

2.5 Administration – Key Performance Indicators

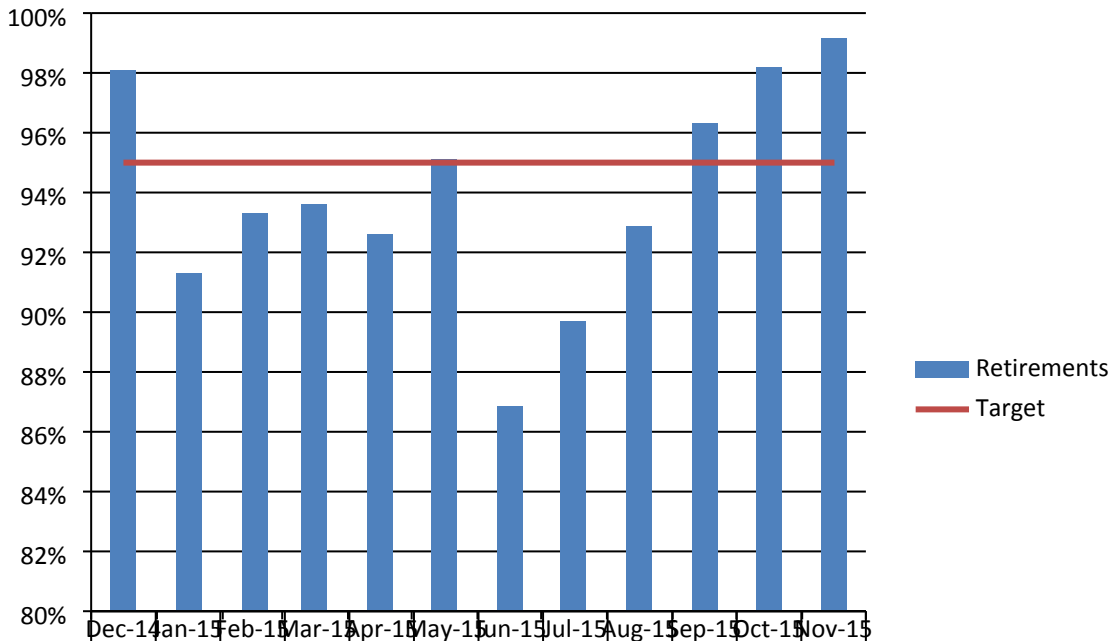


**Chart 8C - KPI 3 - Transfers out processed within 15 working days**



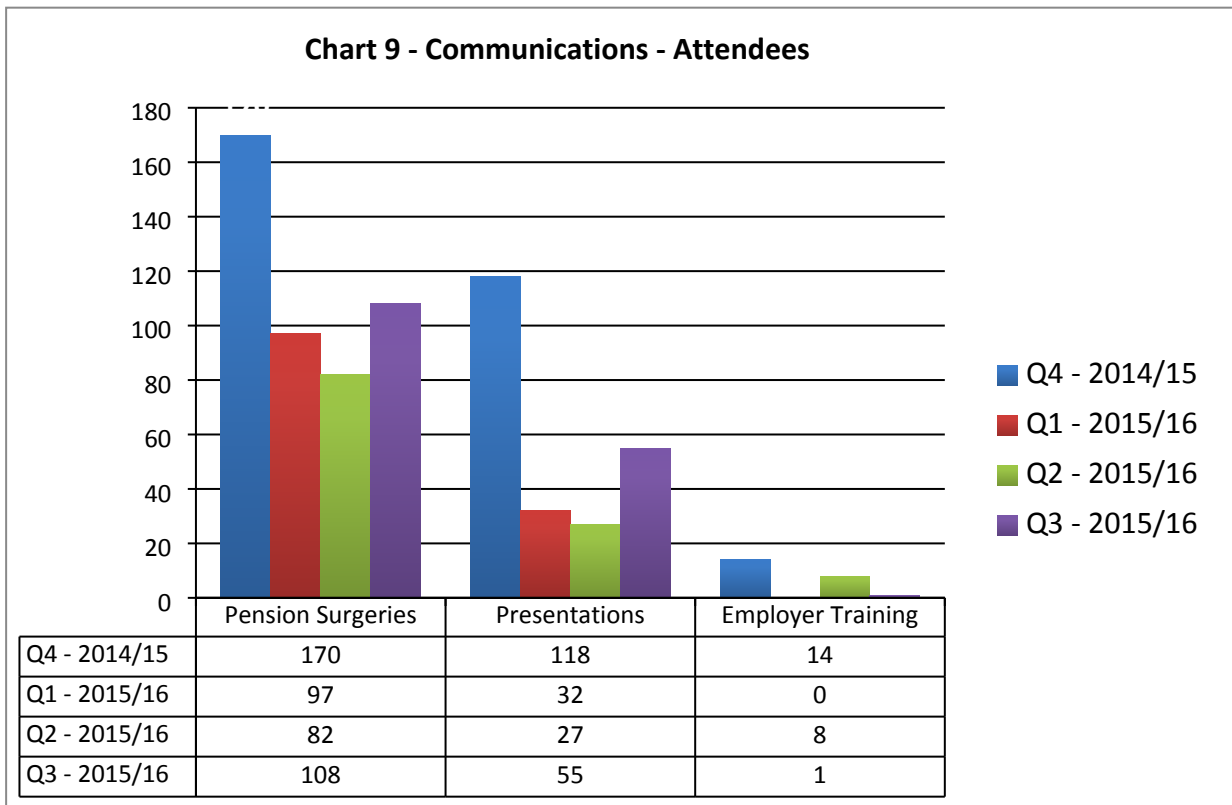
	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Transfers Out	75	100	100	62.5	100	100	100	100	0	100	85.71	100
Target	85	85	85	85	85	85	85	85	85	85	85	85
Total	4	3	3	5	1	5	3	3	1	7	6	3

