

# Investment, Governance and Engagement Committee

**Meeting – 19 July 2021**

**Item 6 Paper D**

## **LGPS Investment Code of Transparency Update and Compliance Update**

### **Recommendations:**

- **To agree a draft update to the Code for consultation with Code signatories over the summer**
- **Subject to no material comments from that consultation, to recommend to the SAB approval of the amended code**
- **Agree that a fully updated set of compliance information post-end of financial year is provided at the next Committee meeting**

### Background

1. The LGPS Investment Code of Transparency (Code) was first published in May 2017 requiring signatories to provide certain cost information to their LGPS clients. The Code had some minor revisions in Q2 2019 and given the time elapsed since, together with the web-based system now in place, a further review is appropriate.
2. At the end of June 2021, there were 153 investment managers and pools signed up to the Code, with a total approx. £180bn LGPS funds under management.
3. A markup of the changes to the Code is contained as Annex A to this paper, with commentary provided below explaining the rationale for these proposed changes. Given the more substantive nature of some of the amended drafting, it is proposed to consult with Code signatories over the summer to clarify there are no unintended consequences or commercial issues with the amended terms. Approval by the Scheme Advisory Board would then be sought at its meeting in the autumn.

### Commentary on proposed amendments to the Code

4. Paragraph numbers below refer to the markup in the Code at Annex A, and the new paragraph numbering as a result of these proposed changes

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Paragraph	Commentary on amendments
2	<p><u>First sentence</u> – consequential changes to reiterate support given the Code has been in place for four years and the system has been operational for two years</p> <p><u>Second sentence</u> – to tie in with the separate but aligned interest from CIPFA on LGPS management costs.</p>
3	<p><u>First sentence</u> – now historical given time since Code established</p> <p><u>Second sentence</u> – For the Board to show wider support than just the LGPS to Cost Transparency</p>
4	Consequential change to show that obligations under FoIA was recognised and continues to be so going forward
6	Minor clarification that all costs relating to the LGPS are covered
7	Consequential change given development of templates and how the implementation of the Code and use of the system has developed – all investment types are covered by the Code
8	To ensure the Board is involved in confirming that no template is available or relevant – as data submitted directly in non-standard templates won't be recorded on the system as complete from a compliance view
9	<p><u>First sentence</u>:</p> <ul style="list-style-type: none"> <li>• provision of data may be more regular than annually, but annually remains the minimum requirement</li> <li>• provision of information is a requirement of the Code even if not asked for by the Administering Authority</li> <li>• depending on the nature of analysis of checking required, there may be a need for more than one third party to be involved</li> </ul> <p><u>Second sentence</u> – data may also be provided by Investment Managers on a semi-annual basis if so requested</p> <p><u>Third sentence</u> – to clarify that a more regular provision of data than that explicitly set out in this paragraph would also be acceptable for Code compliance</p>
[Old 9]	Deleted as no longer valid or appropriate given development and implementation of the Code since its launch and the templates now in place.
10	To require fund managers that have underlying third-party fund managers outside their direct control (i.e. fund of fund or

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Paragraph	Commentary on amendments
	similar arrangements) to get the same detail of cost information from those underlying managers that the Code signatory fund manager is themselves required to provide to their clients. This will enable their clients to receive full cost clarity on costs direct from the code signatory fund manager and the indirect costs charged by the underlying managers.
12	To clarify that UK regulated fund managers should follow the CTI templates and that non-UK regulated fund managers could use the ILPA template instead if they so wish
[Old 11A]	Deleted as the LGPS template is now no longer in use
13	<u>Second sentence</u> – The Board may want to review and potentially publish aggregated data which would not identify any single party arising from completed template analysis.
16	Addition of a link to where the Code Logo Use and Guidance document can be found
18	To clarify that use of the logo shall only be for Code signatories
20	To clarify that the Board may remove an Investment Manager as a Code signatory in its own right even if not reported by an Administering Authority

## **Compliance Update**

It is usual to provide the Committee with a Compliance Update at each meeting. However, the next set of compliance information will cover the end of the 2020/21 financial year. This information is not yet available in full from the CoT system, and it is therefore likely that any report for this Committee meeting would be inaccurate and/or misleading around compliance. It is therefore proposed to provide a full update at the next meeting of this Committee, when a more accurate and useful update can be provided.

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## Annex A

### LGPS Investment Code of Transparency (“the Code”)

**Date of Publication:** 18<sup>th</sup> May 2017 (reviewed and amended XX 2021)

#### Definitions

For the purpose of this Code the following definitions shall apply:

<b>Administering Authority</b>	means the administering authority of a pension fund within the LGPS. For the purposes of the Code only this term shall also apply to the operator of any LGPS investment pool
<b>Board</b>	means the Local Government Pension Scheme Advisory Board, England and Wales
<b>Investment Manager</b>	means an investment manager, who has been or wishes to be, appointed by an Administering Authority in accordance with the Investment Regulations
<b>Investment Regulations</b>	means The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as from time to time amended or replaced)
<b>LGPS</b>	means the Local Government Pension Schemes for England and Wales, Scotland and Northern Ireland
<b>Template</b>	means the template information form for the relevant investment types provided by the Board as updated from time to time and made available on the Board’s website

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## A Introduction

1. The Board is a body established under the Local Government Pension Scheme Regulations 2013. The function of the Board is to provide advice to the Secretary of State on the desirability of making changes to the LGPS. The Board also has the function of providing advice to Administering Authorities and local pension boards in relation to the effective and efficient administration and management of the LGPS and their pension funds. The Board has the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.
2. The Board ~~views~~continues to support the move toward investment cost transparency and consistency as an important factor in the LGPS being perceived as a value-led and innovative pension scheme. The principle of cost transparency is also ~~relevant a target~~ for the ~~revised~~ CIPFA accounting standards issued for inclusion in the statutory annual report and accounts and is included in the government's investment reform guidance and criteria for LGPS pooling.
3. To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board ~~has~~ worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code. The Board continues to support Cost Transparency across the wider pensions industry as a founder member of the Cost transparency Initiative (CTI)
4. The Administering Authority and the Board continue to recognise their obligations pursuant to the Freedom of Information Act and the Section 45 FoIA Code of Practice and will engage with Investment Managers appropriately in that respect.

