

Investment and Engagement Sub-Committee

ITEM 5 18th January 2016

Investment fee transparency Scheme Advisory Board Transparency Code

Background

1. At a previous meeting of this committee it was noted that a meeting was to be held with Dr Chris Sier, who has worked with KAS Bank in the Netherlands to implement mandatory transparency, to discuss the potential for a similar model to be used for the LGPS methodology.
2. Investment fee transparency and consistency is a target for a revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts. Transparency of investment costs is also included in the government's criteria for pooling investments
3. Since the last Investment Committee, a meeting was held with West Midlands Pension Fund (WMPF) in order to discuss their experience in seeking to comply with the new CIPFA standard.
4. WMPF reported that, despite apparently increasing reported investment costs from £10m per annum costs on the old basis to £81m on the new basis, the response of the investment management community was at best patchy and there may be more costs to uncover.
5. In order to assist LGPS funds to better comply with the investment expenses area headings detailed by CIPFA, a template of data required for transparently measuring investment costs is in the process of being drafted and tested with the help of WMPF and Chris Sier.
6. It is proposed that this template once complete will form the basis of a ' Code of Transparency' to be published by the Scheme Advisory Board.
7. The SAB Transparency Code will be a voluntary code which investment managers of LGPS funds will be encouraged to sign up to. Those that do will agree to supply the information on the template in a timely manner, enabling LGPS Funds to report total costs on a transparent basis. For the purposes of completeness, where a manager is not willing or able to provide a figure, a (prudent/overstated) proxy value would be substituted.
8. The Code will list a series of broad headings for reporting costs and expenses. In working draft form, the main broad headings are likely to be as set out below:

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Working draft; items under The Code

- a. Assets under management – Opening and Closing market value of assets
- b. Management Costs – Invoiced Fees (Less Rebates), VAT (where applicable) and Fees paid from Net Asset Value
- c. Performance Costs – Total performance fees paid
- d. Other Costs
- e. Transaction Costs
 - i. Average bid/offer spread %
 - ii. Time weighted net turnover
 - iii. Net turnover
 - iv. At Full Service Rate, Total Commission Paid
 - v. At Other Rates, Commission Paid
 - vi. Total Commission Paid out
 - vii. Execution Commission
 - viii. Research Commission
 - ix. Stamp Duty /other transaction taxes
 - x. Entry/Exit fees
 - xi. Other transaction costs
- f. Time weighted return
- g. Gross return % over 1 year, 3 years, 5 years and 10 years; and
- h. Net return %, over 1 year, 3 years, 5 years and 10 years.

Committee decision

- 9. Committee are asked to agree that the principle of an SAB Code of Transparency should be recommended to the Board and that work on the template of costs should continue.