

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>	11 April 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 December 2015 to 31 January 2016 (amended to 29 February 2016 for most up to date investment figures)
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

Please note that in future a Stewardship Report will be 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 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.





## **STEWARDSHIP REPORT**

**QUARTER 4 – 2015/16**

**1 DECEMBER 2015 TO 31 JANUARY 2016  
(29 FEBRUARY 2016 for investment figures)**

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## 1. INVESTMENT PERFORMANCE AND ASSET ALLOCATION

### 1.1 Pension Fund key financial indicators

Table 1	March 2010	March 2013	February 2016
Asset Value (Smoothed)	£1,307.7m	£1,561.8m	£ 1,682.0m
Asset Value (Unsmoothed)	£1,319.4m	£1,572.4m	£ 1,695.8m
Liabilities (Smoothed)	£1,618.4m	£2,088.8m	£ 2,309.7m
Liabilities (Unsmoothed)	£1,618.4m	£2,107.7m	£ 2,328.9m
Deficit (Smoothed)	£310.7m	£527.0m	£627.7m
Deficit (Unsmoothed)	£299.0m	£535.3m	£ 633.1m
Funding Level (Smoothed)	81%	75%	73%
Funding Level (Unsmoothed)	82%	75%	73%
Deficit Recovery Period	30 years	27 years	24 years
Nominal Discount Rate	6.8%	6.1%	5.8%
Real Discount Rate	3.3%	3.4%	3.4%
Investment Performance Target (CPI + 4%)	7.0%	6.7%	7.1%
Nominal Earnings Inflation Assumption	4.7%	4.5%	4.2%
Consumer Price Index Inflation Assumption	3.0%	2.7%	2.4%
Employers Contributions – Future Service	12.8%	12.7%	12.2%
Employers Contributions – Past Service Deficit	3.7%	6.9%	8.1%

*The employers' contribution rate is set by a number of factors including expected future investment returns, hence it is feasible that if asset values fall the employer's contribution rate may also fall.*

### 1.2 Change in the smoothed liabilities

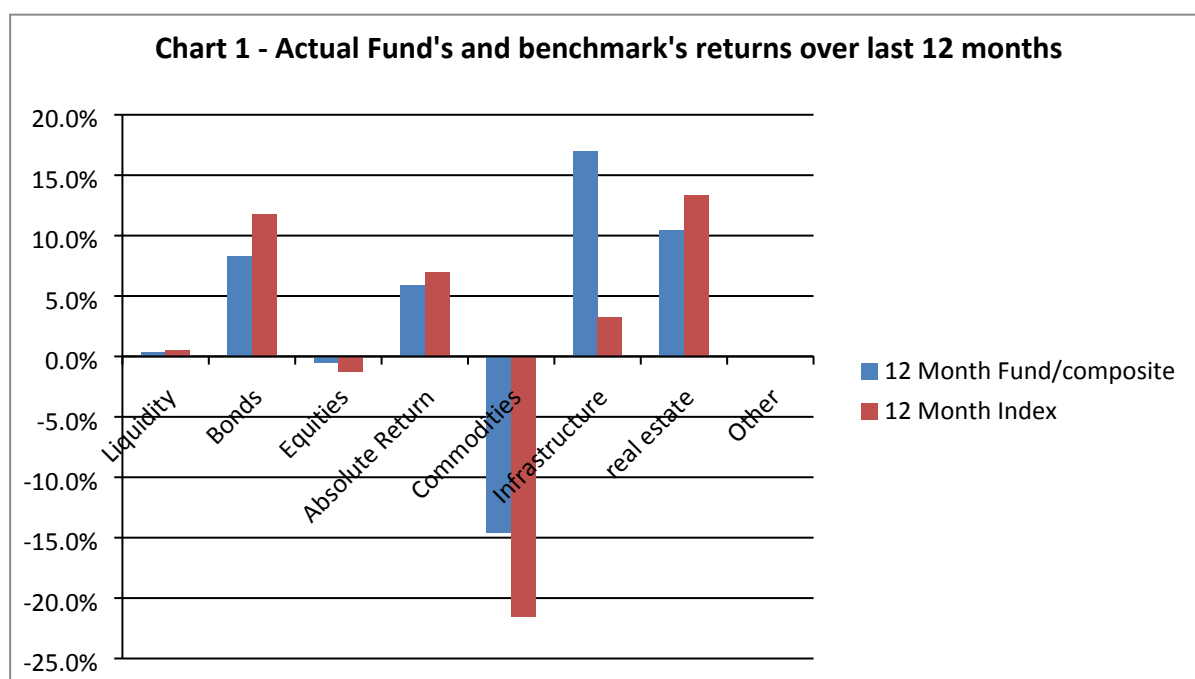
Table 2	29 Feb 2016
Liability reconciliation	£m
<b>Disclosed smoothed liability at 31/03/2013</b>	<b>2,088.8</b>
New liabilities (excluding transfers in)	228.3
Liabilities extinguished	-267.7
Net new liabilities from bulk transfers in/out	-79.8
Interest on liabilities	372.2
Change due to discount rate	77.5
Change due to inflation assumption	-113.2
Change in value of longevity insurance contract	3.6
<b>Increase in Liabilities</b>	<b>220.9</b>
<b>Smoothed liability at 29 February 2016</b>	<b>2,309.7</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%	0.36%
1 Week GBP Libor	<b>Index</b>	0.12%	0.49%	0.48%
	<b>Relative</b>	-0.03%	-0.13%	-0.12%
<b>Bonds</b>	<b>Fund</b>	2.96%	8.31%	8.60%
Barclays Global Aggregate	<b>Index</b>	11.97%	11.82%	2.78%
	<b>Relative</b>	-9.01%	-3.50%	5.82%
<b>Developed Markets Equities</b>	<b>Fund</b>	-3.36%	-4.07%	n/a
Morgan Stanley Capital International (MSCI) World	<b>Index</b>	-0.97%	-1.31%	n/a
	<b>Relative</b>	-2.38%	-2.76%	n/a
<b>Emerging Markets Equities</b>	<b>Fund</b>	-0.73%	-9.73%	-0.31%
Morgan Stanley Capital International EM Equities	<b>Index</b>	-1.40%	-15.07%	-6.27%
	<b>Relative</b>	0.68%	5.34%	5.97%
<b>Private Equity</b>	<b>Fund</b>	10.23%	23.20%	n/a
9% per annum	<b>Index</b>	2.18%	9.00%	n/a
	<b>Relative</b>	8.05%	14.20%	n/a
<b>Total Equities</b>	<b>Fund</b>	0.32%	-0.51%	6.57%
Morgan Stanley Capital International World	<b>Index</b>	-0.97%	-1.31%	8.36%
	<b>Relative</b>	1.29%	0.80%	-1.80%
<b>Absolute Return</b>	<b>Fund</b>	3.43%	5.94%	n/a
7% per annum	<b>Index</b>	1.70%	7.00%	n/a
	<b>Relative</b>	1.73%	-1.06%	n/a
<b>Commodities</b>	<b>Fund</b>	4.38%	-14.57%	-13.20%
Custom Equal Weights	<b>Index</b>	-2.47%	-21.54%	-15.20%
	<b>Relative</b>	6.84%	6.97%	2.00%
<b>Infra-structure</b>	<b>Fund</b>	12.43%	16.97%	7.18%
FTSE Global Core 50/50	<b>Index</b>	7.65%	3.27%	8.41%
	<b>Relative</b>	4.78%	13.71%	-1.23%
<b>Real Estate</b>	<b>Fund</b>	3.40%	10.48%	8.23%
UK Investment Property Databank	<b>Index</b>	2.43%	13.35%	14.84%
	<b>Relative</b>	0.97%	-2.86%	-6.61%
<b>Total Fund Nominal</b>	<b>Fund</b>	<b>0.44%</b>	<b>1.04%</b>	<b>4.76%</b>
UK CPI	<b>Index</b>	<b>-0.34%</b>	<b>0.36%</b>	<b>0.70%</b>
Total Fund Real	<b>Relative</b>	<b>0.79%</b>	<b>0.67%</b>	<b>4.03%</b>

