Division(s): n/a

PENSION FUND COMMITTEE – 10 SEPTEMBER 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 in particular the comments on ensuring the Fund is receiving value for money from investment managers fees when considering the item on amending the current allocations to passive portfolios.**

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 9 July 2021. The virtual meeting was attended by Matthew Trebilcock as the independent Chairman, and four voting members of the Board. At the time of the meeting, the other 2 voting positions on the Board were vacant following the resignation of Lisa Hughes who had left for personal reasons, and the requirement for Cllr Bob Johnston to step down from the Board following his appointment to the Pension Fund Committee. Three expressions of interest had been received for the 2 vacant posts, and two of the interested candidates joined the meeting of the Board as observers. The meeting was also observed by Cllr Richard Webber and Alistair Fitt from the Committee.

4. Since the meeting and following interviews with the Chair and Vice Chair of the Pension Fund Committee alongside the Service Manager (Pensions) (who substituted for the Chairman of the Board who was unable to attend the interviews due to a local wi-fi failure), Marcia Slater and Elizabeth Griffiths have been appointed to fill the vacant positions on the Board.

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

5. The Board received three of the reports which had been presented to the June meeting of this Committee. These were the reports on the quarterly review of progress against the annual business plan, the risk register, and the

administration report. The Board also considered the Annual Report on their activity and a report on investment management fees.

6. The Board wished to draw the Committee's attention to their Annual Report. This report is included in the Annual Report and Accounts of the Pension Fund, a draft of which is included on today's agenda, but has also been included as an annex to this report for ease of reference.

7. As part of their discussion on the implementation of the Climate Change Policy, the Board agreed to re-appoint Alistair Bastin to serve as their representative on the Climate Change Working Group.

8. The report on investment management fees was the fourth in a series of reports considered by the Board on fees. The Board noted the increase in the total costs shown in the Funds Accounts but noted that a significant element of this was as a result of increased transparency and the inclusion of costs previously netted off against investment performance, specifically the fees paid to underlying fund managers within the property portfolio.

9. The Board also noted the significant fee savings when comparing the fees paid on the passive equity portfolios compared to the active equity portfolios. They noted that recent outperformance against the benchmark by the active fund managers more than offset the additional fees paid but commented that this performance was over too short a period to draw any firm conclusions.

10. The Board also noted the need to consider the ability to deliver the requirements of the Investment Strategy Statement when looking at the options to deliver fee savings, noting that in many asset classes there is not an alternative passive option. Fee savings in these classes therefore can only be delivered by deleting the asset class from the strategic asset allocation at the expense of diversification and the specific investment objectives identified for that asset class. They also noted the need to ensure that higher fees may need to be paid to deliver the objectives set out in the Climate Change Policy.

11. Overall, the Board therefore wished to refer the report (included as Annex 2 to this report) to the Committee and invite the Committee to take into account their comments and ensure that the Fund was receiving value for money from the fees paid to the investment fund managers.

Matthew Trebilcock
Independent Chairman of the Pension Board

Contact Officer: Sean Collins
Tel: 07554 103465

August 2021

Annex 1

The Oxfordshire Local Government Pension Scheme (LGPS) Pension Board

All Public Sector Pension schemes were required under the Public Service Pensions Act 2013 to set up a Pension Board with effect from 2015/16 to assist the administering authorities of their Pension Scheme in ensuring compliance with LGPS and other pension regulations.

The Oxfordshire Pension Fund Committee, acting as administering authority of the Oxfordshire LGPS, agreed the terms of reference of the Pension Board in March 2015. These terms of reference are available on the Board's website at https://www.oxfordshire.gov.uk/cms/content/lgps-local-pension-board .

Under the constitution of the Board, an annual report on the work of the Board should be produced by the Board for inclusion in the Fund's own annual report; and it should be presented to the Pension Fund Committee within 6 months following the end of the municipal year. This report meets that requirement for the 2020/21 financial year, covering the work from the July 2020 Board meeting to their meeting on 23 April 2021.

Board Membership

The Board started the year with an Interim Independent Chairman, Paul Blacker, who held the position of Director of Finance at Gloucestershire County Council. He chaired the first two meetings of the year, until a permanent appointment was made to the position of Head of Pensions at Gloucestershire. Matthew Trebilcock then chaired the final two Board meetings of the year. Lisa Hughes, one of the Scheme Employer representatives resigned her position on the Board for personal reasons immediately before the April meeting. Attendance at Board meetings was as follows:

	Attended 17 July 2020 Meeting	Attended 23 October 2020 Meeting	Attended 22 January 2021 Meeting	Attended 23 April 2021 Meeting
Scheme Employer Representatives				
Cllr Bob Johnston (Oxfordshire County Council)	Yes	Yes	Yes	Yes
Angela Priestley-Gibbins (The Thera Trust)	Yes	Yes	Yes	Yes
Lisa Hughes (River Learning Trust)	No	Yes	Yes	n/a
Scheme Member Representatives				
Stephen Davis (Oxford City Council & Unite)	Yes	Yes	Yes	Yes
Alistair Bastin (Oxfordshire County Council & Unison)	Yes	Yes	Yes	Yes
Sarah Pritchard (Brookes University)	Yes	Yes	Yes	Yes

Cllr Bob Johnston, Angela Priestley-Gibbins, Alistair Bastin and Stephen Davis regularly attended the Pension Fund Committee as observers, with one of them presenting the report of the Board to the Committee. Board Members were also regular attenders at the training events run through the year, to which all Committee and Board members were invited.

Following the County Council elections in May 2021, Cllr Bob Johnston was appointed to Chair the new Pension Fund Committee. He has therefore resigned from his position on the Board as required under the Constitution. Two new scheme employer representatives are therefore being sought to sit on the Board for the 2021/22 year.

Work Programme

The July 2020 meeting of the Board was the first virtual meeting of the Board during the lockdown arrangements imposed due to the spread of the coronavirus. As a consequence, the agenda was lighter than normal, and focussed on the Investment Strategy including the Climate Change Implementation Plan and the standard Administration Report. Alistair Bastin has sat on the Climate Change Working Group as a representative of the Board and scheme members in looking to develop proposals for implementing the Climate Change Policy.

The Board made a request to ensure that whatever the circumstances, they should always have an item on the Risk Register on their agenda, even where it had not been considered by the proceeding meeting of the Pension Fund Committee. The Board also asked for the draft minutes of the preceding Committee meeting to come to their meetings to ensure they were able to consider all matters on a timely basis. Both requests were subsequently agreed by the Pension Fund Committee.

At the October, January and April meetings, the Board considered the reports presented to the Pension Fund Committee on future Governance arrangements, the review of the Annual Business Plan, the Risk Register and the Administration Report. The Board took a very keen interest in the Governance review, which started with the completion of the National Knowledge Assessment tool run by Hymans Robertson. All members of the Board completed the assessment, and their combined score of 72, out-ranked the average score of the Committee (56) and placed them 3rd out of the 18 Boards that completed the assessment.

The Board were then very keen to engage with the subsequent independent governance review of the Fund conducted by Hymans Robertson, with Bob Johnston, Alistair Bastin and Lisa Hughes all volunteering for individual interviews with members of the review team. The Board were keen for the review to clarify what they saw as a lack of clarity around the terms of reference of the Board and Committee and in particular the relationship and communication between the 2 bodies. They also supported a more robust training regime including annual assessment of the effectiveness of the training undertaken for both Committee and Board members. At their October meeting they considered whether introducing payment of a stipend would lead to improvements in the relationship between the Committee and Board, but ultimately rejected the proposal.

In reviewing the reports on the Annual Business Plan and the performance of Administration Services, the Board focussed on the format of the reports received by the Committee and their usefulness in allowing effective strategic oversight of the delivery of the Committee's objectives. The Board made a number of suggested improvements to the reports to include a more visual presentation of the key issues through RAG ratings with direction of travel indicators, supported by shorter summary statements, and a focus on those performance issues outside expected outcomes. These proposals were subsequently accepted by the Committee.

Two other proposals made by the Board subsequently accepted by the Committee were to strengthen the relationship between the review of the Annual Business Plan and the Risk Register, and for a representative of the Committee to attend future Board meetings to provide clarification in respect of Committee decisions and hear directly from the Board members on issues of concern.

Finally, at their January 2021 meeting, the Board received a report on the annual fees paid to investment managers alongside the investment performance achieved by these managers. The Board made no firm proposals as a result of their review but have asked for a further report covering a 3-year period to be brought to their meeting in July 2021.

Future Work Programme

Many issues covered by the Board in 2020/21 will continue to be a focus for attention in the next year. In particular, the Board will continue to review the proposed changes to the governance arrangements to ensure the effective delivery of the statutory responsibilities of the Committee and to build an improved relationship between the Committee and the Board.

The Board will play a key role in supporting the Committee in delivering its responsibilities following the McCloud judgement and the need to retrospectively collect and review data for the scheme members in scope of the proposed remedy arrangements. There will be a number of challenges in terms of the collection of data for scheme employers, and the presentation of outcomes to scheme members where the Board's input will be important in determining the Committee's final approach.

Another key area for the Board to consider during 2021/22 will be the preparation for the next tri-ennial valuation of the Fund due at 31 March 2022. The Board will be invited to feed in comments into the review of the Funding Strategy Statement which will determine the principles to be followed in the valuation.

