

OXFORDSHIRE LOCAL PENSION BOARD – 12 JULY 2019

MONITORING INVESTMENT EXPENDITURE

Report by the Director of Finance

Introduction

1. This is the second report providing a breakdown of the investment costs paid to each fund manager, in the context of their performance over the same period. These reports have been provided in response to the request from Board Members. The initial report presented to the Board at their meeting in January covered the year to 31 March 2018. This latest report covers the following year to 31 March 2019.

Management Expenses 2018/19

2. The Fund's draft Annual Report and Accounts for 2018/19 include investment management expenses paid to Fund Managers (including Brunel) totalling £7,332,000 for the year to 31 March 2019. This compares to a figure of £8,129,000 in the previous financial year. The reduction is a result of a number of factors including:
 - the reduced fees resulting from the new portfolios established by Brunel,
 - the application of the fee rebate which formed part of Legal and General's tender response to the passive mandates and the management of the transition,
 - one off fees paid in 2017/18 as part of the fee structure for joining property, infrastructure and private equity Funds after the initial closing,
 - reduction in the performance related fees paid to private equity fund managers.
3. The table at Annex 1 provides the requested breakdown of the £7,332,000 between the various Fund managers employed by the Fund during 2018/19. For portfolios managed by Brunel, fees are paid to Brunel and not the underlying fund managers. To provide some context, the table also includes a simple average mandate size (mid-point between the mandate size as at 31 March 2018 and 2019), and the investment performance for the year compared to the mandate's benchmark. For the passive mandates and the UK equity mandates which transitioned during 2018/19 there is no annual performance information to include within the table.
4. Against a total average mandate size of £2.4bn, the management expenses of £7,332,000 represents an average fee of 0.30% or 30 bps. Across the Fund as a whole, the Fund outperformed its benchmark by 0.1%, which represents additional investment performance of £2.4m in cash terms.

5. Over the course of the year, there has been considerable variation between the investment performance of the various fund managers. As apart from the private equity managers, all fund managers are paid ad valorem fees rather than performance fees, there is no direct relationship between the fees paid in 2018/19 and the performance achieved. Over the longer term, it is likely that the performance of the Fund Managers will vary relative to each other, as the wider financial environment offers greater or lesser support to their asset class and/or investment style. We would not though expect to see similar variations in the patterns of fees paid.

6. **The Board is invited to consider the information contained in this report; determine what conclusions it can draw from the data; and advise the Pension Fund Committee accordingly.**

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