## 1.4 Fund performance



## 1.5 Exception Traffic Lights February 2016

**Table 4**

Traffic Lights February 2016				
Colour		£ m	Fund %	Comment
<b>BONDS</b>				
<b>Convertible Bonds</b>				
Amber	Aviva	33.8	2.0%	Change in management team & weak performance
Amber	Blue Bay Global	25.6	1.5%	Currency volatility has resulted in disappointing GBP returns.
<b>EQUITIES</b>				
<b>Developed World</b>				
Red	IPM Fundamental Umbrella Fund	149.7	8.8%	To be sold, due to continued poor performance.
<b>Emerging Markets</b>				
Amber	Stewart Investors Global Em Mkts Fund	48.1	2.8%	Changes to management team.
<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	4.8	0.3%	Disappointing performance. Buyer not found
<b>Absolute Return</b>				
Amber	Grosvenor	306.0	18.0%	Disappointing performance
<b>INFRASTRUCTURE</b>				
Amber	Macquarie SBI Infrastructure Ltd	3.3	0.2%	Performance adversely affected by delays in construction of key assets
<b>COMMODITIES</b>				
Red	Gresham	35.5	2.1%	To be sold, due to continued poor performance.
<b>Total Fund Valuation (excl prepaid contribs)</b>		<b>1,695.8</b>		

### 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	31/03/2010	31/03/2013	29/02/2016	12 month change	Change since 31 March 2013
<b>Liquidity</b>	<b>7.9%</b>	<b>1.1%</b>	<b>6.2%</b>	<b>4.8%</b>	<b>5.1%</b>
Investment Grade Debt	20.4%	7.9%	4.9%	-0.2%	-3.0%
Other Debt	11.7%	8.7%	9.6%	0.3%	0.9%
<b>Total Debt</b>	<b>32.1%</b>	<b>16.6%</b>	<b>14.5%</b>	<b>0.2%</b>	<b>-2.1%</b>
Developed Market Equities	17.3%	17.2%	21.5%	-1.4%	4.3%
Developing Market Equities	6.2%	14.7%	11.9%	-1.6%	-2.8%
Private Equity	6.7%	9.2%	10.4%	1.3%	1.2%
<b>Total Equities</b>	<b>30.2%</b>	<b>41.1%</b>	<b>43.8%</b>	<b>-1.7%</b>	<b>2.7%</b>
<b>Absolute Return</b>	<b>9.9%</b>	<b>17.2%</b>	<b>18.0%</b>	<b>-0.6%</b>	<b>0.8%</b>
Infrastructure	1.9%	4.7%	4.8%	0.6%	0.1%
Commodities	8.2%	9.7%	3.3%	-0.4%	-6.4%
Real Estate	7.3%	9.8%	11.3%	-1.0%	1.5%
Other	2.5%	-0.3%	-1.9%	-1.9%	-1.6%
<b>Real Assets</b>	<b>19.9%</b>	<b>23.9%</b>	<b>17.5%</b>	<b>-2.7%</b>	<b>-6.4%</b>
<b>Fund Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

