

Investment, Governance and Engagement Sub Committee

Item 5 – Paper D Cost transparency/Compliance

LGPS Code of Transparency and compliance system

The Code of Transparency covering investment management fees and costs was developed by the Board and launched in May 2017. Code Signatories (investment managers) have grown in number steadily since then and total 137 firms to date.

In order to streamline the process and ensure compliance with the Code, the SAB procured an online system provided by Byhiras which was released in April 2020.

Update since last meeting

During February and March 2020, activities included the Byhiras system build, phase 2 testing and stakeholder engagement. The series of meetings with LGPS funds and sessions at the CIPFA pensions network workshops held in London and Manchester were completed.

The system was released on 1 April 2020 and investment managers began to upload templates for their LGPS clients over the last couple of months.

Progress to date

As at 30 June 2020, 46 investment managers had set up 1023 schedules and uploaded 922 templates. This is broadly in line with expectation as not all investment managers signed up to the Code have LGPS clients. Some signed up to the Code in order to bid for LGPS mandates, while consolidation into asset pools has resulted in fewer direct investment manager mandates overall. However, there are a small number of investment managers the secretariat is actively engaged with yet to upload templates to the system.

The reasons for the small number of investment managers without templates uploaded to the system result from a combination of expected teething issues stemming from this being the first run (for example validation errors on the templates) together with the unprecedented impact Coronavirus has had on business processes, reporting and in particular agreeing valuations, with auditors.

Viewed from the LGPS client perspective, 99% of pension funds have templates uploaded to the system.

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In specifying the system, the Scheme Advisory Board placed great emphasis on security and confidentiality. The template data held within the compliance system cannot be accessed by the secretariat, but a dashboard view showing the status of each schedule specifying the investment manager and the LGPS client is given below:

	Complete	Due	Late
Grand Total	922	96	5

Grand total of complete templates: 90%

As at 30 June 2020

Late templates

The five templates shown as 'late' are for schedules relating to the calendar year 2019 (i.e. due as at 31 March 2020 before the system was in existence).

We have been contacted by a number of managers in relation to the difficulties around timing of assets valuations this year (also referred to in the section above). Where this will result in templates being either late or accurate ensure managers have been instructed to agree the most appropriate approach with their clients and inform us accordingly. Any templates received late with the client's agreement will be not result in further action.

Analytics, average and aggregate costs

The system has built in analytics which provide aggregated, anonymised averages for the LGPS at scheme level. LGPS clients are able to see their data points against the average and range at scheme level and within each asset class.

As noted above, there are still templates due and potentially late. The analytics on the template data are live and will develop over time, with accuracy improving as the database is fully populated.

Now that the first deadline has passed, the system will provide the framework in order to check compliance with the Code. Early indications are that there is some work to do - this is more around solving technical issues rather than principles - but in the vast majority of cases, investment managers are compliant with the Code.

The secretariat will bring a detailed report on performance against the Code together with an analysis of average and aggregate costs across the scheme to the next meeting.

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Future developments

A second phase of development is underway to create further functionality, for example, handling of templates submitted in currencies other than £GBP, population of the CIPFA table set out in guidance and variable 'late' settings.

Cost Transparency Initiative

To note that the Cost Transparency Initiative recently launched additional tools encouraging remaining schemes and asset managers to adopt the standards, more information is available on the CTI website.

Recommendation – that the Committee notes this summary and tasks the Secretariat to keep it informed of developments