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

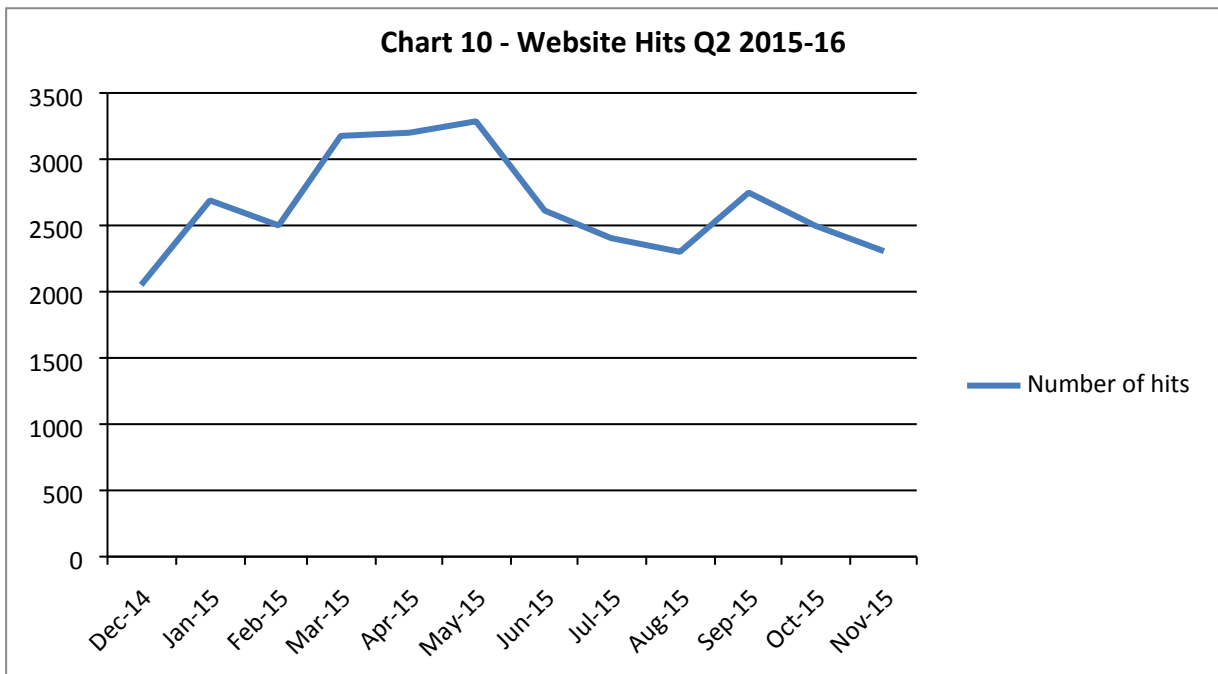


	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Retirements	98.1	91.3	93.3	93.6	92.59	95.12	86.84	89.69	92.86	96.3	98.18	99.15
