

Investment and Engagement Sub-Committee

Item 5 Investment fee transparency

Committee members are asked to note the contents of this report

Background

1. Investment fees in the LGPS have come under increasing scrutiny from government and are subject to growing levels of (not always positive) media coverage. One example of the latter being: ***Local UK pension schemes waste millions on high fees*** (FT March 2015)
2. Such fees were a driver for the government consultation in 2014 (Collaboration Cost savings and Efficiency) and are referenced in the summer budget announcement on pooling of investments discussed under another agenda item.
3. Investment fee transparency and consistency is also a target for revised CIPFA accounting reporting standard guidance issued for inclusion in 2015 annual report and accounts.

The current position

4. In the 2014 annual reports quoted investment management fees ranged from £0.06m to £34m or expressed as a percentage of assets under management 4bps to 119bps
5. Returns of reports in 2015 (36 received so far) show a range of £0.05m to £81.2m or 2bps to 86bps
6. The impact of the new CIPFA accounting standard has been in the case of one large fund to raise reported investment fees from £11.2m in 2014 to £81.2m in 2015
7. As the CIPFA standard is not mandatory 2015 could see a much wider range of reported fees than ever before with a difficult message to manage to the media.

Investment and Engagement Sub-Committee

Pooling investment criteria

8. It is understood that one of the criteria for investment pooling will be based on cost and will therefore require consistency of both the starting position and future measurement.
9. The Board at its meeting on 21st September agreed to support work toward the measurement of costs 'on a transparent 'gross' basis and use benchmarks that reflect the differences in asset classes and risk profiles.'
10. The Board also agreed to commission 'Independent recommendations on a methodology for comparing gross investment costs (budget allocation £20,000)'

I&E work on transparency

11. At previous meeting of this committee it was agreed to continue work along two veins in order to better fee transparency in the LGPS:
 - 1) Within the current legislative framework, work to continue with parties such as CIPFA to improve the available information.
 - 2) Efforts to reform the underpinning regulation, requiring fuller disclosure of fees, to continue to be taken forward at both EU level and, within the UK, with DWP, HMT and DCLG.
12. Although revised CIPFA guidance is now in place it is not mandatory and therefore is potentially limited in its effect.
13. With regard to the latter discussions have taken place with DCLG to seek to include a reference to statutory guidance on investment fees within the Audit and Accounting regulations
14. A meeting was also held with Dr Chris Seir who has worked with KAS Bank in the Netherlands to implement mandatory transparency and discuss the potential for a similar model to be used for the methodology referred to in paragraph 10 above. An update on this meeting will be given at the committee.