

WILTSHIRE PENSION FUND PROJECTED OUTTURN

Purpose of the Report

1. This paper presents a projected outturn on the Fund's financial activities.

Key Considerations for the Committee

Overall projection against controllable budgets

2. A net over-spend of £47k (1.7%) is currently being projected against controllable budgets (excluding investment management fees and securities lending income). This comprises a £22k (0.9%) projected underspend against Fund Scheme Administration and a £69k (25.1%) overspend against Fund Investment Costs (see *appendix 1*).

Other costs

3. The costs of pooling are expected to be £395k higher than previously estimated. This is due to using Brunel's previous budget in the Wiltshire Pension Fund budget, however we now know that costs will be higher due to increased Brunel budget and amended business case as reviewed and approved by the Brunel Oversight Board.
4. From quarter 3 the forecast includes a reduced forecast (by £26k) for securities lending income. This is because the securities lending income came almost entirely from one stock held in Baillie Gifford's global equities portfolio, and as this has now been transitioned into the Brunel Pool we are unlikely to receive the same level of securities lending income going forward.
5. Because of better than expected investment performance the latest projection for investment management costs is a total £1.7m spend above initial expectations. Investment Management Fees are mostly dependent on Fund manager performance.

(see appendix 2)

Key points for members to note

6. The overspend against Fund Investment Costs includes £50k overspend against Investment Administration. As reported to the Committee at its last meeting, these are agency costs that relate to last financial year which were not charged to our accounts until 2019/20 due to a delay in the member of staff being set up on the Bloom agency system via HR/Procurement.
7. The investment overspend also includes £19k overspend against Investment Consultancy fees. This is in relation to greater than initially expected costs associated with developing the new strategic asset allocation as determined by the Committee during the year. Additional costs in this area include costs for appointing the listed infrastructure manager (Magellan), carrying out additional reviews on the best way to deploy protection assets), and additional costs associated with pooling (for example assurance work done on Brunel's property offering). Subsequently, this is a difficult area in which to budget costs, as issues may emerge throughout the year where advice which was not anticipated is required. Officers will continue to monitor investment consultancy costs and will endeavour to keep costs as low as possible while still ensuring that appropriate advice is sought when there is a need. Investment consultancy costs have also been reduced in some areas, for example carrying out in-house a piece of work relating to the annual report which was previously done by the consultants.

8. The £22k net underspend projected against the Administration budget is largely to a projected underspend against external legal costs and bank interest received following increases to bank interest rates during the year.
9. The Committee are asked to note the changes to the layout of this report as requested by members at the previous meeting. The report now includes:
 - A prior year comparison column (appendix 1 and 2)
 - Percentages to illustrate level of projected over/ underspend against budget (appendix 1 and 2)
 - Additional data which shows fees relative to the investment gains/ losses achieved during the year (appendix 3)

We have also made some additional changes as follows:

- Controllable costs for Fund Investment and Fund Scheme Administration are now reported on a separate Appendix to Fund Investment Management Fees (along with costs of pooling and securities lending income). This is to reflect that spend on Manager Fees are mostly dependent on manager performance.

The Committee is also asked to note that there will be a move towards reporting the cost of Governance separately from Investment and Administration to attain a better link of budget and spend to the source of decision making and better alignment with the SF3 return and compliance with general industry best practice.

Environmental Impacts of the Proposals

10. There no known environmental impact of this report.

Financial & Legal Implications

11. The financial implications are outlined within the report. There are no known legal implications from the proposals.

Safeguarding Considerations/Public Health Implications/Equalities Impact

12. There no known implications at this time.

Proposals

13. The Committee is asked to:
 - i. Note the projected outturn for 2019/20 and details in the attached appendices
 - ii. Approve the move to reporting and budgeting for Governance costs separately to Investment and Administration as outlined in paragraph 9 above.

