

Measuring LCPF Costs

The Local Pension Board's remit includes oversight and comment on the relative and absolute costs of running the fund (Terms of Reference paragraph 9), This report sets out a process by which the Board can monitor these in the context of LGPS 'pooling' and the creation of the Local Pensions Partnership (LPP) using consistent and publicly available numbers.

LCPF Pension Fund Committee also has a strong interest in evaluating these same issues, and the intention is to use a single set of figures. The process outlined in this report should be considered as indicative only until such time as a satisfactory process has been agreed. The dominant cost in the total cost of running a pension fund is the **investment management cost**, essentially the fees paid to the external asset managers the fund employs to implement its investment strategy. In addition there is the cost of actually **administering** the benefits side of the pension fund and a small central overhead covering **Oversight and Governance**. These are shown below for the end of the fiscal years (FY) to March 2015 and March 2016.

The trend in the figures will be more important than the absolute figures. To be of most value the figures should be prepared on a consistent basis, audited, and easily available. The proposal is therefore to use the figures given in the table below, which are taken from the annual report and accounts.

LGPS 'pooling' in general and the LPP specifically are about saving investment managements costs **without sacrificing returns**. 'Investment management costs' represent the dominant share of the total costs of running a pension fund, as is illustrated with the figures below. It will be challenging to measure 'without sacrificing returns', as the return a fund achieves is driven primarily by investment strategy which remains the preserve of the LCPF Pension Fund Committee. In contrast it is relatively straightforward to measure the 'saving investment management costs', now the preserve of LPP(I). Note the really important return is the asset return less fees, the co-called 'net of fees' investment return as this grows the fund and ultimately provides the money to meet the fund's liabilities.

To aid interpretation and comparison the investment management cost is shown (*in italic parenthesis*) as basis points* of the assets under management and the administration cost is shown (*also in italic parenthesis*) as a £ cost per person.

| | FY 14/15 (£Mn) | FY 15/16 (£Mn) |
|-------------------------|-----------------|-----------------|
| Total Management | 35.4 | 45.3 |
| Investment Management | 29.4 (53) | 32.5 (55) |
| Administration | 3.5 (£21.50 pp) | 4.1 (£21.08 pp) |
| Oversight & Governance | 2.5 | 8.7 |

*A basis point is 1% of 1% (ie .0001).

The aim will be to report on the development of these costs on an annual basis after the accounts are finalised, and provide a short commentary on trends.

The Board is asked to note this report and the process to monitor costs going forward, at least until such time as a process considered satisfactory by the Board has been agreed by the Pension Fund Committee.