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| **Report to:** | **Pension Board** |
| **Date:** | **10 September 2018** |
| **By:** | **Chief Finance Officer** |
| **Title of report:** | **Review of Managers Fee Arrangements** |
| **Purpose of report:** | **To note the Pension Fund costs relating to the East Sussex Pension Fund (ESPF) investment management fees.** |

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**RECOMMENDATION**

**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, the fund has been having ongoing discussion with every fund manager hired by the East Sussex Pension Fund (ESPF) to consider reducing the fees charged to the Fund.

## 2. Supporting information

### 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 £57.3m in fund manager fees; however, the fund value has increased by £1,039.1m over the same period.

| **Table 1** | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|
| Investment Management Fees | £10.6m | £11.5m | £11.7m | £11.8m | £11.7m |
| Increases in fees | £0.6m | £0.9m | £0.2m | £0.1m | -£0.1m |
| % Increases in fees | 6% | 8% | 2% | 1% | -1% |
| ESPF Fund Value | £2.5b | £2.7b | £2.8b | £3.3b | £3.4b |
| Increases in value | £135.2m | £267.0m | £24.9m | £571.0m | £41.0m |
| % Increases in value | 9% | 11% | 1% | 21% | 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.

### 2017/18 Investment Strategy and Manager Fees

2.4 The total cost of investment manager fees in 2017/18 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 a decrease of £0.1m on the £11.8m cost in 2016/17, and may be considered in the context of the increase in the value of the fund during 2017/18, which increased in value by £41.0m.

**Approaches to Managers**

2.5 The ESPF has recently transferred assets to UBS, the ACCESS appointed passive manager, which will result in an annual saving of £0.673m. The Fund has also during 2017/18 renegotiated fee arrangements with two of its fund managers (Newton and M&G) and this is expected to save the fund £0.175m and £0.076m over the year. Officer's view is that taking into consideration the funds long-term relationship with managers, the best opportunity for negotiation is before a manager is appointed. Officers continue to have ongoing dialogue with other fund managers in relation to ESPF fee arrangements.

**Investment Pooling – Fee Rationalisation**

2.6 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.

2.7 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 Local Government Pension Schemes (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.

2.8 The first ACCESS ACS sub-fund application was submitted to the Financial Conduct Authority (FCA) for approval on 16 July 2018. The indication is that this sub-fund will generate savings of £1.522m (including savings from tax status of the ACS). The signal is that the eventual savings for the ACCESS Pool will be in line with the projection of £3m annually. Allowing for investment growth of 3-5% per annum, by year 10 this will be equivalent to £40-50m.

**3. Conclusion**

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


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Background Documents
None