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	53	92	75	94	222	41	76	97	98	104	108	116

2.6 Administration - Communications



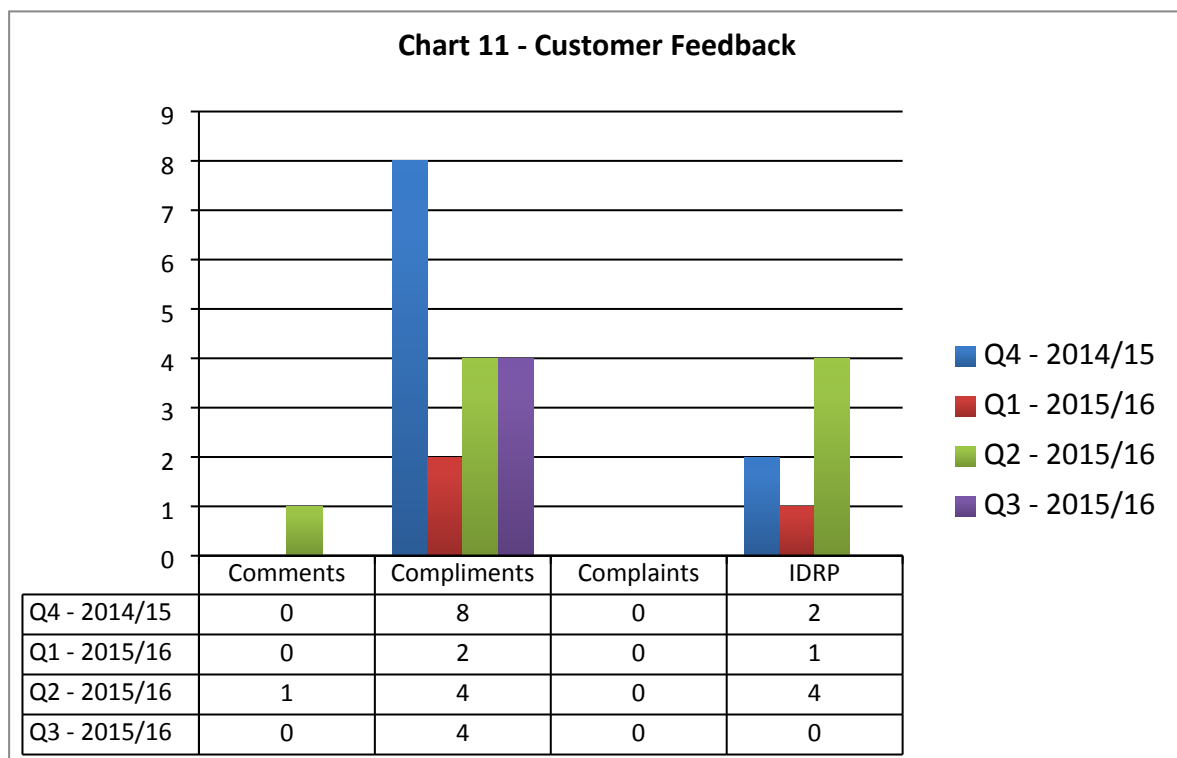
2.7 Website hits



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