## 1.7 Solvency

**Chart 2**

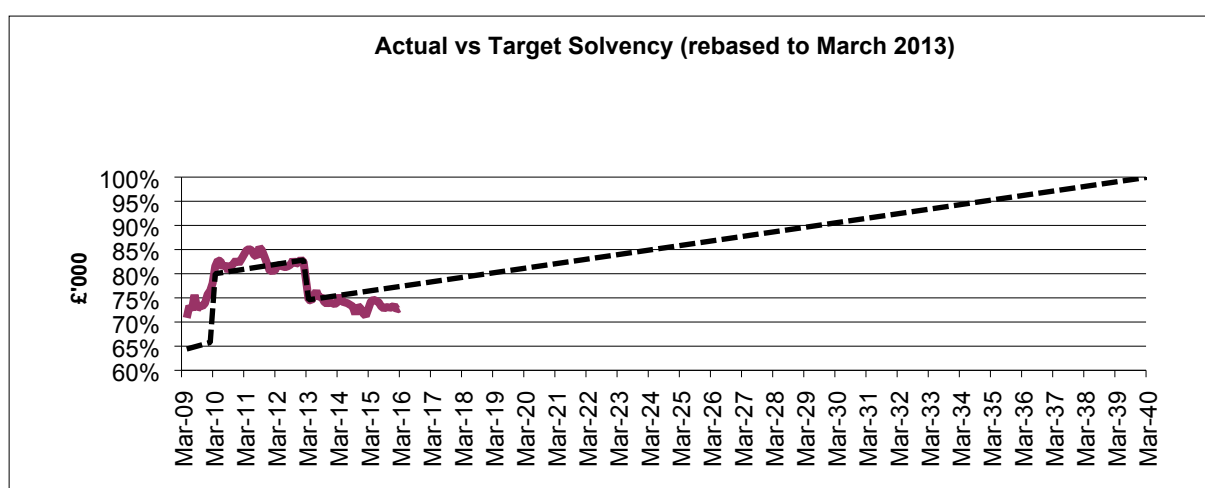
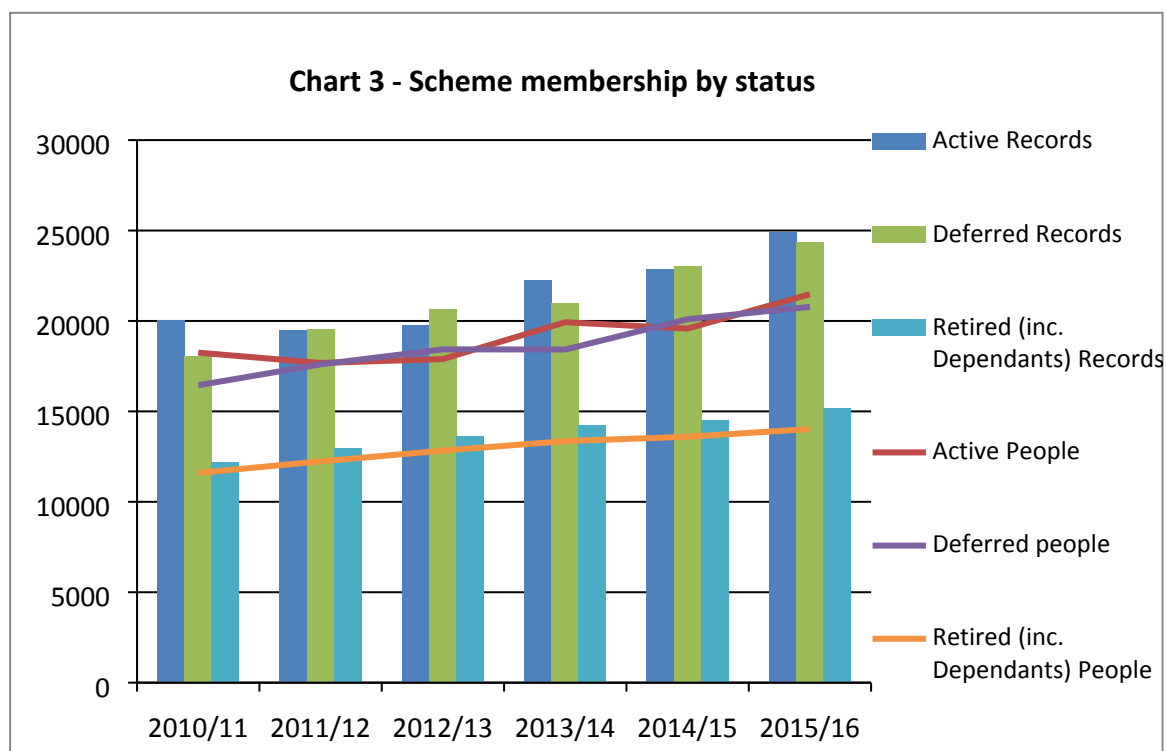


Table 6 - Cashflow	Year to 31/03/2014 (actual) £'000's	Year to 31/03/15 (actual) £'000's	Year to 31/03/16 (forecast) £'000's
Contributions	81,272	87,691	93,700
Transfers received	5,924	1,916	1,900
Employers' early retirement payments	2,602	1,400	3,000
Investment income via Custodian	15,928	23,762	17,000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

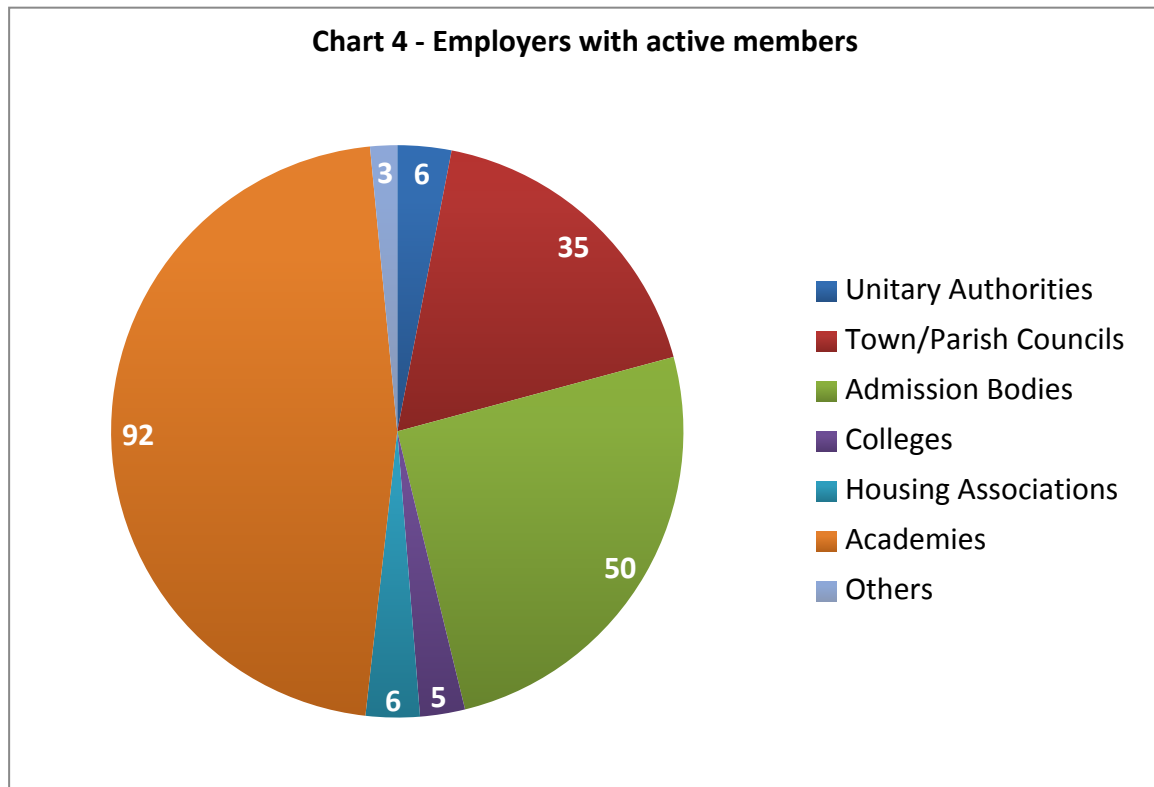
NOTE: Transfers paid during year to 31 March 2015 were inflated by the statutory transfer of Thames Valley Probation staff to the Greater Manchester Pension Fund.  
Why swing in Investment Income?

