

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	12 September 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 April 2016 to 30 June 2016 (pages 7 to 9 updated to 31 July 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 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.



THE ROYAL COUNTY OF
BERKSHIRE
PENSION FUND

STEWARDSHIP REPORT

QUARTER 1 – 2016/17

1 APRIL 2016 TO 30 JUNE 2016

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1. INVESTMENT PERFORMANCE AND ASSET ALLOCATION

1.1 Pension Fund key financial indicators

Table 1	March 2010	March 2013	July 2016
Asset Value (Smoothed)	£1,307.7m	£1,561.8m	£ 1,785.4m
Asset Value (Unsmoothed)	£1,319.4m	£1,572.4m	£ 1,843.2m
Liabilities (Smoothed)	£1,618.4m	£2,088.8m	£ 2,445.7m
Liabilities (Unsmoothed)	£1,618.4m	£2,107.7m	£ 2,522.6m
Deficit (Smoothed)	£310.7m	£527.0m	£660.3m
Deficit (Unsmoothed)	£299.0m	£535.3m	£ 679.4m
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%	5.5%
Real Discount Rate	3.3%	3.4%	3.2%
Investment Performance Target (CPI + 4%)	7.0%	6.7%	6.3%
Nominal Earnings Inflation Assumption	4.7%	4.5%	4.1%
Consumer Price Index Inflation Assumption	3.0%	2.7%	2.3%
Employers Contributions – Future Service	12.8%	12.7%	13.0%
Employers Contributions – Past Service Deficit	3.7%	6.9%	7.8%

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

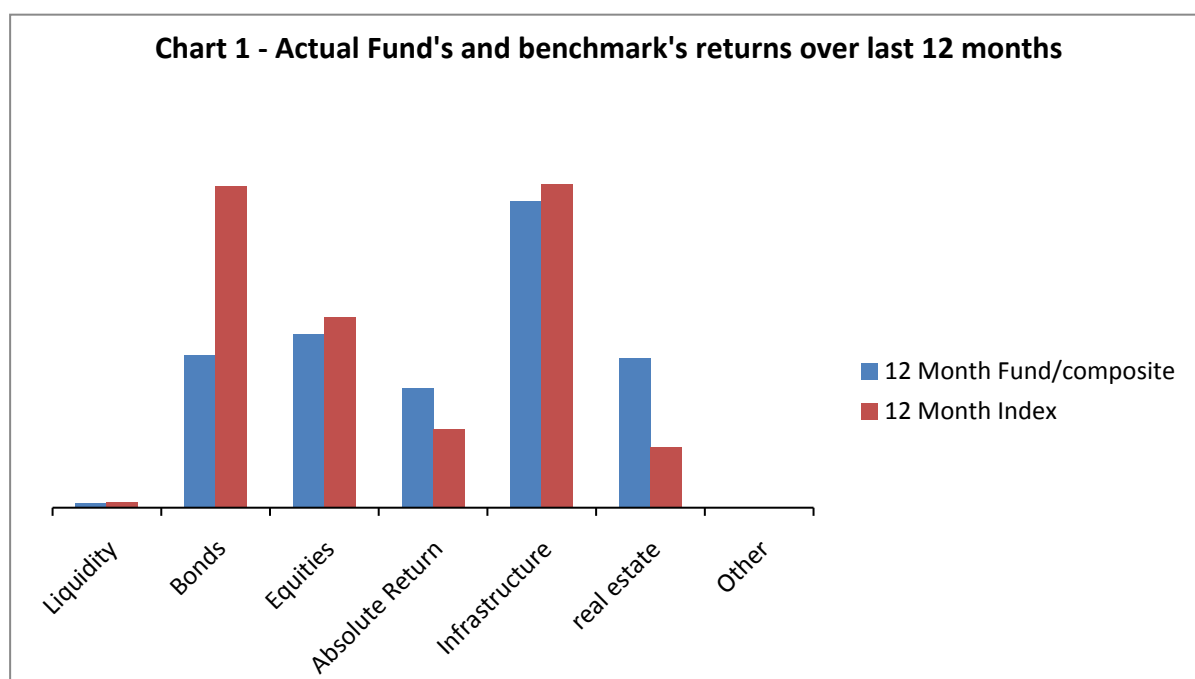
Table 2	30 June 2016
Liability reconciliation	£m
Disclosed smoothed liability at 31/03/2013	2,088.8
New liabilities (excluding transfers in)	265.7
Liabilities extinguished	-311.0
Net new liabilities from bulk transfers in/out	-79.8
Interest on liabilities	426.3
Change due to discount rate	260.4
Change due to inflation assumption	-208.4
Change in value of longevity insurance contract	3.6
Increase in Liabilities	356.9
Smoothed liability at 31 July 2016	2,445.7

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	0.13%	0.40%	0.37%
1 Week GBP Libor	Index	0.12%	0.49%	0.48%
	Relative	0.00%	-0.09%	-0.11%
Bonds	Fund	10.43%	13.58%	9.98%
Barclays Global Aggregate	Index	12.88%	28.64%	7.27%
	Relative	-2.45%	-15.06%	2.71%
Developed Markets Equities	Fund	12.40%	11.34%	n/a
Morgan Stanley Capital International (MSCI) World	Index	14.34%	16.99%	n/a
	Relative	-1.94%	-5.65%	n/a
Emerging Markets Equities	Fund	15.70%	16.33%	6.73%
Morgan Stanley Capital International EM Equities	Index	16.02%	16.65%	4.22%
	Relative	-0.32%	-0.33%	2.51%
Private Equity	Fund	9.50%	24.55%	n/a
9% per annum	Index	2.18%	9.00%	n/a
	Relative	7.32%	15.55%	n/a
Total Equities	Fund	12.82%	15.44%	10.15%
Morgan Stanley Capital International World	Index	14.34%	16.99%	11.41%
	Relative	-1.52%	-1.55%	-1.26%
Absolute Return	Fund	9.07%	10.63%	n/a
7% per annum	Index	1.72%	7.02%	n/a
	Relative	7.35%	3.61%	n/a
Infra-structure	Fund	11.16%	27.29%	7.81%
FTSE Global Core 50/50	Index	16.98%	28.86%	14.21%
	Relative	-5.82%	-1.57%	-6.39%
Real Estate	Fund	5.16%	13.35%	9.58%
UK Investment Property Databank	Index	-1.61%	5.42%	13.22%
	Relative	6.77%	7.93%	-3.64%
Total Fund Nominal	Fund	7.06%	9.10%	6.82%
UK CPI	Index	0.40%	0.69%	0.81%
Total Fund Real	Relative	6.66%	8.41%	6.01%
Total Fund Target UK CPI + 4%		1.39%	4.69%	4.81%

