

## Suffolk Pension Fund, 30 November 2015

*A committee of Suffolk County Council*

### Information Bulletin

The Information Bulletin is a document that is made available to the public with the published agenda papers. It can include update information requested by the Committee as well as information that a service considers should be made known to the Committee.

This Information Bulletin covers the following items:

### Investment Management and Administration Costs

#### Administration Costs

- The estimated administration costs for the Suffolk Pension Fund for 2015-16 and 2016-17 are set out below:

<b>Table 1: Administration Costs</b>			
	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Suffolk County Council administration	937	1,030	1,040
Actuarial Fees	88	65	100
Audit Fees	25	36	36
Legal Fees	8	1	2
Administration System	217	200	250
Pooling of Assets Project Costs	-	20	120
Other expenses	43	66	57
<b>Total Administration</b>	<b>1,318</b>	<b>1,418</b>	<b>1,605</b>

- The total administration costs in 2014-15 shown in **Table 1** above were £1.318 million. In 2015-16 these costs are estimated to increase by £0.100 million, an increase of 8%. Most of the increase can be attributed to the increase of staffing costs associated with the national pay award, higher Suffolk County Council employer pension contributions and the filling of vacant posts.

- 3 An allowance has been made in both 2015-16 and 2016-17 for Suffolk's share of the additional costs likely to be incurred in setting up a vehicle to pool the Fund's assets with other Pension Funds.
- 4 An increase in actuarial costs will be incurred during 2016/17 due to the completion of the triennial valuation of the Fund by Hymans Robertson.
- 5 Other costs includes membership of various professional bodies and a contribution to the set up costs as part of the Pension Fund's founder member status involvement with the national frameworks. Any national framework that the Fund has helped to create is then free to use, and therefore does not incur any additional cost.

### **Investment Management Costs**

- 6 The total investment management fees charged to the Pension Fund in 2015-16 shown in **Table 2** overleaf is £10.737 million.
- 7 Investment management fees include investment fees, performance fees, investment expenses incurred in association with the management of the investments and transaction costs. Investment management fees are either charged directly to the Pension Fund or charged against the investment's net asset value.
- 8 In addition, professional fees are also incurred in the management of the Pension Fund. These include investment advice, voting and performance measurement.
- 9 Overall the fees are estimated to decrease from £10.7 million in 2014-15 to £9.8 million in 2015-16. This reflects the volatility in the equity markets which is reflected in the investment managers performance resulting in a reduction of performance fees.
- 10 The full year management fees incurred by the Fund's investments in 2014-15 equate to 49 basis points, 0.49% of the Fund.
- 11 The fee structure always forms part of the negotiating process with managers when discussing additional investments and the Pension Fund has benefitted from a reduction of fees from Legal & General, Pantheon and Blackrock as a result of these discussions in 2015.

<b>Table 2: Investment Management Costs</b>			
	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Alliance Bernstein <sup>(1)</sup>	560	-	-
BlackRock	574	404	546
BlackRock Bonds <sup>(2)</sup>	-	521	600
Bluecrest <sup>(3)</sup>	1,570	915	-
Brookfield	59	63	70
KKR	275	300	321
Legal and General <sup>(4) (5)</sup>	964	978	1,046
M&G	835	1,094	1,168
M&G Bonds <sup>(6)</sup>	-	694	743
Newton	1,099	1,110	1,177
Pantheon <sup>(7)</sup>	213	1,042	386
Partners	496	270	350
Pyrford	486	560	600
Schroders	398	326	349
Wilshire	361	314	300
Winton	2,137	430	1,500
Transaction Costs	474	550	500
<b>Total Investment Manager Fees</b>	<b>10,501</b>	<b>9,571</b>	<b>9,656</b>
<b>Other Costs</b>			
Custodian - State Street <sup>(8)</sup>	34	-	-
Custodian - HSBC <sup>(8)</sup>	22	40	45
Performance Analysis	31	32	33
Proxy Voting Service	32	32	33
Hymans Investment Advice	97	63	70
Independent Investment Advice	20	20	20
<b>Total Other Costs</b>	<b>236</b>	<b>187</b>	<b>201</b>
<b>Total Investment Management Costs</b>	<b>10,737</b>	<b>9,758</b>	<b>9,857</b>

