PENSION FUND COMMITTEE – 01 MARCH 2024

MANAGEMENT FEES ANALYSIS POST-POOLING

Report by Executive Director of Resources & Section 151 Officer

RECOMMENDATION

1. The Committee is RECOMMENDED to note the report.

Introduction

2. As requested by the Committee this report has been prepared to provide an analysis of the management fees payable by the Pension Fund pre- and post-pooling. The report is based on data to the end of March 2023.

3. The analysis has been prepared on a best endeavours basis using the information available. It should be noted that there are issues in making direct comparisons including different fee structures such as tiered fee scales, and the different investment targets in place for mandates. For pre-pooling fees the current portfolio valuation has been applied to the old fee scale to determine the basis points figure for comparison purposes.

4. The report covers management fees only, so not additional portfolio costs such as transactions fees. For Brunel fees the cost applied by Brunel for managing the portfolio has been included.

5. In the below sections management fees are assessed for the different asset classes the Fund invests in.

Passive Equities

6. Passive equities are where the most meaningful comparison can be made on management fees due to alignment of targeted investment outcomes. The Fund initially transitioned to like-for-like portfolios at Brunel but has now moved all passive investment into the PAB Fund. The table shows significant savings were achieved at the point of transition, although fees have since risen as a result of asset allocation decisions made by this Committee.

Mandate	Pre-Brunel (bps)	Brunel (bps)
UK Equities	4.5	0.5
Global Equities	13	0.75
Paris-Aligned Benchmark (Global Equities)	N/A	3.5

Active Equities

7. The below table shows the management fees for active equity portfolios including the performance target for the mandate. The table indicates the

difficulty in undertaking any real analysis, as in each case the transition was not on a like for like basis. On the UK mandate, there is a small fee saving on transition despite the mandate seeking to deliver a higher investment return. On the global mandates, it is difficult to draw any meaningful conclusions.

Mandate	Target	Pre-Brunel (bps)	Brunel (bps)
UK Equities	FTSE All-Share +1.25%	24	N/A
UK Equities	FTSE All-Share +2%	N/A	22
Global Equities 1	MSCI ACWI +2%	42 (1)	N/A
Global Equities 2	MSCI ACWI +3%	28	N/A
Global High Alpha	MSCI World +2-3%	N/A	35
Global Sustainable Equities	MSCI ACWI +2%	N/A	33

(1) This fee was subject to tiering based on aggregate investment from LGPS Funds as a whole. The figure assumes the same level of total LGPS investment as at the time the Fund transitioned out of the portfolio.

Fixed Interest

8. The Fund had an active fixed interest portfolio prior to pooling with government bonds managed in a segregated account incurring a management fee of 19bps.

9. The corporate bond element of the portfolio was managed separately through a pooled fund with a management fee of 30bps. The Brunel Sterling Corporate Bonds portfolio management fee is currently 12bps.

10. For a period before the assets were transferred to Brunel the Fund’s index-linked Gilts were held in a passive fund with an effective fee of 3.6bps, the Brunel passive index-linked portfolio currently has a fee of 2bps.

11. The figures above suggest that in each case Brunel delivered considerable savings on investment fees at the point of transition.

Property

12. Under the pre-Brunel property portfolio there was a fee payable to the appointed manager of 20bps. There were then management fees payable at the individual property fund level for the funds the manager selected.

13. Brunel operate two property portfolios and the Brunel management costs applied to those are 4.5bps for UK Property and 3.2bps for International Property. Within UK Property there have also been several examples of Brunel securing preferable fee rates at the individual fund level due to representing a larger volume of funds.

Private Markets

Private Equity and Infrastructure

14. The below table shows fee savings on private equity and infrastructure for the last two full financial years in monetary terms. The figures have been produced by comparing estimated fees the Fund calculated during the Brunel set-up period for private equity and infrastructure, to current fees incurred by Brunel. It should be noted that private market fee structures are complicated including a significant proportion of the fees coming from performance related elements and varying over the lifecycle of a fund. In addition, the type of fund influences the management fee (e.g. direct vs fund-of-fund). This makes drawing any firm conclusions when comparing private market fees difficult.

Oxfordshire - Summary of Private Market Cost Savings 2022/23		
Portfolio	**2022/23 Price Variance (£)**	**2021/22 Price Variance (£)**
Infrastructure C1	132,921	139,126
Infrastructure C2	107,845	149,629
Infrastructure C3	155,388	0
Private Equity C1	102,489	169,796
Private Equity C2	113,776	430,346
Total	**612,418**	**888,897**

Other

15. Several private market portfolios the Fund is currently invested in did not form part of the asset allocation pre-Brunel and so no meaningful fee analysis can be undertaken, these are: Private Debt, Secured Income, and Multi Asset Credit.

Lorna Baxter
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