## 2 GOVERNANCE AND ADMINISTRATION

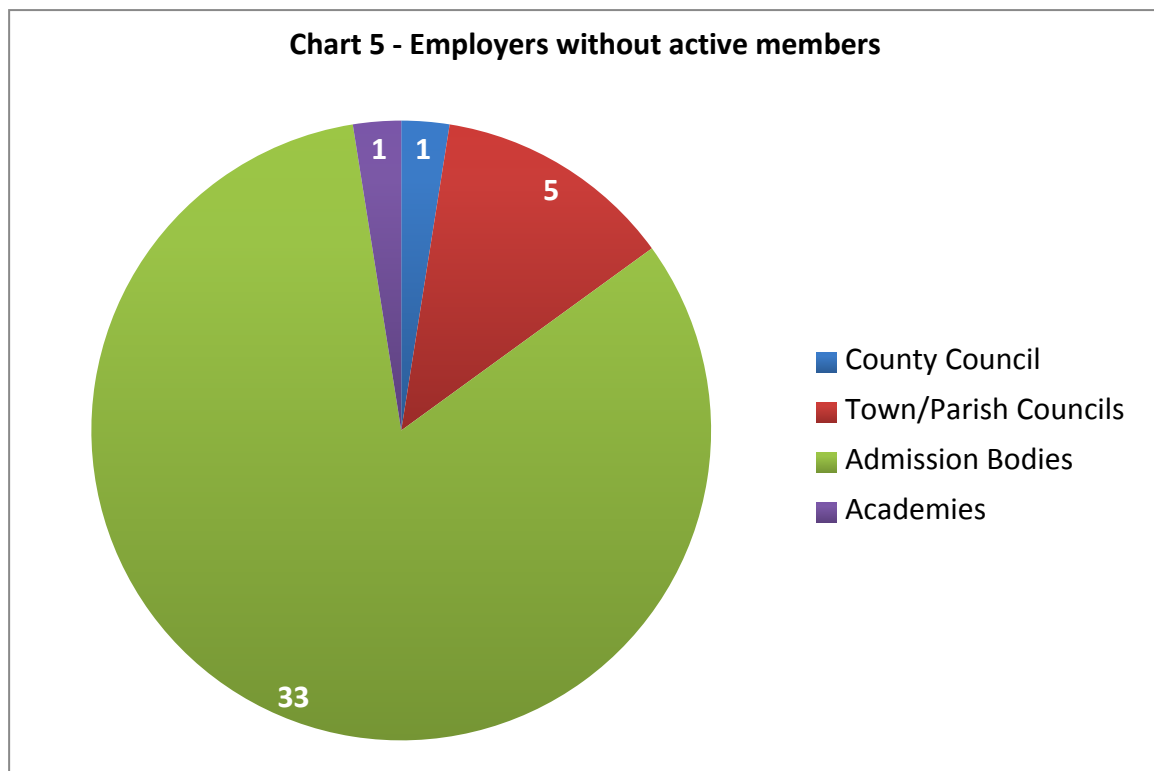
### 2.1 Scheme membership



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>

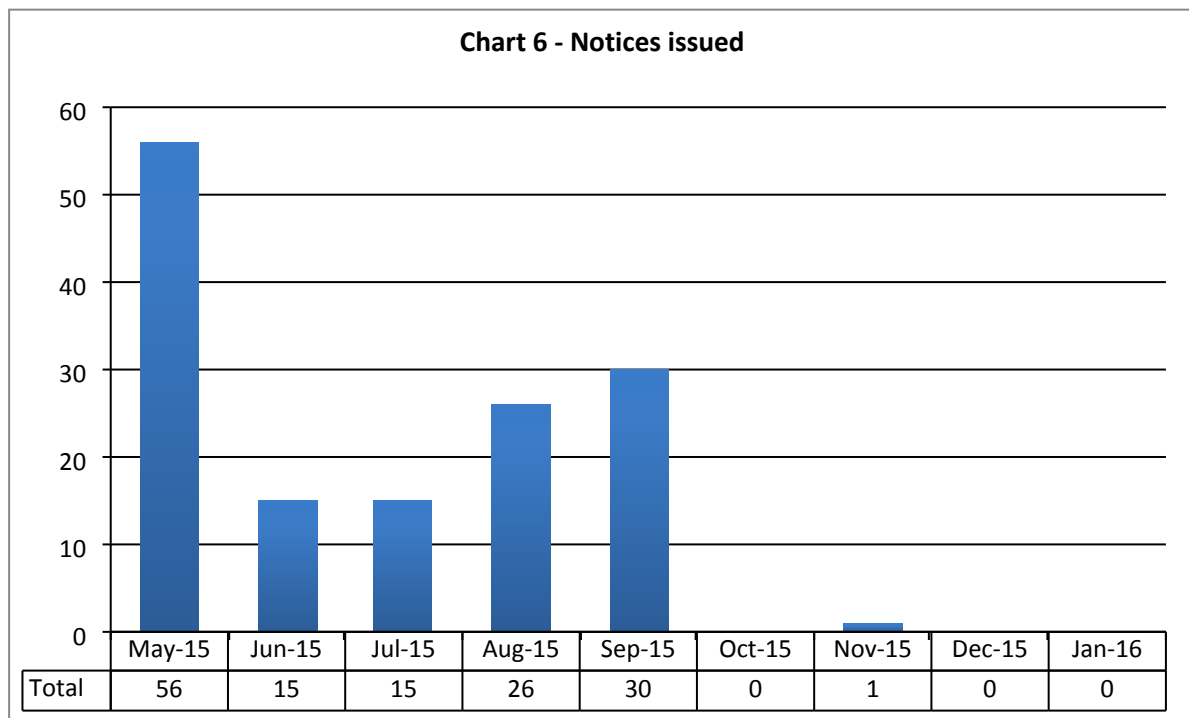


New employers since last report: Eton Porny CE First School (Academy); Wraysbury Parish Council (Town/Parish Councils); Maiden Erlegh School Reading (Academy).