1.4 Fund performance



1.5 Exception Traffic Lights July 2016

Table 4

Traffic Lights July 2016				
<u>Colour</u>		<u>£ m</u>	<u>Fund %</u>	<u>Comment</u>
	<u>BONDS</u>			
	<u>Convertible Bonds</u>			
Amber	Aviva	35.1	1.9%	Change in management team & weak performance
Amber	Blue Bay Global	27.2	1.5%	Currency volatility has resulted in disappointing GBP returns.
	<u>EQUITIES</u>			
	<u>Emerging Markets</u>			
Amber	Stewart Investors Global Em Mkts Fund	59.9	3.3%	Changes to management team.
	<u>Private Equity</u>			
Amber	South East Growth Fund	2.4	0.1%	Terms of additional extension to fund life agreed
Amber	Stafford Sustainable Fund	5.1	0.3%	Disappointing performance. Buyer not found
	<u>Absolute Return</u>			
Amber	Grosvenor	282.0	15.3%	Disappointing performance
	<u>INFRASTRUCTURE</u>			
Amber	Macquarie SBI Infrastructure Ltd	3.8	0.2%	Performance adversely affected by delays in construction of key assets
	<u>Total Fund Valuation (excl prepaid contribs)</u>	1,843.2		

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	Comparison of Strategic Asset Allocation "SSA" changes				
	31/03/2013	31/03/2016	31/07/2016	12m change	36m change
Liquidity	1.1%	5.1%	8.9%	3.1%	5.4%
Investment Grade Debt	7.9%	5.0%	4.8%	-0.2%	-3.0%
Other Debt	8.7%	9.4%	9.5%	1.3%	0.3%
Total Debt	16.6%	14.3%	14.3%	1.0%	-2.7%
Developed Market Equities	17.2%	22.1%	22.7%	0.5%	5.4%
Developing Market Equities	14.7%	12.4%	13.0%	0.9%	-1.0%
Private Equity	9.2%	10.1%	9.8%	1.1%	0.7%
Total Equities	41.1%	44.6%	45.6%	2.5%	5.0%
Absolute Return	17.3%	17.4%	14.9%	-2.2%	-2.0%
Infrastructure	4.7%	4.7%	4.6%	0.5%	-0.1%
Commodities	9.8%	2.6%	2.2%	-1.1%	-6.2%
Real Estate	9.8%	11.1%	12.1%	-0.7%	2.9%
Other	-0.3%	0.2%	-2.6%	-3.0%	-2.4%
Real Assets	23.9%	18.5%	16.3%	-4.3%	-5.8%
Fund Total	100%	100%	100%		