**Notes:**

- (1) Alliance Bernstein mandate terminated in 2014/15
- (2) BlackRock bonds invested in 2015/16
- (3) Bluecrest mandate terminated in 2015/16
- (4) Legal & General RAFI and UK equity investment in 2014/15
- (5) Legal & General bonds terminated in 2015/16
- (6) M&G bonds invested in 2015/16
- (7) Pantheon additional investment in 2015/16
- (8) Custodian changed from State Street to HSBC in 2014/15

- 12 Investment management costs include the basic management fee, and for some mandates, an element of performance fee. An estimate of the performance fee element for 2015-16 is set out in **Table 3** below. The performance figures reported to the Committee on a quarterly basis are net of fees.

<b>Investment Manager</b>	<b>2014-15 Actual £'000</b>	<b>2015-16 Estimated £'000</b>
Alliance Bernstein	354	-
BlackRock	301	-
Bluecrest	653	209
M&G	271	46
Pantheon	(5)	(7)
Partners	203	121
Winton	1,754	-
<b>Total</b>	<b>3,531</b>	<b>369</b>

### **Total Costs**

- 13 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.
- 14 This expense is estimated to decrease by £1.059 million (9%) in 2015-16 mainly because of the difficult market conditions faced by the investment managers.

	<b>2014-15 Actual £'000</b>	<b>2015-16 Estimate £'000</b>	<b>2016-17 Estimate £'000</b>
Administration	1,318	1,418	1,605
Investment management	10,737	9,758	9,857
<b>Total administration and investment management</b>	<b>12,055</b>	<b>11,176</b>	<b>11,462</b>
Scheme assets (£m)	2,198	2,190	2,340
<b>Costs as % of assets</b>	<b>0.54%</b>	<b>0.51%</b>	<b>0.49%</b>
Scheme membership	51,991	54,000	55,000
<b>Admin costs per scheme member (£)</b>	<b>25.35</b>	<b>26.26</b>	<b>29.18</b>

- 15 The total administration and investment management costs in 2014-15 shown in **Table 4** above, represents 0.54% of the Fund value, increasing in line with the rise of valuation of the Fund and performance fees paid due to the outperformance of the investment managers.
- 16 The comparative national figures for scheme administration and investment management costs for 2014-15 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 81 English administering authorities.
- 17 The Pension Funds are grouped by size bands, and the Band F pension funds are those most similar to the Suffolk fund (£1,800 million to £2,500 million at the start of the year). The unit cost figures for the Suffolk fund for 2014-15 are compared with other local authority funds in **Table 5** below:

<b>Table 5: Comparative administration and investment costs 2014-15</b>	
<b>Total cost as % of assets (Suffolk)</b>	<b>0.54%</b>
Total cost as % of assets (Band F pension funds)	0.36%
Total cost as % of assets (shire county average)	0.42%
Total cost as % of assets (England average)	0.40%

- 18 The Suffolk Fund's costs in 2014-15 as a percentage of fund assets, (0.54%) were significantly higher than those of the other Band F funds (0.36%).
- 19 The Suffolk Pension Fund outperformed in 2014-15 returning 14.6% against an average LGPS return of 13.1%. If the performance fee element of the management expenses was removed from the calculations then the cost would be 0.39%, in line with the average.
- 20 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.
- 21 The lack of comparability and under reporting that currently exists is a long standing issue and new accounting guidance was issued for adoption in the 2014-15 accounts. The new requirements have not increased the figures for the Suffolk Pension Fund because the accounts were already compliant.
- 22 The Pension Funds are also grouped by membership size bands to compare administration costs, and the Band F pension funds are those most similar to the Suffolk fund (40,000 to 55,000 at the start of the year). The unit cost figures for the Suffolk fund for 2014-15 are compared with other local authority funds in **Table 6** overleaf:

<b>Table 6: Comparative administration costs 2014-15</b>	
<b>Total cost per scheme member (Suffolk)</b>	<b>£25</b>
Total cost per scheme member (Band F pension funds)	£24
Total cost per scheme member (shire county average)	£22
Total cost per scheme member (England average)	£25

- 23 The cost of administering the scheme per scheme member is £25, which is only just above other Band F Pension Funds with an average cost of £24.

#### **SOURCES OF FURTHER INFORMATION**

Local Government Pension Scheme Funds (SF3), issued by DCLG in October 2015.