

INFORMATION BULLETIN

The following topics have been identified as being of interest to the Committee. Councillors wanting further information on any of the items in this Bulletin are advised to contact Paul Finbow, Corporate Finance Specialist by telephone on 01473 265288, or via email paul.finbow@suffolk.gov.uk.

ADMINISTRATION BULLETIN

INVESTMENT MANAGEMENT AND ADMINISTRATION COSTS

Administration Costs

- 1 The estimated administration costs for the Suffolk Pension Fund for 2014-15 and 2015-16 are set out below:

Table 1: Administration Costs			
	2013-14	2014-15	2015-16
	Actual	Estimate	Estimate
	£'000	£'000	£'000
Suffolk County Council administration	1,258	944	991
Actuarial Fees	159	78	82
Audit Fees	28	28	28
Legal Fees	6	4	4
Administration System	177	189	200
Other expenses	66	62	58
Total Administration	1,694	1,305	1,363

- 2 The total administration costs in 2013-14 shown in **Table 1** above were £1.694 million. In 2014-15 these costs are estimated to decrease by £0.389 million, a reduction of 23%. Most of the decrease can be attributed to the elimination of ongoing costs which were charged as part of the CSD contractual arrangements. An allowance has been made in the 2015-16 figures for additional costs likely to be incurred in the setting up and running of the new Pension Board.

Investment Management Costs

- 3 The total investment management fees charged to the SCC Pension Fund in 2013-14 shown in **Table 2** below is £6.952 million. Management fees includes fees charged directly to the Pension Fund, fees charged to the investment's net asset value and professional fees incurred in the management of the fund such as investment advice.

Table 2: Investment Management Costs			
	2013-14	2014-15	2015-16
	Actual	Estimate	Estimate
	£'000	£'000	£'000
AllianceBernstein	254	560	-
BlackRock	285	520	546
Bluecrest	1,107	1,252	1,315
Brookfield	15	59	250
JP Morgan ⁽¹⁾	93	-	-
KKR	365	330	346
Legal and General	862	992	1,141
M&G	80	715	822
Millennium	-36		
Newton	1,008	1,082	1,136
Pantheon	278	301	286
Partners	563	307	460
Pyrford	472	479	503
Schroders	348	290	305
Wilshire	347	343	326
Winton	714	1,612	1,693
Other Costs			
Custodian (State Street)	52	34	-
Custodian (HSBC)		22	51
Total Investment Manager Fees	6,807	8,898	9,180
Consultancy Costs			
Performance Analysis	28	31	33
Proxy Voting Service	31	32	33
Investment Advice	86	117	122
Total Consultancy Costs	145	180	188
Total Investment Management Costs	6,952	9,077	9,368

Notes: (1) JP Morgan performance fee charged in 2013/14

- 4 Overall the fees are estimated to increase from £7.0 million in 2013-14 to £9.1 million in 2014-15 and £9.4 million in 2015-16. This reflects the increase in the fund valuation and the improved performance.
- 5 Investment management costs include the basic management fee, and for some mandates, an element of performance fee. An estimate of the performance fee element incurred for 2014-15 is set out in **Table 3** below. The performance figures reported to the Committee on a quarterly basis are net of fees.

Table 3: Performance Fees	
Investment Manager	2014-15 Estimated £'000
AllianceBernstein	354
BlackRock	250
Bluecrest	460
M&G	166
Pantheon	11
Winton	1,230
Total	2,471

- 6 The full year management fees incurred by the Fund's investments in 2013-14 equate to 37 basis points, 0.37% of the Fund. A schedule showing the fees payable on a manager by manager basis is set out in **Appendix 1**.

Hymans have produced a Manager Fee benchmarking report, analysing the fees charged by the Fund's investment managers against a broad cross section of their peers. The report concludes that in general the Fund is paying below average fees for the relevant asset classes invested in.

