

## Scottish LGPS SAB

### Cost Transparency Compliance Update February 2022

#### Introduction

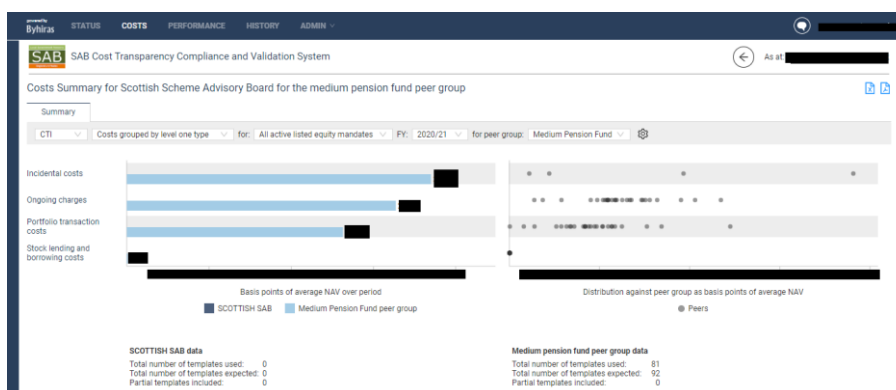
This report updates the SAB on the implementation of the online Cost Transparency System. Whilst it contains no commercially confidential information, it is recommended that it is kept confidential to SAB members due to commercial interest in this subject.

Previously, the SAB signed up to support the Cost Transparency Code, now curated by the Cost Transparency Initiative, and subsequently agreed to join the online Cost Transparency system. This system aims to provide LGPS funds with some comparable information on investment costs, and provide a basis to expand this information in future. This was ground-breaking work at the time, and a similar system is now compulsory in the Netherlands.

#### Reporting information

The system performs a number of functions. In terms of compliance, it identifies if fund managers have submitted templates with the necessary information. It also allows funds to benchmark investment costs against average costs, and looks at performance of investments (net of fees).

Across the UK, over 1,300 templates were submitted in the last financial year to allow comparisons of costs. This is done by analysing percentage costs (based on “basis points”) against the Net Asset Value (NAV) of the investments. Average (and weighted average) results are available, broken down by size of fund and asset class. The distribution of costs are also available, to reveal if they are clustered around a “typical” cost, or widely spread.

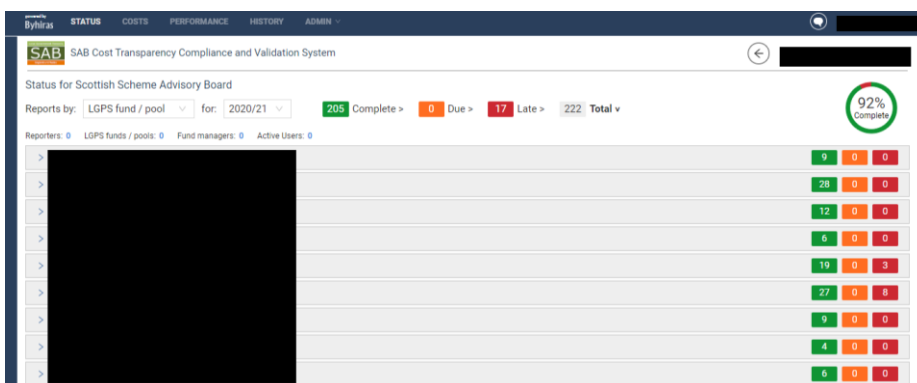


Funds themselves have access to their own financial information and also have the ability to compare against average costs across funds. The data on the templates is automatically validated to ensure it is in the correct format, however its accuracy relies on the fund managers.

The templates submitted for Scottish funds for completed financial years are as follows:

Year	Templates submitted	Templates Late	Percentage submitted
2019/20	162	6	96%
2020/21	205	17*	92%

A proportion of the submitted templates were overdue, and of the 17 still outstanding in 2020/21, 14 were from 3 fund managers. Five fund managers who signed up to the code have de-registered in the last year, however this was not due to non-compliance. Two no longer exist, and three now report through parent companies.



### Future developments

The system has already been enhanced to include other currencies (Euros and US dollars). It has been suggested that it could be more widely used to brief pension committee members, and that more education of pension committee members on the results of the system would be helpful. The view of funds on how the system can be enhanced would help guide future developments.

### Operation of the system

The system can compare costs across type of fund and asset class. Information is not broken down into “Scotland-only” as the relatively small number of funds means that commercially confidential information might be identified back to individual funds or investment managers.

The system does some basic validation of templates, but relies on fund managers to ensure they are accurate. In addition, not all fund managers are yet signatories, and there will always be change amongst investment managers. So, whilst the information is not currently 100% accurate, it is seen as a good approximation. Discussions have been held around how to maximise the accuracy.

The main templates are the CTI (Cost Transparency Initiative) template, and also a CTI Private Markets template.

Fund types are: Large, Medium, Small, Pools, and “All”.

Asset classes are Active listed equity, Active listed fixed income, Infrastructure, Multi asset funds / diversified, Passive listed equity, Passive listed fixed income, Private debt, Property, Unlisted equity and Other.