

**Report to:** Pension Board

**Date of meeting:** 4 August 2016

**By:** Chief Finance Officer

**Title:** Review of Managers Fee Arrangements

**Purpose:** To note the Pension Fund costs relating to the East Sussex Pension Fund (ESPF) investment management fees.

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## RECOMMENDATIONS

The Board is recommended to consider and comment on the report

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### 1. Background

1.1 There is a drive by administrative authorities to reduce costs, and some of the focus has been on investment managers who have struggled. However, in 2015, the Chief Finance Officer asked every fund manager hired by the East Sussex Pension Fund to consider reducing the fees charged to the Fund.

### 2. ESPF Investment Manager fees

2.1 Fees paid to fund managers are often difficult to determine and there have been calls for greater transparency in how and how much - fund managers are paid and the various fees they charge individual pension fund schemes. While there are pressures on fund managers to reduce their charges in an environment of lower returns, comparisons are difficult because fees vary according to different investment strategies, and will sometimes not show up in published accounts, with disparities in the fees paid by the UK's local authority pension funds to their fund managers.

2.2 Over the last five years (Table 1), ESPF has paid £53.0m in fund manager fees; however, the fund value has increased by £700.3m over the same period.

<b>Table 1.</b>	2011/12	2012/13	2013/14	2014/15	2015/16
Investment Management Fees	£9.2m	£10.0m	£10.6m	£11.5m	£11.7m
Increases in fees	-	£0.8m	£0.6m	£0.9m	£0.2m
% Increases in fees	-	9%	6%	8%	2%
ESPF Fund Value	£2.1b	£2.3b	£2.5b	£2.7b	£2.8b
Increases in value	-	£273.8m	£135.2m	£267.0m	£24.9m
% Increases in value	-	13%	9%	11%	1%

Key: (m – Million; b – Billion)

2.3 Schemes which are able to reduce their investment costs – which compound over time, especially when assets swell – can get better value for their members and retain more of their funds.

### 3. 2015/16 Investment Strategy and Manager Fees

3.1 The total cost of investment manager fees in 2015/16 was £11.7m. In addition to the management fees invoiced to the Fund, this figure includes private equity and infrastructure fees which are deducted from the value of the assets. This is an increase of £0.2m on the £11.5m cost in 2014/15, and may be considered in the context of the increase in the value of the fund during 2015/16, which increased in value by £24.9m. Appendix 1 presents the fund value and fees paid, by manager/portfolio/asset class.

#### **4. Approaches to Managers**

4.1 The ESPF has recently renegotiated fee arrangements with one of its fund managers (Ruffer) and this is expected to save the fund £0.125m over the year. Officer's view is that taking into consideration the funds long-term relationship with managers; we should attempt fees re-negotiation, even though the best opportunity for negotiation is before the manager is appointed. Officers continue to have ongoing dialog with other fund managers in relation to our fee arrangements and believe that there is potential to get further reductions on fees.

#### **5. Investment Pooling – Fee Rationalisation.**

5.1 A fundamental Government objective of asset pooling is the realisation of fee savings through collective mandates and rationalisation of Fund Managers. Following the establishment of asset pool groupings, fund managers are engaging with their client funds within each pool to consult on mandate and fee rationalisation. This is in recognition of government expectations of asset pooling and the ongoing discussions between fund managers and officers.

5.2 The willingness of many, but not all, existing managers to engage in fee discussions indicates that they now recognise the benefits to their business with the LGPS of early engagement and discussion on rationalisation. Initial discussions on rationalisation have indicated the potential for significant fee savings for the Fund, but are dependent upon agreement across multiple funds, where a fund manager has common ground, typically relating to three or four funds at a time.

5.3 The majority of managers do not require actual pooling of assets, but simply treating for fee purposes the aggregation of a number of the funds' holdings in a mandate to attain higher tier fee discounts which indicate the potential for significant savings. The key point is that these savings can be achieved almost immediately, subject to prompt action to gain the agreement with fellow funds and appropriate documentation being put in place.

#### **6. Conclusion**

6.1 In the light of the on-going consultation, pressures on fund managers to reduce their fees are growing and comparisons are difficult because fees vary according to different investment strategies. The observations are that fund managers are more likely to be open to reducing fees where the mandate is large, or opportunity to 'pool' investments with larger authorities.

**MARION KELLY**  
**Chief Finance Officer**

Contact Officers: Ola Owolabi, Head of Accounts and Pensions, 01273 482017  
[ola.owolabi@eastsussex.gov.uk](mailto:ola.owolabi@eastsussex.gov.uk)

Background Documents  
None

## Appendix 1

Manager	Portfolio	Class	Value 2015	Value 2016	Value increase	% increase	Fees 2015	Fees 2016	Fee increase	% increase
			£m	£m	£m		£m	£m	£m	
Lazard*	Global Equities	Active	410.2	-	(410.2)	(100.0)	1.8	1.2	(0.6)	(33.3)
Longview	Global Equities	Active	174.6	180.7	6.1	3.5	1.0	1.1	0.1	10.0
Newton	Absolute Return	Active	249.7	253.2	3.5	1.4	1.4	1.4	-	-
Ruffer	Absolute Return	Active	256.7	240.3	(16.4)	(6.4)	1.9	2.0	0.1	5.3
Schroders	Property	Fund of Funds	294.1	325.9	31.8	10.8	1.2	1.1	(0.1)	(8.3)
M&G	Corporate Bonds	Active	112.5	111.8	(0.7)	(0.6)	0.3	0.3	-	-
	Absolute Return Bond	Active	67.7	67.4	(0.3)	(0.4)	-	0.3	0.3	-
	UK Financing Fund	Partnership	10.6	8.5	(2.1)	(19.8)	-	-	-	-
(Infracapital)	Infrastructure	Partnership	39.2	28.7	(10.5)	(26.8)	0.5	0.4	(0.1)	(20.0)
UBS	Infrastructure	Partnership	22.1	20.7	(1.4)	(6.3)	0.3	0.3	-	-
HarbourVest	Private Equity	Fund of Funds	69.8	79.3	9.5	13.6	1.2	1.2	-	-
Adams Street	Private Equity	Fund of Funds	85.4	88.6	3.2	3.7	1.3	1.2	(0.1)	(7.7)
Legal & General*	Global Equities	Passive	216.1	413.9	197.8	91.5	0.3	0.3	-	-
	UK Equities	Passive	270.9	261.2	(9.7)	(3.6)	0.2	0.1	(0.1)	50.0
	Index linked Bonds	Passive	144.3	147.2	2.9	2.0	-	0.1	0.1	-
State Street*	Global Equities	Passive	290.7	483.2	192.5	66.2	0.1	0.2	0.1	100.0
Blackrock	Transition manager		0.0	-	-	-	-	0.3	0.3	-
<b>Total Excluding Custody</b>			<b>2,714.6</b>	<b>2710.6</b>	<b>(4.0)</b>	<b>(0.1)</b>	<b>11.5</b>	<b>11.5</b>	<b>-</b>	<b>-</b>
Northern Trust	Custodian		25.3	54.6	29.3	115.8	0.1	0.2	0.1	100.0
Other Assets	ESCC		6.6	6.2	(0.4)	(6.1)	-	-	-	-
<b>Total</b>			<b>2,746.5</b>	<b>2771.4</b>	<b>24.9</b>	<b>0.9</b>	<b>11.6</b>	<b>11.7</b>	<b>0.1</b>	<b>0.9</b>

\* Lazard were terminated in September 2015 with the allocation split between L&G and State Street