City of Westminster

Local Pension Board

Date:	**18 November 2021**
Classification:	**General Release (Appendix is confidential)**
Title:	**Value for Money Analysis**
Wards Affected:	**None**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
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1 EXECUTIVE SUMMARY

1.1 The Appendix 1 to this report has been prepared by the Fund's investment advisor, Deloitte, to demonstrate the extent to which the Fund is achieving value for money within its annual investment management costs.

2 RECOMMENDATION

2.1 The Board is requested to note the value for money analysis, as prepared by Deloitte, at Appendix 1.

3 BACKGROUND

3.1 Following the Local Pension Board meeting on 21 July 2021, the Board requested analysis in order to demonstrate the extent to which the Fund is achieving best value relative to the fees and costs charged by its investment managers.

3.2 The Fund's annual investment charges have increased notably over the years to 2020/21. However, it should be noted that much of this increase can be attributed to the Cost Transparency Initiative (CTI) and an increase in market value of Fund assets.

3.3 During 2019 the Cost Transparency Initiative published a Code of Transparency for LGPS asset managers. The Code is voluntary and details the provision of transparent and consistent investment cost and fee information between investment managers and LGPS administering authorities. Signatories to the code are required to complete a template which details investment management expenses associated with the running of the fund, including portfolio transaction costs, administration costs, governance costs, other ongoing costs and one-off costs.

3.4 Therefore, where asset managers may have previously reported a minimum level of relevant annual management charges and performance fees, the Code encourages them to include more of the underlying investment costs. As a result, comparison of annual charges prior to and following implementation of the Code will give the impression of a significant increase in costs. While these costs would have always been paid as a reduction on investment values, they may not have previously been disclosed or been transparent to investors.

4 COST ANALYSIS AND FEE SAVINGS

4.1 The value for money analysis, prepared by Deloitte and attached at Appendix 1, illustrates that over the three-year period to 31 March 2021, the Fund's annual management and performance fee charges have reduced relative to the market value. The total costs over 2018/19 reflect 0.31% of total Fund investments, 0.30% over 2019/20 and reflect 0.24% of total Fund's investments during 2020/21.

4.2 The lower management charges over 2020/21, can be largely attributed to transitions within the Fund's equity holdings. The Fund divested from an actively managed UK Equity mandate into a passively managed fund (Global Equity), which attracts a lower management fee. During Q3 of 2020/21, the Fund transitioned the passive holdings into ESG titled equity strategies: this will increase annual costs going forward, but will reduce risk and deliver better value to the Fund in the long run.

4.3 It should also be noted that the Fund has made allocations to infrastructure, renewable energy and multi asset credit, all of which attract a higher management fee than traditional investments. However, it should be recognised that the more complex asset classes will reduce risk, increase portfolio diversification, and be expected to generate returns matching equities on a net of fees basis.

4.4 As part of the government's LGPS pooling initiative, the Pension Fund has also achieved savings through investment via the London CIV pool company, and its negotiations on fees arising from greater scale. The fee savings analysis, as shown in Appendix 1 demonstrates that the Fund is achieving value for money within its annual management charges compared with market average costs. It is anticipated that these significant fee savings will continue to be generated going forward.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDIX:

Appendix 1: Deloitte Value for Money Analysis (exempt)