Division(s): n/a

PENSION FUND COMMITTEE – 11 JUNE 2021

REPORT OF THE PENSION BOARD

Report by the Independent Chairman of the Pension Board

RECOMMENDATION

1. **The Committee is RECOMMENDED to note the comments of the Board as set out below, and take the proposals set out in paragraph 7 and 8 below in considering next steps in responding to the independent governance review.**

Introduction

2. This report is part of the process by which the Local Pension Board works with the Committee in fulfilling its duty to support the work of the Committee and ensure that the Committee delivers its responsibilities in line with the regulatory framework. The report covers the key issues discussed by the Board and any matters that the Board wishes to draw to the attention of the Committee.

3. This report reflects the discussions of the Board members at their meeting on 23 April 2021. The virtual meeting was attended by Matthew Trebilcock as the independent Chairman, and five voting members of the Board. The Board received the resignation of the 6th member of the Board, Lisa Hughes, who had left for personal reasons. The Board thanked Lisa for her contributions to the work of the Board, and particularly for her work on improving reporting standards. The meeting was attended by Hymans Robertson as part of their feedback on the independent review of the governance arrangements of the Fund.

4. Since the last meeting of the Board, Cllr Bob Johnston has been appointed to serve on the Pension Fund Committee and in accordance with the guidance has therefore resigned from his position on the Local Pension Board. We are therefore currently recruiting for two scheme employer representatives.

Matters Discussed and those the Board wished to bring to the Committee's Attention

5. The Board received four of the reports which had been presented to the March meeting of this Committee. These were the reports on the independent governance review, the quarterly review of progress against the annual business plan, the risk register, and the administration report.

6. The Board spent the majority of its meeting discussing the findings of the independent governance review. Overall, the Board were happy with the report

and agreed the findings. The main discussion was in respect of the respective roles and responsibilities of the Committee and the Board, and the quality of communications between the two bodies. They particularly welcomed the proposal to review the terms of reference for both bodies and ensure these are well understood.

7. As part of the discussion, the Board noted that the arrangements where a Board member attended the Committee meeting, presented their report and responded to questions from the Committee appeared to be effective. They therefore invited the Committee to consider establishing a reciprocal arrangement where a member of the Committee could attend future Board meetings, to answer questions from the Board, and help clarify decisions made by the Committee.

8. The Board also discussed the ability of the Board to feed into Committee agenda items in advance of their discussion by the Committee. The overall consensus of the Board was that their role was primarily a scrutiny role, and therefore it was not appropriate that they should play a role in advance of the decision making process by the Committee, unless specifically invited to do so by the Committee. They felt this should be clarified as part of the review of the terms of reference, with the effectiveness of the arrangements reviewed after a period of 6 months.

9. Finally, the Board welcomed recommendation 10 and the proposals around a more robust training policy. They felt this was key given the level of responsibility associated with the role of the Committee.

10. Whilst the Board discussed the reports on the Annual Business Plan, the Risk Register and Administration Issues, they had no matters they wished to bring to the attention of the Committee. The Board agreed to undertake a further review of investment management costs at their July meeting, and asked if Officers would prepare a report including an analysis of costs and performance over a 3-year period.

Matthew Trebilcock
Independent Chairman of the Pension Board

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June 2021

Annex 1

OXFORDSHIRE LOCAL PENSION BOARD – 22 JANUARY 2021

INVESTMENT MANAGEMENT COSTS AND PERFORMANCE

Report by the Director Finance

Recommendation

1. The Board are invited to discuss the contents of this report and consider what advice, if any, to send to the Pension Fund Committee.

Introduction

2. This is the third in a series of reports considered by this Board in respect of the costs and performance of the investment management portfolios run on behalf of the Pension Fund Committee. The previous two reports were presented to the Board at their meetings in January and July 2019, and looked at investment management costs in the year to March 2018 and March 2019 respectively.

3. In the previous two reports, Officers have highlighted their concerns in seeking to draw too many conclusions from the cost and performance data, especially when considered over periods as short as one year. The majority of fees paid are ad valorem i.e. at a fixed rate and not related to performance. Over a period of time therefore, the total level of fees for any specific portfolio will remain reasonably steady, varying only in line with the assets under management. Performance on the individual portfolios in contrast will be more volatile over time, reflecting investment styles and/or characteristics of the investment classes. In the short term therefore, it is expected that some portfolios will show out-performance in excess of the active fees paid, whilst others will show under-performance. Over the full investment cycle it would be expected that active Fund Managers will deliver outperformance against the relevant benchmark well in excess of any active management fees paid.

4. It is also important to note that the Investment Strategy Statement needs to be assessed on a much wider basis than a simple assessment of costs and performance. Diversification of investment risk is a key element of the investment strategy, which the Committee has delivered in recent years through increased allocations to the private markets. Given the specialist mature of these markets, fee levels tend to be higher than those paid in the traditional listed markets.