The Board will also maintain its focus on the standard administration report, review of the annual business plan and the risk register to ensure that the Committee is able to meet its statutory duties.

Board Members Training 2020/21 **Appendix**

Alistair Bastin	Pre-Committee – Good Governance	11th September 2020
Alistair Bastin	LGPS Autumn Seminar	28th September 2020
Alistair Bastin	Brunel Investor Day – Public Markets	18th November 2020
Alistair Bastin	Brunel Investor Day – Private Markets	19th November 2020
Alistair Bastin	Pre-Committee – Governance Review	4th December 2020
Alistair Bastin	LGA Webinar	26 January 2021
Alistair Bastin	Pre-Committee – TCFD reporting	5 March 2021
Angela Priestley-Gibbins	LGPS Autumn Seminar	28th September 2020
Angela Priestley-Gibbins	LGA Fundamentals Webinar - day 1	6th October 2020
Angela Priestley-Gibbins	LGA Fundamentals Webinar - day 2	7th October 2020
Angela Priestley-Gibbins	LGA Fundamentals Webinar - day 3	8th October 2020
Angela Priestley-Gibbins	Brunel Investor Day – Public Markets	18th November 2020
Angela Priestley-Gibbins	Brunel Investor Day – Private Markets	19th November 2020
Angela Priestley-Gibbins	Pre-Committee – Governance Review	4th December 2020
Angela Priestley-Gibbins	LGA Webinar	26 January 2021
Angela Priestley-Gibbins	Pre-Committee – TCFD reporting	5 March 2021
Bob Johnston	Pre-Committee – Good Governance	11th September 2020
Bob Johnston	LGA Fundamentals Webinar - day 2	7th October 2020
Bob Johnston	LGA Fundamentals Webinar - day 3	8th October 2020
Bob Johnston	Pre-Committee – Governance Review	4th December 2020
Bob Johnston	LGA Webinar	26 January 2021
Bob Johnston	Pre-Committee – TCFD reporting	5 March 2021
Lisa Hughes	Brunel Investor Day – Public Markets	18th November 2020
Lisa Hughes	Brunel Investor Day – Private Markets	19th November 2020
Stephen Davis	Brunel Investor Day – Public Markets	18th November 2020
Stephen Davis	Brunel Investor Day – Private Markets	19th November 2020
Stephen Davis	Pre-Committee – TCFD reporting	5 March 2021

Annex 2

OXFORDSHIRE LOCAL PENSION BOARD – 9 JULY 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 fourth 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 reports have all looked at annual performance in the years ending March 2018, 2019 and 2020 respectively.

3. One of the concerns expressed by Officers in drafting these previous reports is that a single year's data on investment performance is too short a period. The majority of fees paid are on a fixed rate basis and vary in line with overall asset values rather than performance. In any one year therefore comparison of fees paid to performance against benchmark will be impacted by the position in the investment cycle with results likely to imply different conclusions for value and growth managers for example. This report therefore looks at fees paid and investment performance over a 3-year period.

4. In previous reports Officers have also stated their concerns that looking simply at fees and investment performance is too narrow a view of the overall performance of our fund managers and fails to take into account the wider objectives of the Committee's investment strategy. In particular, there is a requirement to ensure the overall investment strategy provides for a sufficiently diversified set of investments to mitigate risk. In recent years there is also much greater attention paid to the management of the environmental, social and governance risks within the investment portfolios which may not necessarily be reflected in short-term investment performance. Indeed, many of those companies best placed to manage the transition to a low carbon economy may suffer poorer investment performance in the short term as they fund the transition.

Data for the Period 1 April 2018 to 31 March 2021

5. Annex 1 shows the investment management fees paid against each of the portfolios for the last three financial years, alongside the investment performance for the respective portfolios.

6. A key issue in undertaking any analysis at the present time is immediately obvious from the Annex in that very few of the portfolios have a 3 year history

for the period, due to the transition of assets from the legacy fund managers to Brunel. It is therefore very difficult to draw any form conclusions.

7. The transition to Brunel has also introduced another distortion to the figures in that we have gained greater transparency over the underlying costs in respect of some of the private market portfolios. As well as providing information on their own fees, Brunel have provided information in respect of the fees paid to the underlying fund managers in the property and private equity portfolios. These underlying fees were previously netted off against the performance figures returned by the legacy managers. The increase in property fees for 2020/21 will therefore be offset by increased out-performance in the investment performance figures for the portfolio.

8. The greater transparency accounts for the majority of the increase in overall level of fees from 30.1bps in 2018/19 to 37.8% in 2020/21. There is also an element explained by the higher fees paid to the legacy private equity managers in 2020/21which are related directly to performance.

