

Cost Transparency Update

This report provides information on the Cost Transparency process for each LGPS pension fund.

Introduction

In September 2016 the SAB agreed to adopt the Transparency Code, developed with support from the England and Wales SAB, to address the issue of disclosure of costs and fees. The Northern Ireland SAB has also joined this system. This voluntary code covers information about direct costs, which are being provided by asset managers, in-house managers, and private equity companies. Other information such as indirect costs will not be shown in the accounts but may be in the reporting section of each LGPS fund.

The SAB does not hold any financial information – only the funds hold this – but there is further information on process and systems on the England and Wales SAB website (<https://lgpsboard.org/index.php/projects/cost-transparency>).

The first reports

This system went live on 1 April 2020 and the first report with outcomes will be ready after the end of the financial year 2020/21. Information on the data should be available to funds and their local pension committees and boards, and covers three cost areas:

Management fee: These are the cost of having an investment fund managed by an investment manager or in-house.

Performance fee: This is a payment made to an investment manager or in-house, generating positive returns.

Transaction costs: These are expenses incurred when buying or selling a service. These are payments that banks and brokers receive from buyers and sellers for their roles.

Some indirect costs, such those relating to ‘fund of funds’ which are not managed by one single fund manager, will include several managers and their underlying costs. Due to accounting rules these can’t be shown in the accounts and will have to be produced separately in the reporting section.

The information should be provided by the following organisations.

1. Each contract provided by an external fund manager, who buys and sells shares in publicly quoted companies
2. Each contract provided by an internal or “in-house manager”, who buys and sells shares in publicly quoted companies, or have purchased private equity directly.
3. Each contract provided by Private Equity companies, who buy and sell privately run companies.