

# **REPORT FOR: Pension Board**

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**Date of Meeting:**

28 June 2016

**Subject:**

**Information Report - Management and Investment Expenses Benchmarking**

**Responsible Officer:**

Dawn Calvert, Director of Finance

**Exempt:**

No

**Wards Affected:**

All

**Enclosures:**

Appendix: Investment Benchmarking for Harrow (CEM Benchmarking)

## **Section 1 – Summary and Recommendation**

### **Summary**

The report updates the Board on developments in connection with benchmarking the management and investment expenses of the Fund and invites the Board to consider the benchmarking exercise carried out by CEM Benchmarking.

## **Section 2 – Report**

1. At their meetings on 2 November 2015 and 22 March 2016 the Board considered the details of management and investment and management incurred by the Pension Fund and asked that any benchmarking data that was available regarding other funds be provided to the Board.

2. The Board have been advised that the Council, along with all other administering authorities, prepares its Pension Fund accounts in accordance with the CIPFA Code of Practice and in its accounts identifies relevant costs as “Management Expenses” and “Investment Expenses.” Prior to the 2015-16 Accounts, these expenses were limited to those actually recorded in the authority’s accounts and, crucially, often excluded many of the investment management costs “hidden” within the performance and valuation data of fund managers.
3. The figures included in the accounts are reported to the Department for Communities and Local Government (DCLG) in the statutory SF3 return in the months following the end of each accounting year. Traditionally, this has probably been the only potentially “benchmarking” data which is supplied by all administering authorities every year.
4. The Board are aware of the development of the London Collective Investment Vehicle (CIV) and it has become clear that the Government requires all administering authorities to commit to such a vehicle. In its publication “Local Government Pension Scheme: Investment Reform Criteria and Guidance” dated November 2015 DCLG required all authorities to commit to pooling their investments and they expect detailed plans to be reported to them in July. Specifically they require authorities to provide “a fully transparent assessment of investment costs and fees” for the last three years. This will, and is intended to, require authorities to understand and report on all their investment costs irrespective of whether they are invoiced directly or taken from the investments at source.
5. The Board have previously been advised of CEM Benchmarking (CEM), a company which had offered a free service to all administering authorities to analyse their data in a way that would assist in providing the cost information required by DCLG. At the time of the last Board meeting officers were already inclined to accept this offer but over subsequent weeks it has become clear that every administering authority, not just in London but throughout the whole Country, were likely to be completing the returns hence to do so had become virtually compulsory. The CEM survey was therefore completed and, as a result of discussing the draft returns and a draft report with both CEM and some of the Pension Fund Committee’s advisers the final analysis was received on 7 June 2016 and is attached as the Appendix.
6. Many of the LGPS officers and Members acquainted with the CEM methodology have some misgivings and it is generally accepted that the LGPS Funds have provided information in a format designed primarily for much larger funds most of which are not based in UK. Nevertheless for most funds, including Harrow, the CEM analysis is the best of its type available and it is already having a significant influence on the development of the pooling arrangements. It also includes the “hidden” investment costs which had certainly not been made available for any significant benchmarking.
7. Some of the main conclusions arising from the Harrow review are as follows:

- The Fund's net return in 2014 of 9.4% was below the Global median of 10.9%
- The net value added in 2014 of 0.7% was in the top quartile and well above the Global median of -0.1%
- The Fund's asset risk in 2014 of 11.8% placed it in the top decile and well above the Global median of 9.0%
- The Fund's total investment costs in 2014-15 of 50.8bps were just above the Global median of 49.2bps
- The Fund's total investment costs of 50.8bps were below the benchmark costs of 58.7bps
- Over the last three years the Fund's costs increased from 45.3bps to 50.8bps.

8. The Board is invited to consider this report and its appendix and comment however it sees fit.

### **Financial Implications**

9. Benchmarking of the Fund's most important management and investment expenses is an important way of seeking to measure the efficiency of the Fund's operations but there are no financial implications arising directly from this report.

### **Risk Management Implications**

10. Relevant risks are included in the Pension Fund Risk Register.

### **Equalities implications**

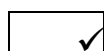
11. There are no direct equalities implications arising from this report.

### **Council Priorities**

12. The financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities.

## **Section 3 - Statutory Officer Clearance**

Name: Dawn Calvert



Director of Finance

Date: 13 June 2016

**Ward Councillors notified:**

**Not applicable**

## **Section 4 - Contact Details**

**Contact:** Ian Talbot, Treasury and Pension Fund Manager  
0208 424 1450

**Background Papers - None**