No changes made since last report

## 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

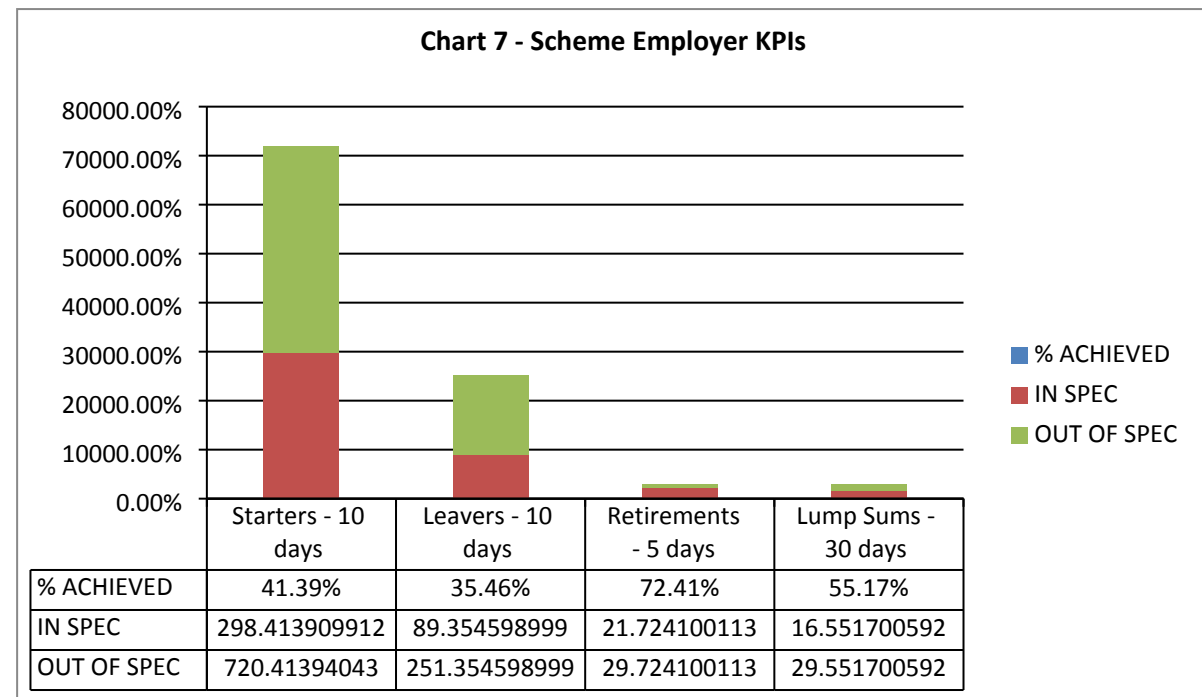
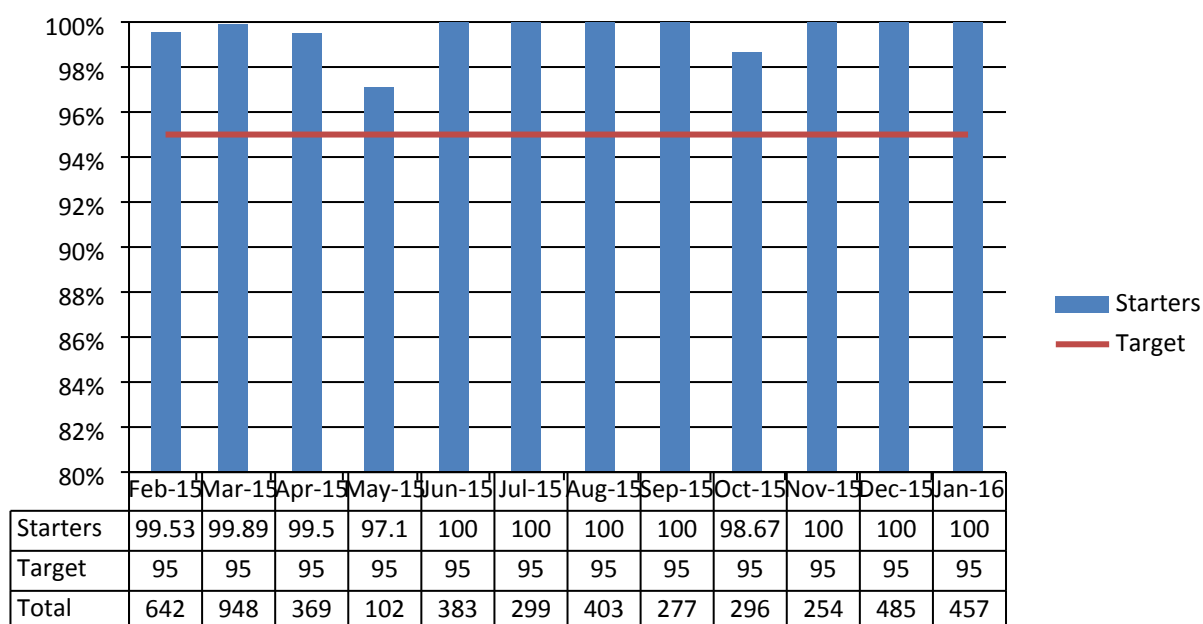


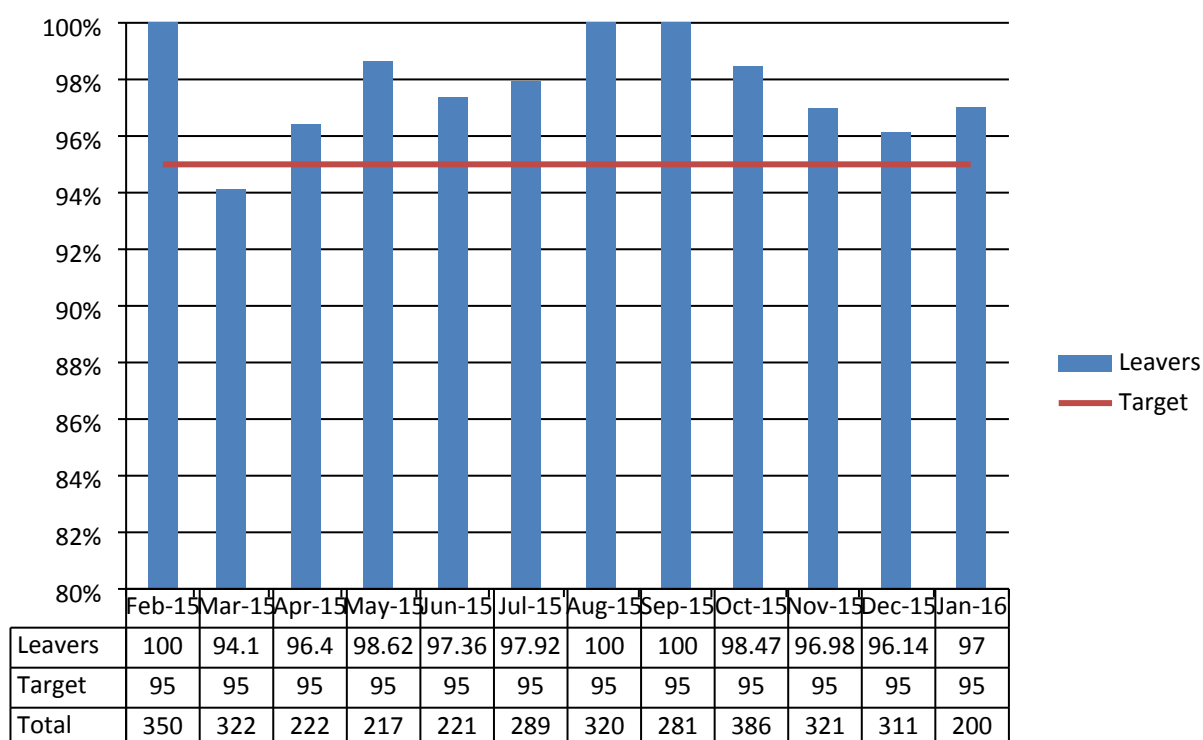
Table 8	TREND	STARTERS	LEAVERS	RETIREMENTS	LUMP SUMS
2015-16	Q3 - OUT	148	653	7	7
	Q3 - IN	529	529	28	28
	% ACHIEVED	78.14%	44.75%	80.00%	80.00%
2015-16	Q2 - OUT	1168	171	18	22
	Q2 - IN	307	82	30	25
	% ACHIEVED	20.81%	32.41%	62.50%	53.19%
2015-16	Q1 - OUT	593	477	8	8
	Q1 - IN	212	262	6	6
	% ACHIEVED	26.34%	35.45%	42.86%	42.86%