1.7 Solvency

Chart 2

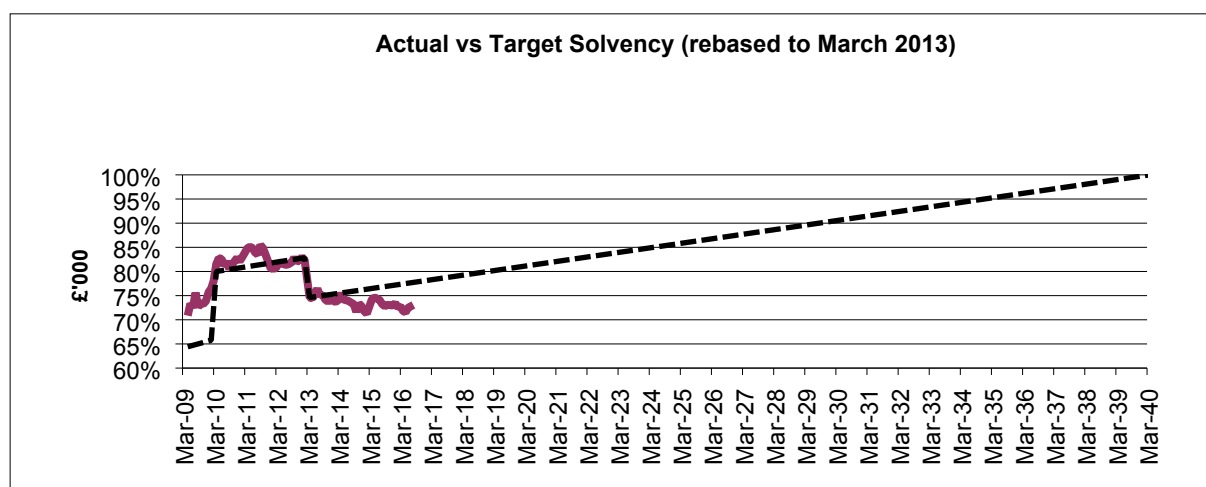


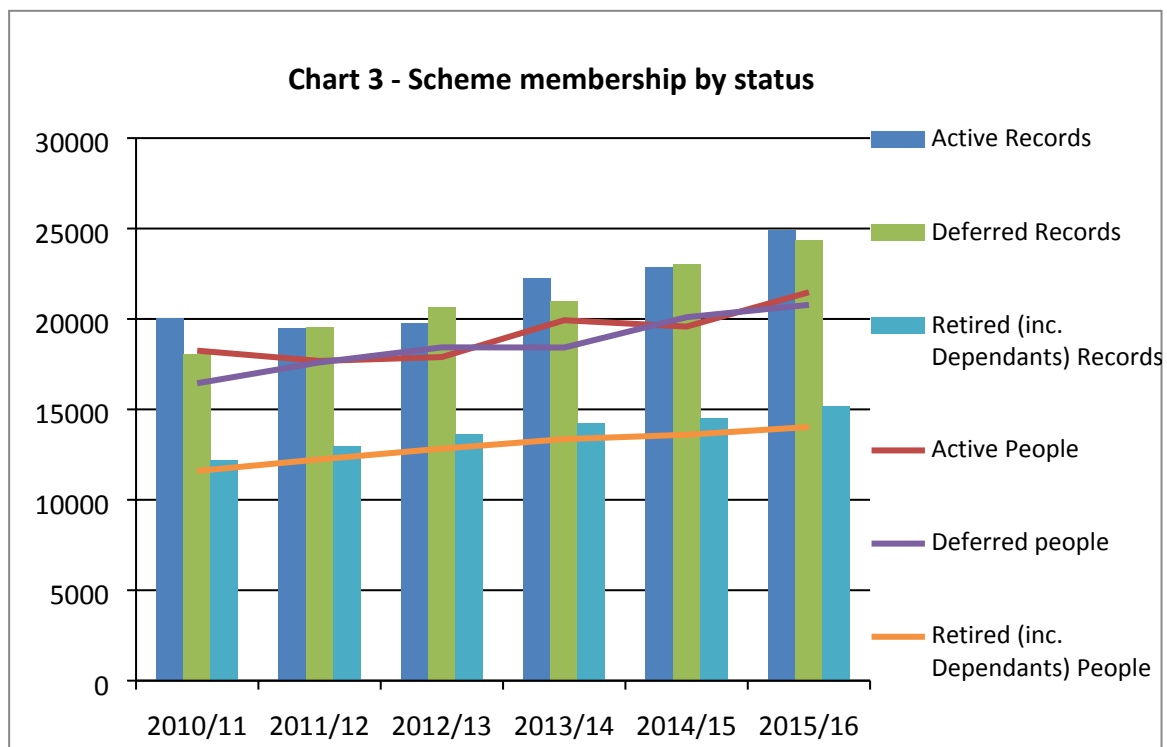
Table 6 - Cashflow	Year to 31/03/2014 (actual) £'000's	Year to 31/03/15 (actual) £'000's	Year to 31/03/16 (forecast) £'000's
Contributions	81,272	87,691	93,700
Transfers received	5,924	1,916	1,900
Employers' early retirement payments	2,602	1,400	3,000
Investment income via Custodian	15,928	23,762	17,000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

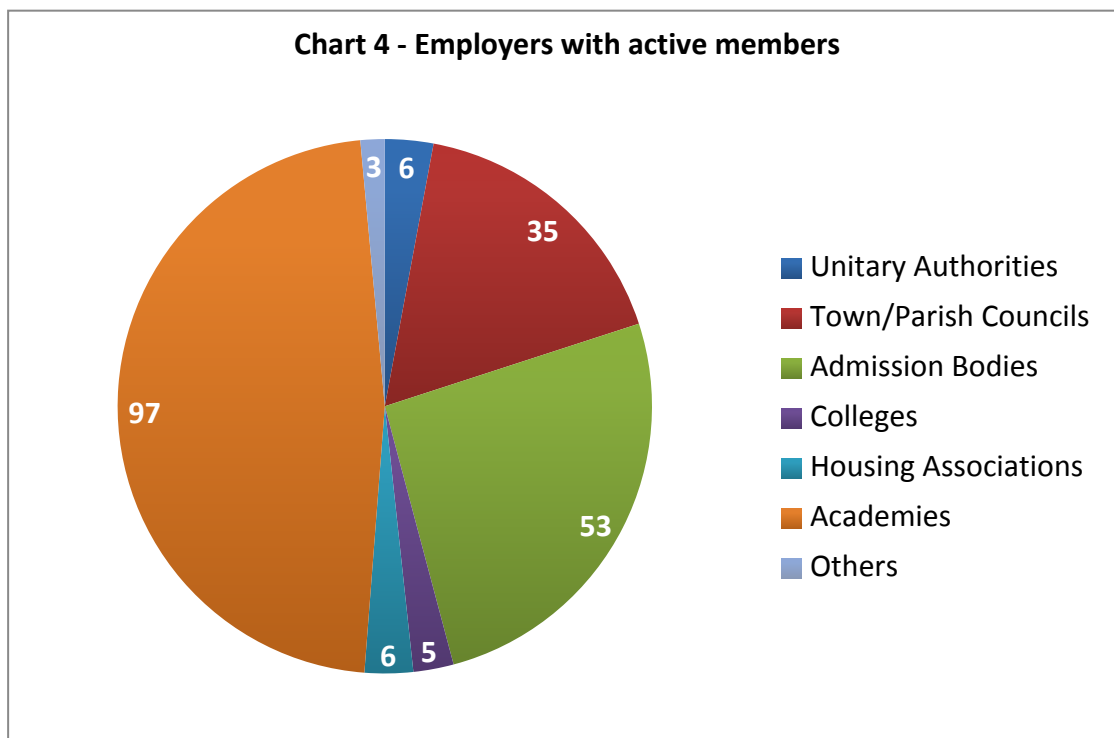
Why swing in Investment Income?

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

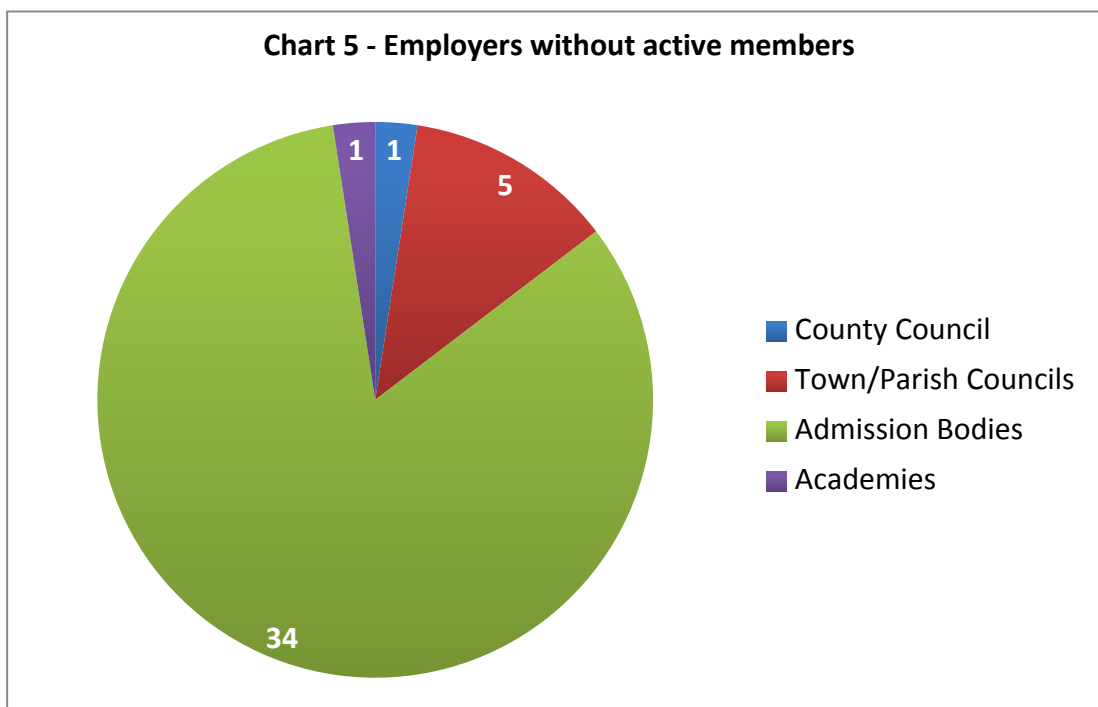


New employers since last report:

Admission Bodies: Get Active Sports Ltd (St Sebastian’s School Wokingham), Energy Kidz Limited (Bracknell), Rapid Commercial Cleaning Ltd x 2 (Reading Girls School and St Michael’s School, Reading).

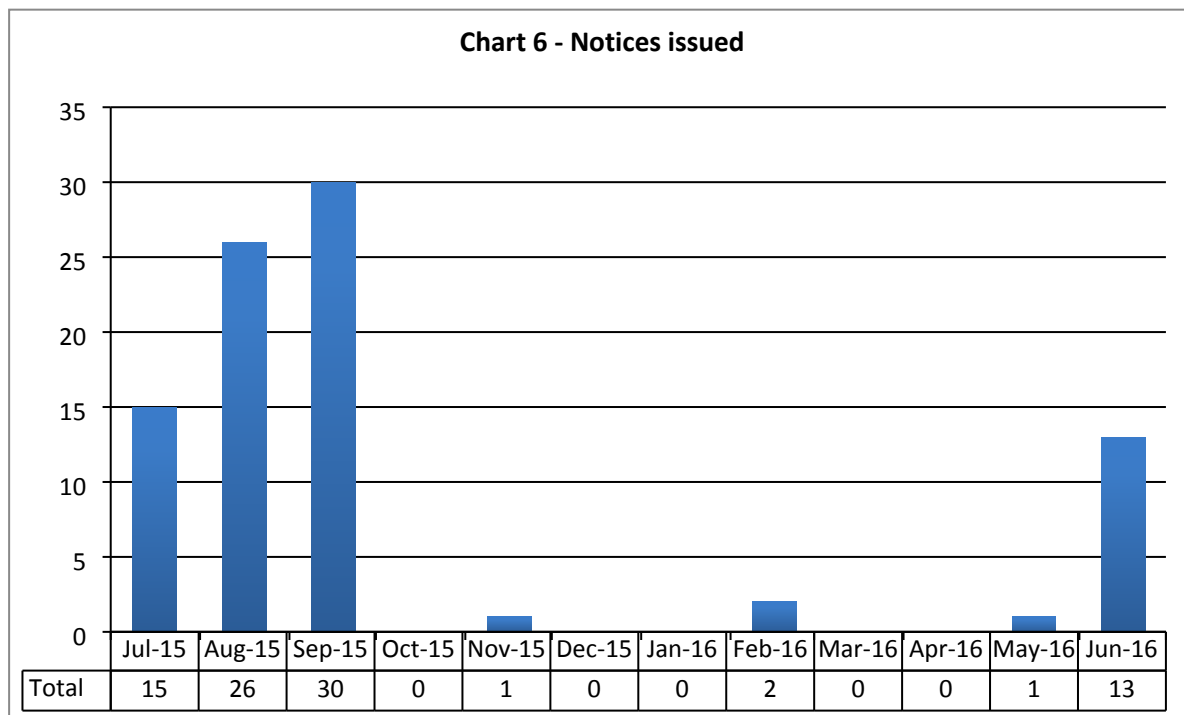
Academies: The Brakenhale School (Bracknell), Dedworth Middle School (RBWM), Dedworth Green First School (RBWM), St John’s Primary School (Reading), Holyport CE Primary School (RBWM), New Town Primary School (Reading).

Town/Parish Councils: Compton Parish Council.



Library Services (Slough) Limited exited the scheme with staff TUPE transferring back to Slough BC.

