

CEM Benchmarking – LGPS Investment Benchmarking

The East Sussex Local Government Pension Scheme 2017/18 Benchmarking Synopsis

43 LGPS funds, including The East Sussex Local Government Pension Scheme, benchmarked their investment costs and performance in 2017/18 using the services of CEM Benchmarking UK Ltd (CEM).

The 43 participating funds included 7 Access pool funds (Cambridgeshire, East Sussex, Essex, Isle of Wight, Kent, Northants and Suffolk), all Border to Coast, Northern, Welsh and LPP funds and some Central, Brunel and Scottish funds. The combined assets of the 43 funds was £211bn. Beyond LGPS, 351 funds globally submit data to CEM in order to be compared. The global universe has total assets of £7.3 trillion (average £21bn, median £5bn).

Our objectives in benchmarking are:

- To understand our costs and to compare with other funds inside and outside LGPS.
- To look at cost in the context of performance – if we paid more, did we get more?
- To understand the key drivers of total returns and how they compare.

In the longer term we expect to be able to use the benchmarking results to hold the Access pool to account. The CEM analysis will tell what is happening to our costs and performance over time and should help to demonstrate that the pool is delivering value for money.

Cost

- CEM compares our costs with a peer group of similarly sized funds. The peer group includes both LGPS funds and non-LGPS funds.
- CEM calculate that our investment costs in 2017/18 were 68.9 bps (£23m).
- This excludes ‘transaction’ costs (transaction costs are commissions, spreads and other costs that are incurred before fund managers calculate returns). CEM hopes to include transaction costs in future years. Pension administration and scheme oversight costs are also excluded.
- Our costs of 68.9 bps were below our benchmark cost of 69.7 bps (£23.2m). This suggests that East Sussex was slightly low cost compared to peers.
- The benchmark cost applies peer median costs to our asset mix, i.e., it adjusts for asset mix differentials.
- We were slightly low cost mainly because we have a lower cost ‘implementation style’.
 - More of East Sussex’s assets are invested passively than peers. This ‘saves’ East Sussex £2.7m per annum compared with peers.

- East Sussex has a higher proportion of private assets in higher-cost 'fund-of-fund' structures compared with peers. This 'costs' East Sussex £2.2m per annum compared with peers.
- There are other differences with regards how much East Sussex pays for similar assets compared with peers. We have paid slightly more than peers for both active and passive global equities, but aside from these two asset types, in aggregate we have paid less than our peers across all asset types.

Returns

Return comparisons need to be treated cautiously because:

- CEM only has one year of data from East Sussex – and one year's performance is not sufficient to draw meaningful conclusions.
- Performance relative to liabilities is more important than performance relative to peers.
- Different funds have different liabilities, objectives, funding levels, employer covenants etc. (so very different asset mixes).

CEM compares returns simply to provide context for the cost analysis.

Our one-year (2017/18) returns net total return was 2.3%. This was below the LGPS median of 3.8%.

Our benchmark return was 2.5%. This was below the LGPS median of 3.8%. The benchmark return is the return we would have achieved had we invested passively in accordance with our strategic asset mix. It is a function of the local Committee's strategic asset mix decisions.

Our 2017/18 net value added was -0.2%. Net value added equals our total net return minus our benchmark return. It tells us whether our active management decisions, in aggregate, were rewarded over the period. Our net value added in the year was above the LGPS median of -0.4%.

Asset classes that performed poorly relative to benchmark were infrastructure and absolute return funds, both of which are benchmarked to 3 Month LIBOR, and global stock. Global Credit, UK stock and domestic property all outperformed their benchmarks in the year.

Cost Effectiveness

East Sussex was positioned as low cost / low value-added in CEM's cost effectiveness analysis for the year. Our costs were lower than peers but our active management decisions, in aggregate in the year were not rewarded. Again please keep in mind the issues in drawing conclusions from a 1-year performance perspective.