## 2.5 Administration – Key Performance Indicators

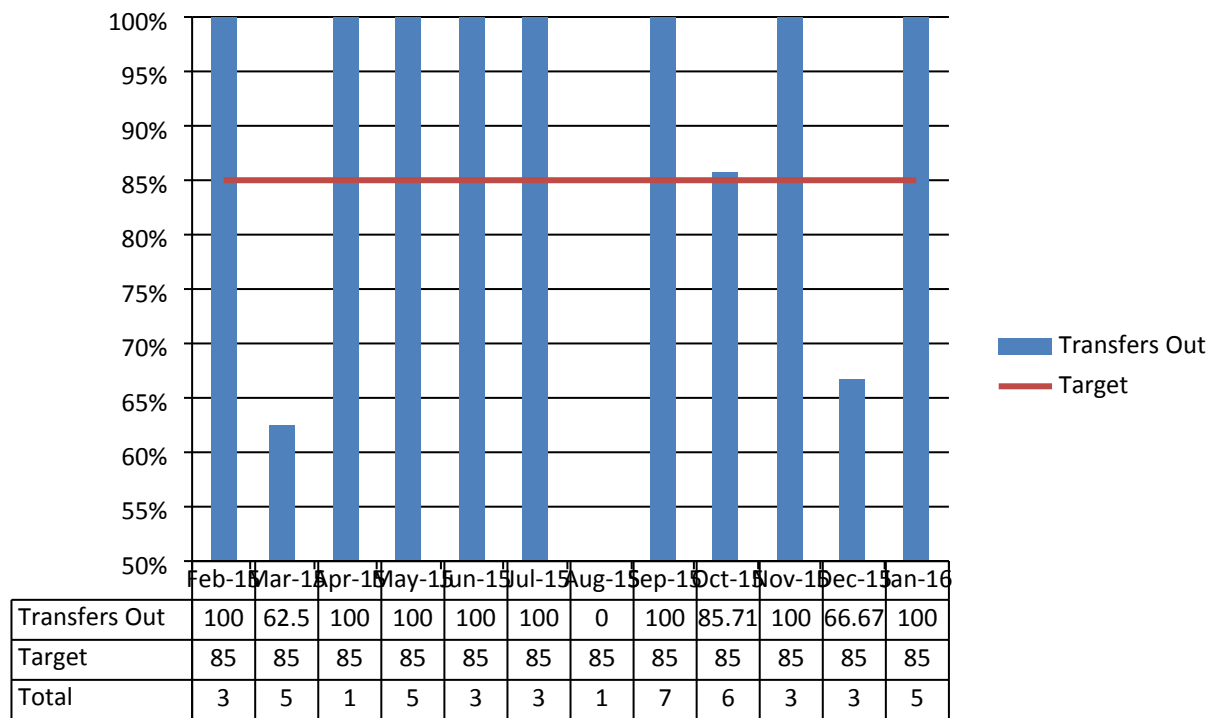
**Chart 8A - KPI 1 - Starters processed within 20 working days**



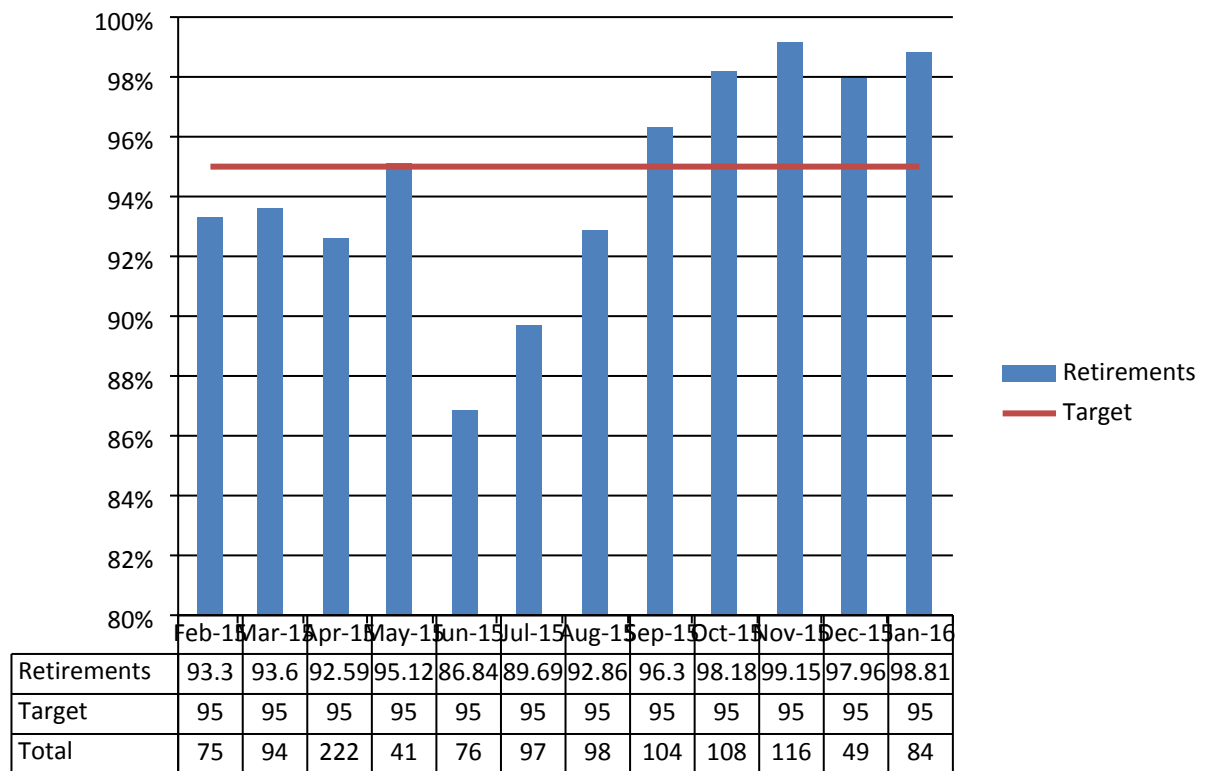
**Chart 8B - KPI 2 - Leavers processed within 15 working days**