Total Costs

- 7 The total administration and investment management costs for the Pension Fund as shown in **Table 4** below includes all the investment management fees, custodian fees and administration costs incurred by the Pension Fund. This expense is estimated to increase by £1.736 million (20%) in 2014-15 and a further £0.349 million (3%) in 2015-16. This reflects the expected growth in the size of the assets under management

Table 4: Total administration and investment management costs			
	2013-14	2014-15	2015-16
	Actual	Estimate	Estimate
	£'000	£'000	£'000
Administration	1,694	1,305	1,363
Investment management	6,952	9,077	9,368
Total administration and investment management	8,646	10,382	10,731
Scheme assets (£m)	1,885	2,140	2,250
Costs as % of assets	0.45%	0.49%	0.48%
Scheme membership	49,634	49,634	49,634
Admin costs per scheme member (£)	34.12	26.28	27.47

- 8 The total administration and investment management costs in 2013-14 shown in **Table 4** above, represents 0.45% of the Fund value, increasing in line with the rise of investment managers' fees.
- 9 The comparative national figures for scheme administration and investment management costs for 2013-14 are published in the SF3 statistical return by the Department for Communities and Local Government (DCLG) who calculate the unit costs for Local Authority Pension Funds based on the submissions by all 81 English administering authorities.
- 10 The pension funds are grouped by size bands, and the Band F pension funds are those most similar to the Suffolk fund (£1,400 million to £1,900 million at the start of the year). The unit cost figures for the Suffolk fund for 2013-14 are compared with other local authority funds in **Table 5** overleaf:

Table 5: Comparative administration and investment costs 2013-14	
Total cost as % of assets (Suffolk)	0.45%
Total cost as % of assets (Band F pension funds)	0.30%
Total cost as % of assets (shire county average)	0.30%
Total cost as % of assets (England average)	0.30%

- 11 The Suffolk fund's costs in 2013-14 as a percentage of fund assets, (0.45%) were significantly higher than those of the other Band F funds (0.30%). However, it is not known whether the national averages are really comparable with the figures reported by Suffolk. Where other local authority funds have significant investment in pooled funds the costs for investment management as reported for accounting and SF3 purposes could be understated compared with the total costs incurred.
- 12 The lack of comparability and under reporting that currently exists is a long standing issue and new accounting guidance has been issued and should be adopted in the 2014-15 accounts. The new requirements should not particularly affect the outcomes for the Suffolk Pension Fund but may increase the comparable figures.
- 13 The cost of administering the scheme per scheme member is £34, which is higher than other Band F pension funds with an average cost of £26. The average costs published show a £3 per scheme member reduction from the previous year. The average administration cost is similar to the Suffolk Pension Fund at £1.3 million but this is incurred on a slightly higher membership number, an average of 50,293. The estimated return for the Pension Fund for 2014-15 is £26 which is in line with the Band F current average.

Table 6: Comparative administration costs 2013-14	
Total cost per scheme member (Suffolk)	£34
Total cost per scheme member (Band F pension funds)	£26
Total cost per scheme member (shire county average)	£24
Total cost per scheme member (England average)	£27

SOURCES OF FURTHER INFORMATION

Local Government Pension Scheme Funds (SF3), issued by DCLG, 29 October 2014

Basis point of full year charged investments funds

	2013-14	2013-14	2013-14
	NAV	Fees	Fee Basis
	£ million	£ million	%
AllianceBernstein	153	0.255	0.17
Blackrock	179	0.285	0.16
Bluecrest	34	1.107	3.26
Brookfield	6	0.015	0.25
JP Morgan	0	0.093	-
KKR	26	0.365	1.40
Legal & General	765	0.862	0.11
M&G	29	0.080	0.28
Newton	269	1.008	0.37
Pantheon	31	0.278	0.90
Partners	6	0.563	9.38
Pyrford	104	0.472	0.45
Schroders	193	0.348	0.18
Wilshire	36	0.347	0.96
Winton	35	0.714	2.04
Other Costs		- 0.036	
State Street		0.052	
PIRC		0.030	
Investment Advice		0.086	
WM		0.028	
Total	1,866	6.952	0.37