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

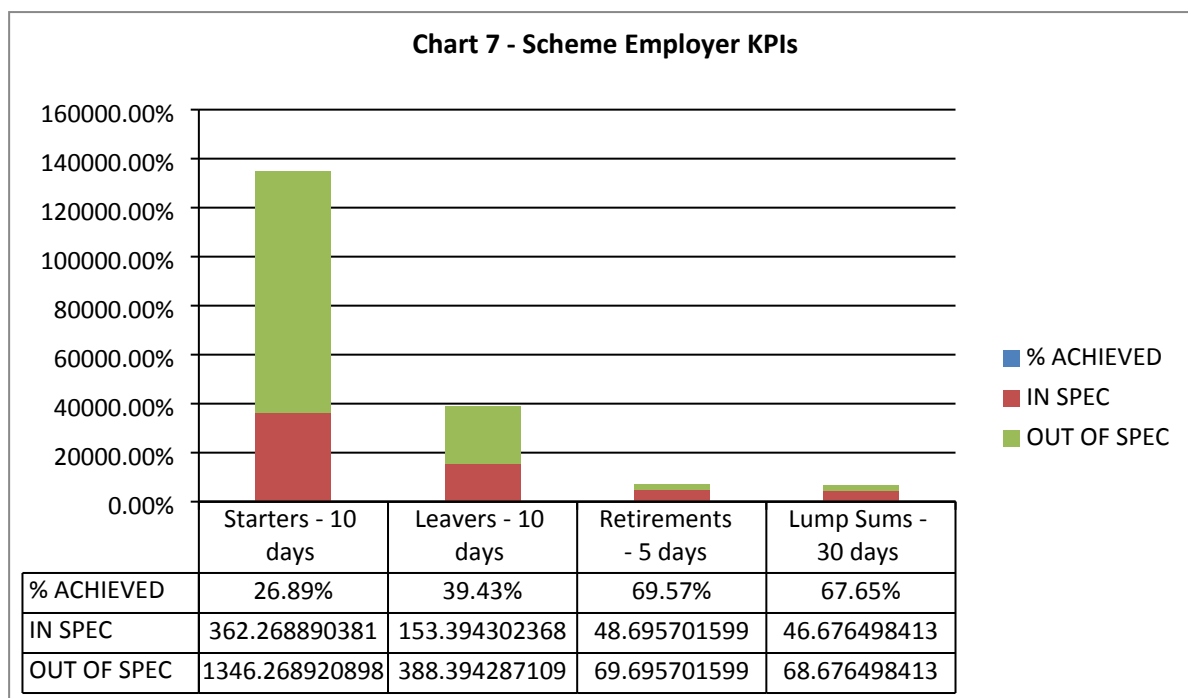


Table 8	TREND	STARTERS	LEAVERS	RETIREMENTS	LUMP SUMS
2015-16	Q4 - OUT	422	162	8	13
	Q4 - IN	298	89	21	16
	% ACHIEVED	41.39%	35.46%	72.41%	55.17%
2015-16	Q3 - OUT	148	653	7	7
	Q3 - IN	529	529	28	28
	% ACHIEVED	78.14%	44.75%	80.00%	80.00%
2015-16	Q2 - OUT	1168	171	18	22
	Q2 - IN	307	82	30	25
	% ACHIEVED	20.81%	32.41%	62.50%	53.19%