9. Over the 3-year period, the average level of fees is broadly in line with the performance above benchmark achieved by the fund managers. The performance report to the last meeting of the Pension Fund Committee indicates that over a 5 year period, fund managers have added considerable value relative to their fees (total outperformance of 0.8% per annum) although over 10 years, the figure drops to 0.2% per annum.

10. It should be noted that the Committee do not have the option of investing all the Funds assets into passive options of the current asset classes to achieve investment performance in line with the benchmark. Passive options exist for the equity and fixed income portfolios but not for the majority of the private markets. Fee avoidance would therefore involve involving the asset class itself and amending the Investment Strategy.

11. If we look at the asset classes in turn, we can make the following observations:

    a. Equities account for about 57% of the total investments but only 33% of the total fees. The average fee cost of the equity portfolios is 23 bps. Due to the transitions to Brunel we do not have any 3 year performance figures, but all Brunel equity portfolios significantly exceeded their benchmarks in the last year, including the Global High Alpha portfolio which outperformed its benchmark by 10.9%, which equates to over £30m. Switching the whole equity investments to passive portfolios could save up to £3m but would potentially forego much greater investment returns.
    b. Fixed income accounts for around 17% of the current portfolio and 12% of the total fees, with an average fee of 25bps. The 3 year performance of the portfolio managed by Legal and General shows out performance of 0.9% indicating annual investment out performance net of fees of £3.25m
    c. Property represents around 6% of the total assets, and accounts for 12% of the total fees. There is not a passive version of the property

portfolios, so this would be an asset class we would need to reduce exposure to if we believed we were not getting value for money from the fees paid. The long-term figures for UBS before the property assets were transitioned to Brunel, indicated that investment performance was exceeding fees by around 15 bps per annum, over both 3 and 10 year periods.

d. Private Equity involves the highest fee levels in the current portfolio, accounting for over 25% of total fees whilst representing just 8.5% of the total investments. However, this asset class has been one of the strongest performing asset classes within the Fund over a sustained period of time, with 10 year figures showing out-performance against the benchmark by 4.3% well in excessive of the average fees paid.

e. The Diversified Growth Fund accounts for around 5-6% of the total investments and total fees. Whilst over the most recent 3-year period the portfolio has performed below the benchmark, it has exceeded the benchmark over a 5-year period. The Committee have already determined to review the current allocation to the Diversified Growth Fund as part of their next review of the strategic asset allocation.

f. The remaining portfolios (infrastructure, secured income and private debt) do not have a long enough track record to complete any meaningful analysis.

Lorna Baxter
Director of Finance

June 2021

Contact Officer: Sean Collins, Service Manager (Pensions)
Email: sean.collins@oxfordshire.gov.uk
Telephone Number: 07554 103465

Fund Manager	Fees as per 2018/19 Accounts	Fees as per 2019/20 Accounts	Fees as per 2020/21 Accounts		3 Year Performance
	£000	£000	£000		%
Global Equities - Wellington	1,071	715			
Global High Alpha - Brunel		385	1,174		
Sustainable Equities - Brunel			469		
Emerging Markets - Brunel		166	435		
UK Equities - Brunel	307	850	818		
UK Equities - Baillie Gifford	643				
Passive Equities - LGIM	93				
UK Passive Equities - Brunel ($)	11	29	41		
Developed World Passive Equites - Brunel ($)					
Global Equities - UBS	881	863	429		
Total Equities	**3,006**	**3,008**	**3,366**		
Fixed Income - LGIM	**1,106**	**1,197**	**1,273**		**0.9**
Property - Bridges Fund Management	204	373	203		)
Property - Partners Group	409	- 202	-95		) -0.3
Property - UBS	252	245	65		
UK Property - Brunel			891		
International Property - Brunel			165		
Total Property	**865**	**416**	**1,229**		
Private Equity - Adams Street	765	805	1,393		)
Private Equity - Epiris	144	141	280		)
Private Equity - Longwall Ventures	178	178	146		)
Private Equity - Partners Group	409	106	436		) +6.0
Private Equity - Brunel		798	607		
Total Private Equity	**1,496**	**2,028**	**2,862**		
Infrastructure - Brunel		261	169		
Infrastructure - Partners Group	288	263	549		2.6
Total Infrastructure	**288**	**524**	**718**		

Secured Income - Brunel		**52**	**41**		
Diversified Growth Fund - Insight	**571**	**602**	**597**		**-1.2**
Total	**7,332**	**7,827**	**10,086**		**0.3**
Total Fees Relative to Average Asset Values (bps)	**30.1**	**32.1**	**37.8**		