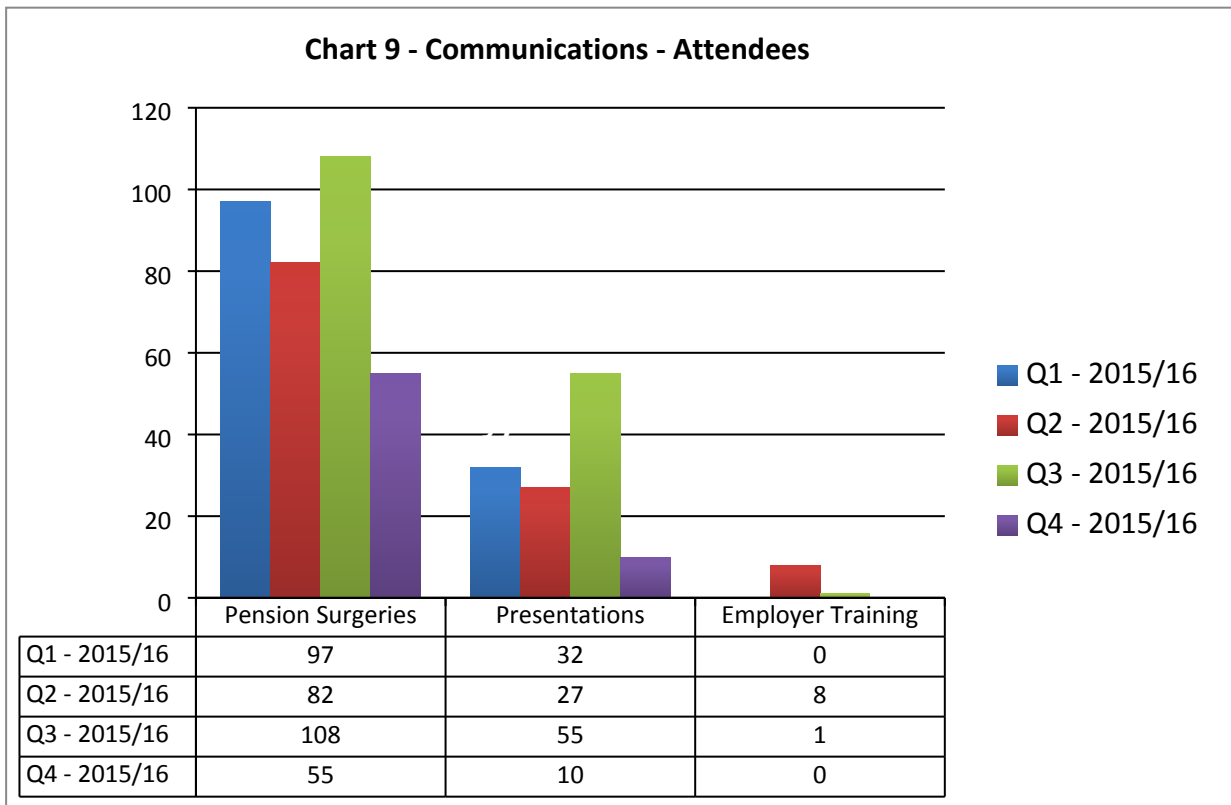
**Chart 8C - KPI 3 - Transfers out processed within 15 working days**



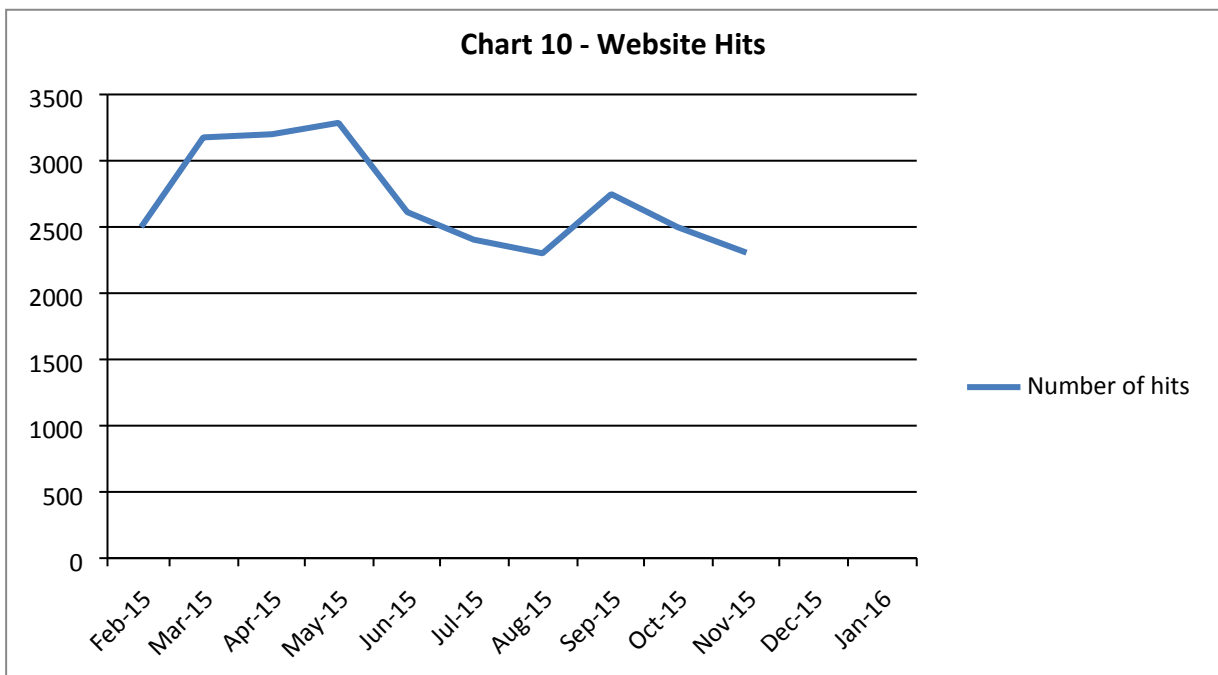
**Chart 8D - KPI 4 - Retirements processed within 7 working days**



## 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
  - RBWM went live on i-Connect in February 2016 including 12 associated academies
  - Reading BC have indicated that they wish to implement i-Connect by July 2016
  - Initial discussions being held with other Unitary Authorities
- 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