5. Paying higher fees to target improved long-term investment performance through greater analysis and engagement on environmental, social and governance factors should also be considered, especially in light of the inclusion in the most recent Investment Strategy Statement of the Climate Change Policy. A Fund is likely to experience short-term underperformance during any period companies are transitioning to a more sustainable business model.

Latest Annual Figures

6. Annex 1 shows the latest annual figures for investment management fees paid, using the same format as the previous reports. For each portfolio the annex shows a simple average of assets under management during the year to provide context for the fee level, as well as the reported investment performance against benchmark.

7. The figures are all shown for the year ended 31 March 2020. Whilst there are later performance figures that have been reported to Committee, information on gross investment management fees is not so readily available. Not all fees are directly invoiced to the Fund by the Fund Managers and are offset within the investment portfolio against gross investment performance. These costs are then provided to the Fund by Fund Managers as part of the cost transparency templates on an annual basis. It is also the case that the Fund does not accrue for any outstanding fees on a quarterly basis but does so once a year as part of the closure of the Fund accounts.

8. Interpretation of the figures is further complicated by the on-going of transitions to switch management of the Fund's investment assets to Brunel and the impact on the financial markets of the current pandemic. In respect of the former, the annex does not include any performance figures where the portfolio was not held for the full year to 31 March 2020. In respect of the later, it should be noted that many of the performance figures for the private market investments were subject to review and differences between Fund performance and benchmark performance will in part reflect the timing of these reviews.

9. The total investment management fees paid in 2019/20 amounted to £7.827m. This was an increase of £495,000 over the previous year, which is mainly accounted for by the additional fees payable to Brunel to reflect the establishment of their private markets team. Some of these costs are one-off in nature and others are fixed so we would not expect to see a proportionate increase in these fees as more money is committed to the private market portfolios, including the money currently invested through Adams Street and Partners Group. We would therefore expect to see overall reductions in fees as the transitions in the private markets continue and the fees to the existing private market fund managers drop out.

10. The total fees represent 32 basis points (i.e. 0.32%) of the total assets under management. This figure compares to 30bps in 2018/19. The increase is again largely explained by the costs related to the transitions in the private markets.

11. The performance figures for the Fund as a whole of over the period covered by the fees paid show an investment loss of 5.8% against a benchmark loss of 5.5%. On the face of these figures therefore it would not appear to be effective to be paying active management fees. However, it should be noted that whilst there is a large market in passive equity products, the same is not true for fixed income and the private markets. As noted above, it is therefore necessary to pay the active management fees particularly in the private markets to obtain the

diversification of total investments and the overall level of investment performance.

12. It should also be noted that whilst the 1 year performance figures are disappointing relative to benchmark, the performance figures within the Annual Report and Accounts show that over 3, 5 and 10 years the Fund has beaten its benchmark by 50bps, 40bps and 20 bps respectively. Over recent years therefore the performance has more than justified the level of fees paid.

Lorna Baxter
Director of Finance

January 2021

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Annex 1 Fund Manager Fees 2019/20

Portfolio - Fund Manager	Fees as per the 2019/20 Final Accounts £000	Average Portfolio Size 2019/20 £000	Actual Investment Performance %	Benchmark Investment Performance %	Variation %
Part Year Equities					
Global Equities – Wellington (*)	715	133,597			
Global High Alpha – Brunel (*)	385	118,434			
Emerging Markets – Brunel (*)	166	32,047			
	1,266	**284,078**			
In-House Property					
Bridges	373				
Partners Group (!)	-202				
	171	**28,623**	**5.4**	**0.0**	**5.4**
Private Equity					
Adams Street	805				
Epiris	141				
Longwall Ventures	178				
Partners Group (!)	106				
	1,230	**172,165**	**3.8**	**-19.4**	**23.2**
Other Portfolios					
UK Equities – Brunel	850	396,015	-20.0	-18.5	-1.5
UK Passive Equities – Brunel ($)	29	175,279	-18.5	-18.5	0.0
Developed World Passive Equities – Brunel ($)		232,804	-5.4	-5.4	0.0
Global Equities - UBS	863	282,893	-9.9	-6.2	-3.7
Fixed Income - LGIM	1,197	503,755	4.0	4.8	-0.8
Property - UBS	245	139,572	1.9	0.0	1.9
Infrastructure - Brunel	261	6,629	15.9	1.5	14.4
Infrastructure – Partners (!)	263	11,065	16.3	4.7	11.6
Private Equity - Brunel	798	7,871	17.4	-6.2	23.6
Secured Income - Brunel	52	7,503	0.1	1.5	-1.4
Diversified Growth Fund - Insight	602	126,306	-5.5	4.7	-10.2
In-House Cash		51,160			
Total Fund	**7,827**	**2,425,714**	**-5.8**	**-5.5**	**-0.3**

(*) – portfolios not in pace for the full year so not possible to show full year's performance figures
($) – passive fees not split between UK and Developed Market Funds
(!) – Partners Fees include both a management and a performance element – due to poor performance the performance fees are negative and in the case of property more than offset the management fee