2.5 Administration – Key Performance Indicators

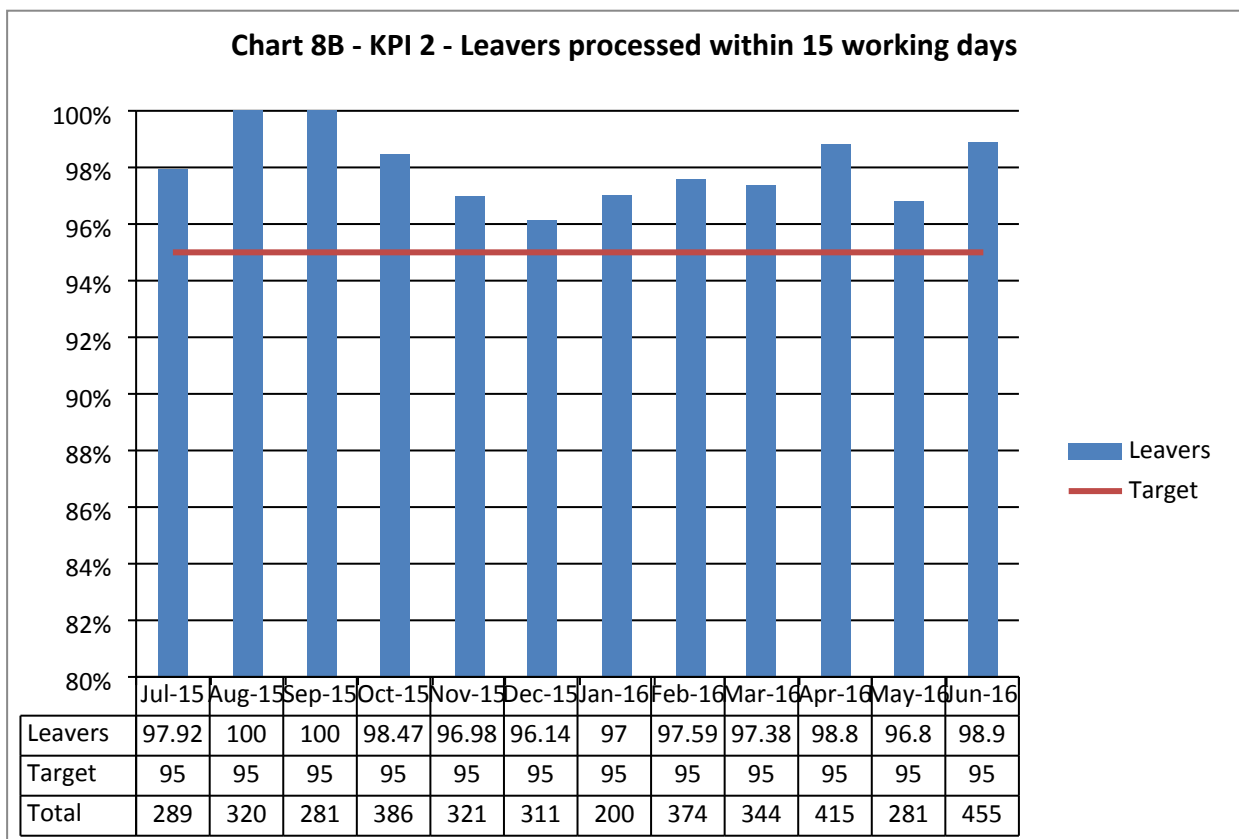
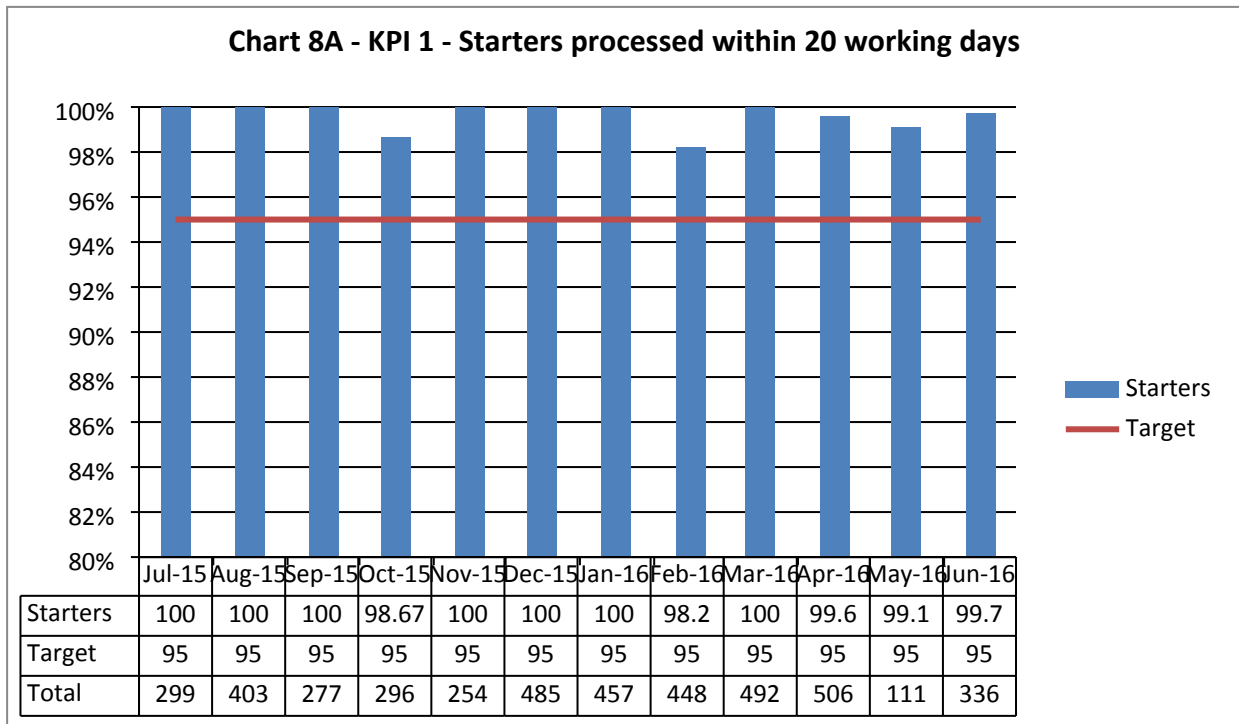
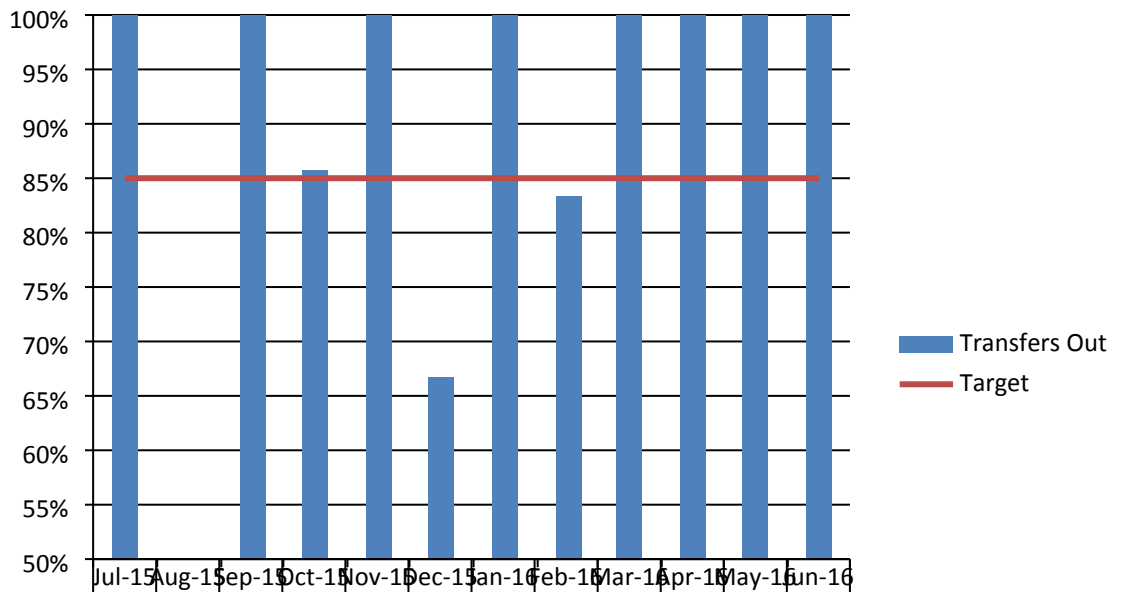
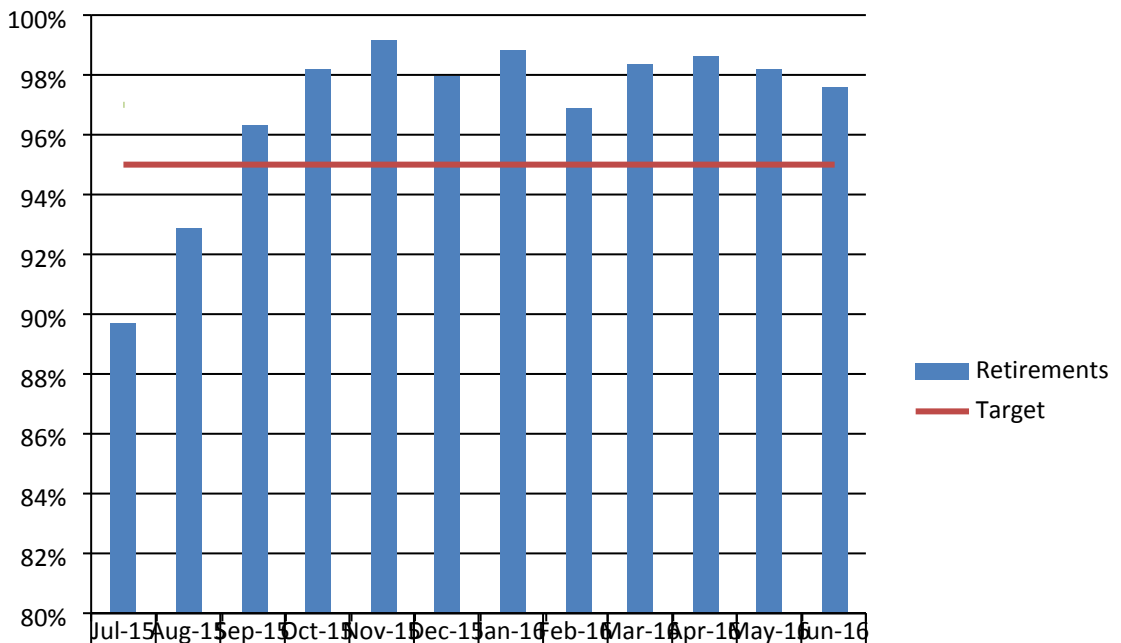