## B Application of the Code

5. The Code is a voluntary code and covers the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities.
6. An Investment Manager may sign up to the Code in writing in the form agreed by the Board. By doing so the Investment Manager is demonstrating its commitment to the transparent reporting of ~~LGPS~~ investment costs and fees relating to the LGPS to administering authorities.
7. An Investment Manager who signs up to the Code ~~in respect of the investment types covered by the Code~~ agrees that within a period of twelve months of signing up to the Code (or such longer period as the Board may in its discretion agree) it will put in place the systems necessary to allow the completion and automatic (i.e. without the client having to make a request) submission of the Template(s) to each Administering Authority that the Investment Manager is appointed by (whether at the time of signing up to the Code or in the future).
8. ~~7A.~~ Where an asset class is not covered by the template(s) available under the Code, and following confirmation of such by the Board, an investment manager may sign up on the understanding that within a period of 12 months (or such longer period as the Board may in its discretion agree) it will put in place the systems necessary to allow the completion and automatic (i.e. without the client having to

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make a request) submission of cost data substantially similar in scope and detail to that covered by existing templates. The exact format of that cost data is to be agreed with each Administering Authority that the Investment Manager is appointed by (whether at the time of signing up to the Code or in the future). Managers who sign up to the Code under this provision must adopt and make use of relevant Code templates as they become available.

9. The Template(s) must be submitted automatically (i.e. without the client having to make a request) at least each year to each Administering Authority ~~(if required by the Administering Authority)~~ and to any independent third party or parties appointed by the Board in accordance with paragraph 12. Administering Authorities may also request such submissions on a quarterly or semi-annual basis. However a more regular provision of completed templates is also acceptable if so agreed by Investment Managers and Administering Authorities.
- ~~10. There are separate Templates for segregated portfolio management and for pooled funds. Where an Investment Manager operating a segregated mandate invests in a pooled fund as part of that mandate, the reporting will be done via the Investment Manager's own Template.~~
- ~~10. Where an Investment Manager who signs up to the Code invests through further fund managers (a fund of funds or multi-manager model), it will also seek the same cost information it is required to provide from its underlying managers to enable the full reporting of costs incurred (both direct and indirect) to the LGPS Administering Authority.~~
11. The Investment Manager will not vary the Templates except with the written agreement of the Board and the relevant Administering Authority.
12. The templates covered by this Code are those within the framework published from time to time by the Cost Transparency Initiative (CTI). Investment Managers regulated by parties other than UK regulatory authorities ~~The only exceptions being Code signatories prior to 21<sup>st</sup> May 2019 (see (11A.) below) and managers based in the US who may~~ also complete the Institutional Limited Partner Association (ILPA) template.
- ~~11A. Signatories to the Code prior to the 21st May 2019 may continue to complete the LGPS template for a period no longer than 12 months i.e. 20th May 2020. Such signatories are expected to discuss moving to the CTI templates with their clients as soon as possible within this period. Continued supply of LGPS templates beyond this period will be considered a breach of the Code.~~
13. The Board may appoint one or more ~~an~~ independent third party / parties to assist with compliance and / or analysis of ~~audit~~ Templates provided in accordance with the Code and general compliance of the Code by Investment Managers. The third party / parties may also be asked by the Board to collate and, analyse ~~and publish generic~~, non-attributable information obtained from the Templates at a national level for the Board to consider and / or publish. The Investment Manager shall co-operate with the Board and/or appointed third party / parties and provide such information and explanations as the third party / parties may reasonably require within a reasonable period of request.
14. The third party or parties shall report the findings of any audit-analysis or compliance check direct to the Board, including any recommended actions or

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improvements. The Investment Manager shall co-operate and work with the Board to address and implement any recommended actions or improvements.

15. The Investment Manager may, subject to any overarching legal or reporting requirements, require an Administering Authority to sign up to a reasonable confidentiality agreement not to disclose the information contained in the Template to any third parties (excluding any third party appointed by the Board).
16. The Board agrees that when an Investment Manager signs up to the Code in the agreed form it will, as soon as reasonably practicable, list the Investment Manager on its website and allow the Investment Manager to use the Code's logo on its marketing literature in accordance with the Code Logo Use and Guidance (available from the Board website and amended from time to time). The Code Logo Use and Guidance can be downloaded from the Board website.
17. The Board owns the Code logo and will retain all intellectual property rights and any other rights in the Code logo. An Investment Manager will not acquire any rights, title or interest in the Code logo and will not use the Code logo except as expressly specified in the Code and the Code Logo Use and Guidelines.
18. An Investment Manager which has signed up to the Code will be permitted to use the Code logo on a non-exclusive basis to communicate their compliance with the Code. The Code logo will convey to stakeholders that the Investment Manager is compliant with the Code and committed to the transparent reporting of LGPS investment costs and fees.
19. An Investment Manager will not use the Code logo for any other purpose nor for the benefit of any other person and will not alter or change the Code logo in any way – ownership of any modifications in the Code logo will vest in the Board.
20. The Board may revoke use of the Code logo and remove an Investment Manager from the list on its website at any time if an Investment Manager is reported by an Administering Authority, or considered by the Board, to be in breach of the Code.