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Unpublished documents relied upon in the production of this report: NONE

Appendices:

Appendix 1: Projected Outturn Summary – Fund Investment and Fund Scheme Administration
Appendix 2: Projected Outturn Summary – Fund Investment Management fees and Securities Lending Income
Appendix 3: Fees Relative to Investment Gain/ Loss Achieved

WILTSHIRE PENSION FUND BUDGET 2019-20 FORECAST

Appendix 1

	2019-20				Explanations
	Prior Yr Spend £000	Budget £000	Projection £000	Variance £000	
<u>Fund Investment Costs</u>					
Investment Administration	133	149	199	50	34% Costs from 1819 due to HR/Procurement delay in setting member of agency staff up for payment
Investment Consultancy	168	117	136	19	16% Cost of manager selection (Magellan) and strategy review (additional detail provided in appendix 2)
Corporate Governance Services	9	9	9	0	0%
	310	275	344	69	25%
<u>Fund Scheme Administration</u>					
Pension Scheme Administration	1,649	2,002	1,977	-25	-1% Interest rates have increased leading to greater returns on overnight deposits
Actuarial Services	291	285	307	22	8% Overspend on work relating to the valuation exercise
Legal Advice	49	50	30	-20	-40% Reduced spend expected on external legal services in 1920 due to changes in the Internal Legal Team.
Committee & Governance	75	109	110	1	1%
	2,064	2,446	2,424	-22	-1%
Total - CONTROLLABLE BUDGETS	2,374	2,721	2,768	47	2%

WILTSHIRE PENSION FUND BUDGET 2019-20 FORECAST

Appendix 2

	2019-20					Explanations
	Prior Year Spend £000	Budget £000	Projection £000	Variance £000	Variance %	
<u>Fund Investment Management Fees</u>						
Segregated Funds	9,092	5,568	5,603	35	1%	Forecast updated to reflect latest fee estimates for the year
Pooled Funds *	7,396	3,339	4,980	1,641	49%	*Includes Invisible (or non direct charged) fees adjustment for higher asset base and investment in direct infrastructure.
Total FUND INVESTMENT FEES	<u>16,487</u>	<u>8,907</u>	<u>10,583</u>	<u>1,676</u>	<u>19%</u>	
Brunel - cost of pooling	1,292	660	1,055	395	60%	Higher forecast spend on pooling via Brunel, due to increased budget and amended business case as reviewed and approved by the Brunel Oversight Board.
Securities Lending Income	- 596	- 300	- 274	26	-9%	Reduced sec lending income expected following transition of Overseas Equities fund into the Pool in December
Total NET COSTS OF INVESTMENT MANAGEMENT	<u>17,184</u>	<u>9,267</u>	<u>11,364</u>	<u>2,097</u>		

Appendix 3

FEES RELATIVE TO INVESTMENT MARKET VALUE

Fund	31-Mar-19 Closing market value £000	1 April - 31 March 19 Total Fees £000	1 April - 31 March 19 Fees to closing mv %	30-Sep-19 Total market value £000	30-Sep-19 Total fees £000	2019/20 Fees to mv %
CBRE Global Multi Manager - Property	343,114	479	0.14%	350,501	240	0.14%
Baillie Gifford - Global Equity	436,612	1,391	0.32%	443,402	759	0.34%
Legal & General - Passive Gilts	424,140	92	0.02%	414,209	12	0.01%
Legal & General - Global Equity	132,922	126	0.09%	139,396	22	0.03%
Investec - Emerging Markets	257,780	1,125	0.44%	274,971	601	0.44%
Brunel - Passive UK Equity	66,052	16	0.02%	69,054	2	0.00%
Legal & General - Smart Beta	343,733	379	0.11%	363,023	166	0.09%
M&G	1,531	10	0.64%	1,528	4	0.50%
Magellan	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	87,687	237	0.54%
Barings - Dynamic Asset Allocation	246,080	1,080	0.44%	256,343	558	0.44%
Partners - Pooled Infrastructure 2012	26,769	395	1.48%	28,329	214	1.51%
Partners - Direct Infrastructure 2015	21,430	475	2.22%	28,005	233	1.66%
Partners - Global Infrastructure 2018	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	5,502	142	5.15%
Loomis - MAC and ARB	276,736	1,369	0.49%	282,491	697	0.49%
	2,576,899	6,937		2,744,440	3,886	

* Please note that fees for Baillie Gifford exclude the annual performance fee

* Figures for Partners 2018 not included in 201819 totals as this Fund has only been in place since January 2018