Chart 8C - KPI 3 - Transfers out processed within 15 working days



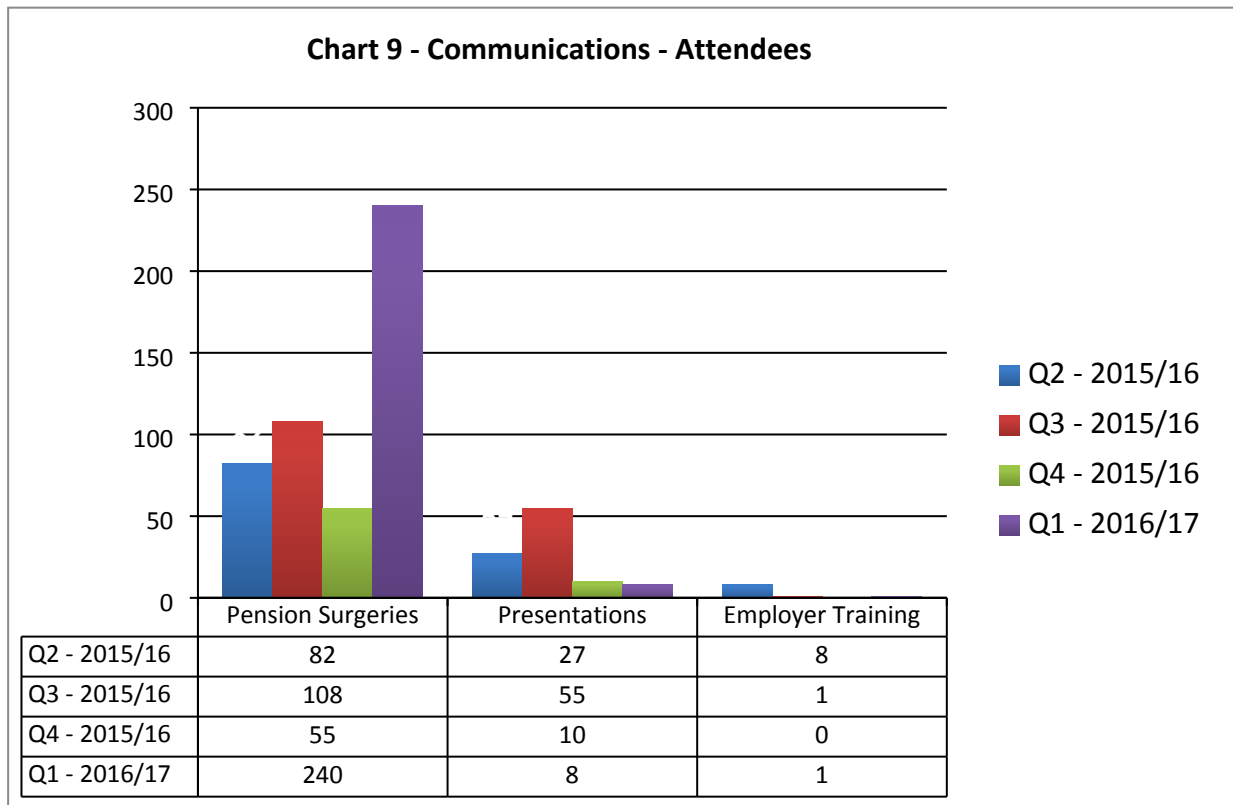
	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Transfers Out	100	0	100	85.71	100	66.67	100	83.33	100	100	100	100
Target	85	85	85	85	85	85	85	85	85	85	85	85
Total	3	1	7	6	3	3	5	6	3	5	0	0

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

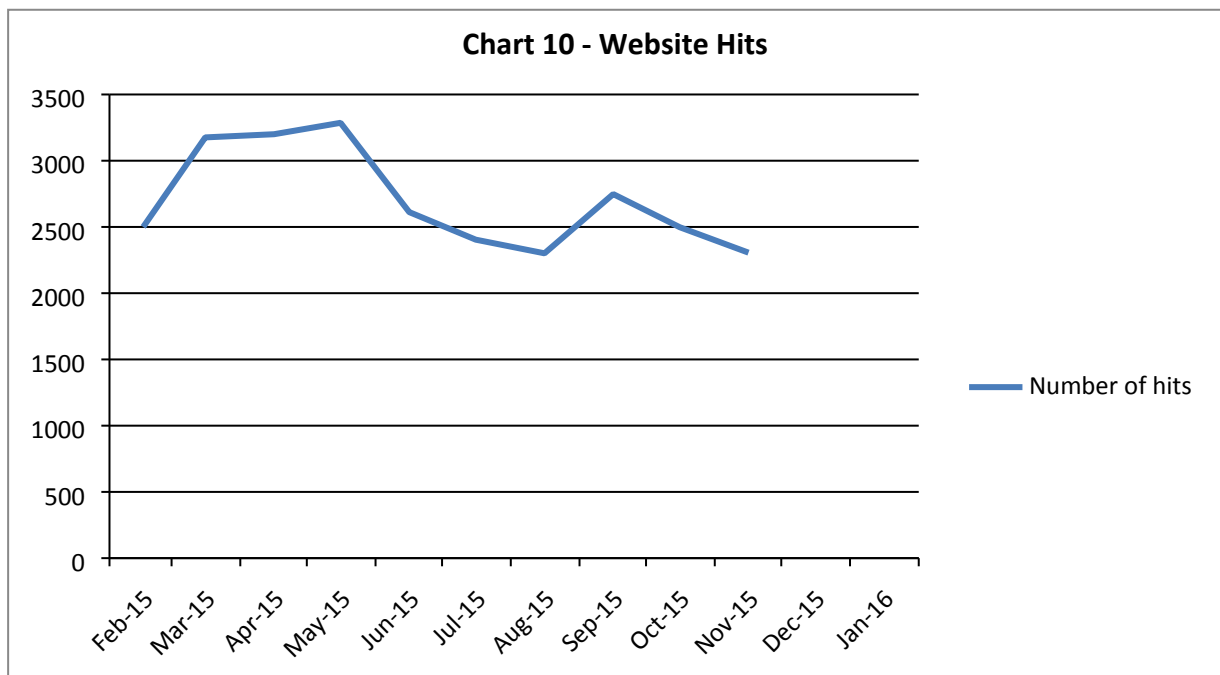


	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Retirements	89.69	92.86	96.3	98.18	99.15	97.96	98.81	96.88	98.36	98.61	98.18	97.59
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	97	98	104	108	116	49	84	64	122	72	55	93

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 and West Berkshire Council have indicated that they wish to implement i-Connect in this financial year
 - Initial discussions have been held with Bracknell Forest 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