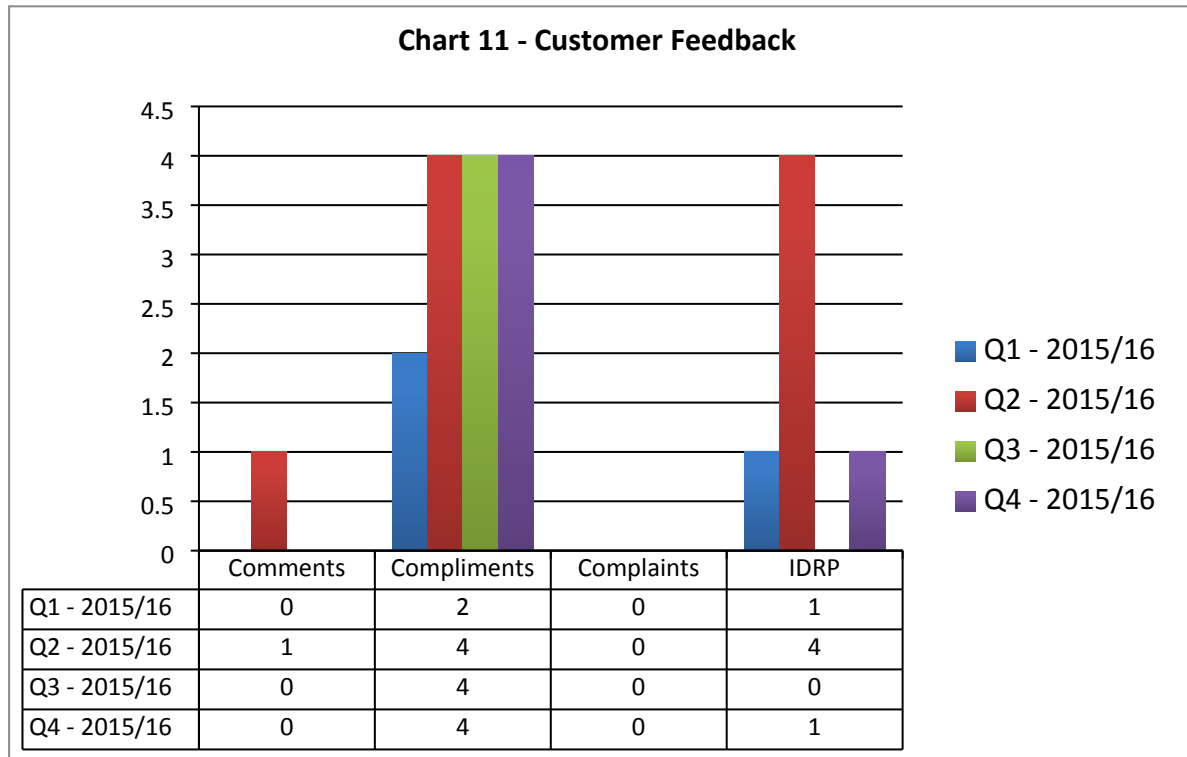


TABLE 9 - INTERNAL DISPUTE RESOLUTION PROCEDURES (IDRP)						
Period	Case	Summary of complaint	Stage 1	Stage 2	Stage 3	Resolution
Q1 – 2015/16	1	Request for early release of benefits due to permanent ill health.	✓	✓	X	Case rejected at stage 1 but accepted at Stage 2.
Q2 – 2015/16	1	Disputing the tier 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.
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*

<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>Dec 15</b>	<b>Jan 16</b>
<b>1</b>	0	0	0	0	0	0	0	0	0
<b>2A</b>	4	6	1	0	0	0	0	0	0
<b>2B</b>	3	0	0	6	7	0	0	0	0
<b>2C</b>	46	9	11	20	23	0	0	0	0
<b>3</b>	3	0	3	0	0	0	1	0	0
<b>Total</b>	<b>56</b>	<b>15</b>	<b>15</b>	<b>26</b>	<b>30</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</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 Q4

Employer	IN	OUT	Total	% IN	Q3	Q2	Q1
Academies	46	137	183	25.14%%	69.81%	10.99%	0.07%
Bracknell Forest Council	96	17	113	84.96%	96.00%	69.89%	73.20%
RBWM	52	33	85	61.18%	90.77%	15.54%	16.33%
Reading BC	32	47	79	40.51%	68.24%	12.00%	0.00%
Slough BC	22	11	33	66.67%	94.44%	47.06%	59.62%
University of West London	n/a	n/a	n/a0	n/a	n/a	n/a	n/a
West Berkshire Council	5	113	118	4.24%	90.96%	19.42%	27.12%
Wokingham BC	22	24	46	47.83%	70.37%	20.80%	12.96%
Wokingham BC (Selima)	0	3	3	0.00%	28.57%	22.64%	39.13%

### Leavers received within specification Q4

Employer	IN	OUT	Total	% IN Spec	Q3	Q2	Q1
Academies	17	24	41	41.46%	37.89%	15.97%	15.50%
Bracknell Forest Council	24	16	40	60.00%	56.00%	49.19%	46.94%
RBWM	13	36	49	26.53%	46.67%	42.74%	45.21%
Reading BC	20	25	45	44.44%	49.53%	27.47%	29.09%
Slough BC	5	10	15	33.33%	63.29%	58.67%	58.93%
University of West London	n/a	n/a	n/a	n/a%	100.00%	100.00%	66.67%
West Berkshire Council	2	19	21	9.52%	36.94%	62.42%	64.00%
Wokingham BC	3	8	11	27.57%	55.77%	7.14%	10.34%
Wokingham BC (Selima)	0	2	2	0.00%	14.75%	4.88%	9.09%

### Retirements not notified within 5 days from retirement date – Q4 2015-16

Employer	Member	Days Over 5
Marish Primary School	SB	24
Reading BC	FG	22
Reading BC	HOG (post 1)	2
Reading BC	HOG (Post 2)	2
Reading Girls School	PMH	19
Slough BC	EAB	24
West Berkshire Council	CMC	1
Wokingham BC	CMU	21
Wokingham BC (Selima)	CGH	4

# **Lump sums paid >30 days after retirement date – Q4 2015-16**

<b>Employer</b>	<b>Member</b>	<b>Days Over 30</b>	<b>Interest</b>	<b>Reason</b>
Altwood School	JAH	10	£5.10	2
Marish Primary School	SB	17	£28.70	1
RBWM	AMG	44	£114.65	2
RBWM	MSM	15	£48.91	2
Reading BC	FG	5	£67.73	1
Reading BC	HOG (1)	59	£3.44	2
Reading BC	HOG (2)	59	£0.89	2
Reading Girls School	PMH	10	£27.39	1
Slough BC	EAB	19	£140.90	1
Slough BC	STB	13	£80.38	2
West Berkshire Council	CMC	8	£26.79	2
Wokingham BC	CMU	10	£50.71	1
Wokingham BC	CGH	19	£17.10	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