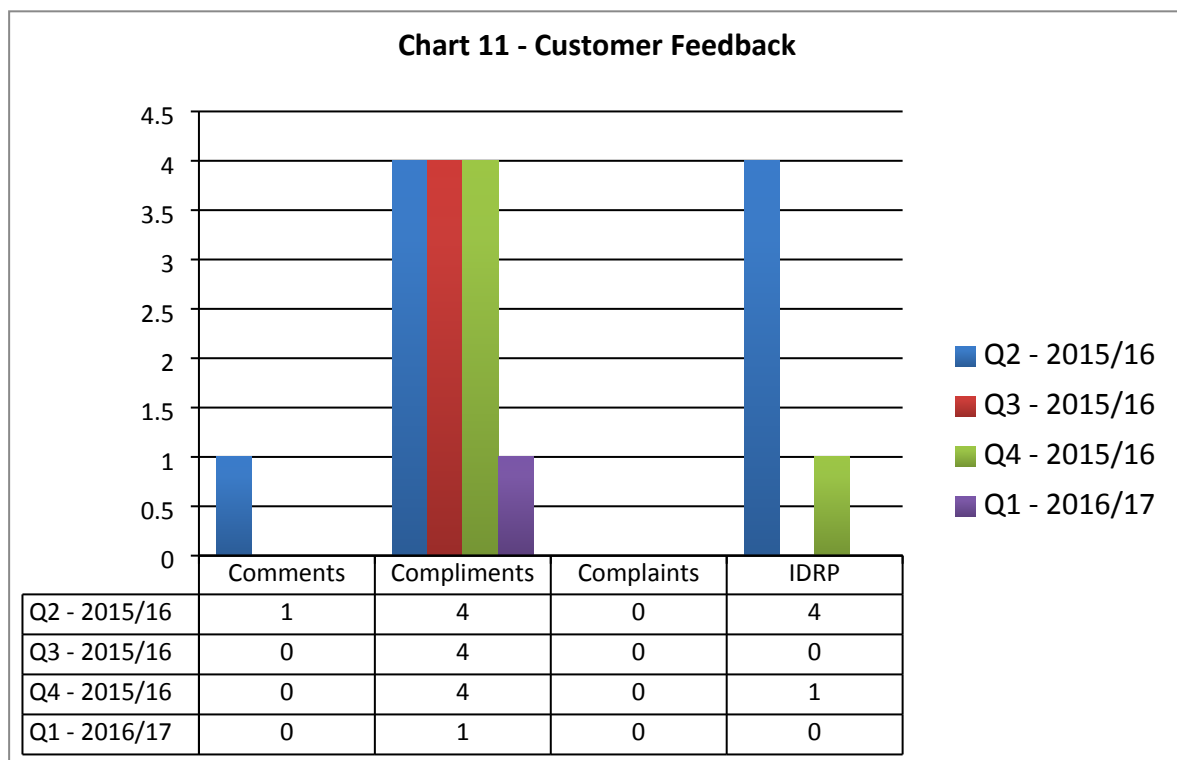


TABLE 9 - INTERNAL DISPUTE RESOLUTION PROCEDURES (IDRP)						
Period	Case	Summary of complaint	Stage 1	Stage 2	Stage 3	Resolution
Q2 – 2015/16	1	Disputing the tier awarded for ill health retirement.	√	√		Case rejected at stage 1. Currently under review at stage 2.
	2	Request for early release of deferred 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	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16
1	0	0	0	0	0	0	0	0	0	0	0	0
2A	1	0	0	0	0	0	0	0	0	0	0	0
2B	0	6	7	0	0	0	0	0	0	0	0	0
2C	11	20	23	0	0	0	0	0	0	0	0	8
3	3	0	0	0	1	0	0	2	0	0	1	5
Total	15	26	30	0	1	0	0	2	0	0	1	13

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

Starters received within specification Q1 2016-17

Employer	IN	OUT	Total	% IN	Q4	Q3	Q2
Academies	44	259	303	14.52%%	24.15%	69.81%	10.99%
Bracknell Forest Council	99	36	135	73.33%	84.96%	96.00%	69.89%
RBWM	4	124	128	3.13%	61.18%	90.77%	15.54%
Reading BC	54	164	218	24.77%	40.51%	68.24%	12.00%
Slough BC	43	31	74	58.11%	66.67%	94.44%	47.06%
University of West London	n/a	n/a	n/a	n/a	n/a	n/a	n/a
West Berkshire Council	38	152	190	20.00%	4.24%	90.96%	19.42%
Wokingham BC	17	105	122	13.93%	70.37%	70.37%	20.80%
Wokingham BC (Selima)	0	43	433	0.00%	0.00%	28.57%	22.64%

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 (of which there were 195 in this quarter) have been done so within the specification deadline.

Leavers received within specification Q1 2016-17

Employer	IN	OUT	Total	% IN Spec	Q4	Q3	Q2
Academies	14	84	98	14.29%	41.46%	37.89%	15.97%
Bracknell Forest Council	49	14	63	77.78%	60.00%	56.00%	49.19%
RBWM	13	22	37.14	26.53%	26.53%	46.67%	42.74%
Reading BC	17	43	60	28.33%	44.44%	49.53%	27.47%
Slough BC	18	11	29	62.07%	33.33%	63.29%	58.67%
University of West London	0	1	1	0.00%	n/a%	100.00%	100%
West Berkshire Council	20	20	40	50.00%	9.52%	36.94%	62.42%
Wokingham BC	8	10	18	44.44%	27.57%	55.77%	7.14%
Wokingham BC (Selima)	0	2	2	0.00%	0.00%	14.75%	4.88%

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 – Q1 2016-17

Employer	Member	Days Over 5
Berkshire Fire & Rescue	AAGN	18
Berkshire Fire & Rescue	JPR	12
Bracknell Forest Council	CP	4
Bracknell Forest Council	JSM	9
Bracknell Forest Homes	ADP	14
East Berkshire College	EP	19
Newbury College	NB	12
RBWM	SAN	68
RBWM	SS	18
RBWM	ZDA	13
Reading BC	CJE	44
Reading BC	CM	29
Reading BC	LH	9
Reading BC	MEH	8
Reading BC	MS	42
Reading BC	NS	15
Reading BC	SL	40
Thatcham TC	EEH	22
West Berkshire Council	JMS	29
Wokingham BC	VMC	19
Woodley TC	DE	9

Lump sums paid >30 days after retirement date – Q1 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