

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
13th July 2023

WILTSHIRE PENSION FUND INVESTMENT MANAGEMENT FEES AND COSTS 2022/23

Purpose of the Report

1. This paper details the fees and costs of the management of the investment portfolios for the year to 31 March 2023.

Background

2. The costs associated with the management of the investment portfolios are made up of two parts, fees (which are agreed up front, usually as a percentage of the market value of the portfolios), and costs (which include transaction and other costs, and are dependent on the volume of transactions which have taken place). In multi-manager portfolios (Partners Group for infrastructure), there are also costs associated with the underlying funds held in the portfolios.
3. Unless a manager invoices for fees throughout the year, all fees and costs will be passed through the portfolios, these are reported to Wiltshire once a year as part of detailed cost transparency reporting. All the fees and costs are then included in the year end accounts, to show the complete position.
4. Due to the way this information is received and recorded (i.e. annually), officers prepare an annual paper for Committee to report on these costs. Fee savings from pooling are reported quarterly at the investment focused committee meetings.

Investment Management Expenses

5. The total cost of investment management expenses in 2022/23 were £33.859m, this is an increase of £3.612m on the previous years costs of £30.247m. These are detailed in Note 9 to the accounts, and below for reference;

9. Investment management expenses

	2022/23 £000				
	Total	Management fees	Performance fees	Transaction Costs (Explicit)	Transaction Costs (Implicit)
Pooled funds equity	4,075	2,883	-	916	275
Fixed income unit trusts	4,756	2,076	-	2,284	396
Infrastructure funds	7,284	2,999	3,068	1,218	-
Private Debt	515	192	-	323	-
Private Equity	2,271	1,298	-	973	-
Emerging market multi-asset	3,673	1,354	-	777	1,541
Pooled property Investments	11,397	3,409	-	7,962	25
	33,970	14,211	3,068	14,453	2,238
Custody fees	30				
Costs associated with investment pooling	326				
Indirect costs incurred in managing investment portfolios	(466)				
	33,859				

	2021/22 £000				
	Total	Management fees	Performance fees	Transaction Costs (Explicit)	Transaction Costs (Implicit)
Pooled funds equity	3,716	3,218	-	185	313
Fixed income unit trusts	4,753	1,879	-	1,386	1,488
Infrastructure funds	5,518	2,102	2,463	953	-
Private Debt	1,176	714	-	462	-
Private Equity	558	279	-	279	-
Emerging market multi-asset	2,874	1,339	-	808	727
Pooled property Investments	5,065	4,025	-	1,040	-
	23,660	13,556	2,463	5,113	2,528
Custody fees	62				
Transition costs	3,283				
Costs associated with investment pooling	1,143				
Indirect costs incurred in managing investment portfolios	2,099				
	30,247				

6. The significant variances from 2021/22 to 2022/23 are as follows:
- a) Transition costs decreased from £3.283m to £0, in the prior year four large transitions were made. In 2021/22 the four transitions to implement the strategic asset allocation were, the new Global Sustainable Equities portfolio (£1.9m) and Paris Aligned Benchmark Passive portfolio (£0.4m), transition of the multi asset credit portfolio (£0.6m) and Gilts (£0.4m) to Brunel.
 - b) Overall fund management fees have increased slightly, the driver to higher costs has been greater investment in asset types across private markets with higher fee structures, such as private equity, private debt and infrastructure. This theme will continue as commitments continue to be called for these investments, these higher costs should be offset by returns, which are reported net of these costs in investment performance information. This higher cost for private market investments is partially offset by lower management fees for the property portfolio where the fund previously paid a manager fee to CBRE.
 - c) Transaction costs (Explicit) have increased by £9.3m compared to the prior year, this has been due to greater transparency for the portfolios property holdings, where running costs for the underlying funds have been disclosed, these costs were not available in the prior period. These costs cover a range of property expenses, from administrative, to maintenance and repair costs, insurance, service charges or valuation fee's. A smaller increase in these costs were also noted in the gilts portfolio relating to transactions, possibly linked to the volatility seen in the gilt market throughout the year.
 - d) Costs associated with investment pooling – this is lower in 2022/23 due to a reduction in the Pension Recharge Liability the fund has with Brunel, the value of this fell as the funding level of Brunel's liabilities in the pension fund improved. The recharge was signed by clients to avoid having to provide additional capital to Brunel in the event of their pension liability increasing. This has benefitted clients from a cashflow perspective, but has led to the need to create a provision in the Fund's accounts. After excluding this technical item costs of investment pooling have remained stable from year ending 22 to 23.
 - e) Indirect costs incurred in investments are showing a negative value in 22/23, this is due to a one off technical rebate from the private debt portfolio which reversed costs incurred in the prior period.
7. Assurance on the correct calculation and disclosure of these fees is provided by the funds external auditors who review these costs as part of their review of the annual report. The Fund can also place reliance on the work of Brunel who review fees for managers within their portfolios. Each fund manager also provides a 6-monthly internal controls report, which sets whether effective controls are in place on a range of issues, including fees.
8. From 2018/19 onwards, CIPFA guidance for the annual report includes a table to monitor the relative cost of portfolios inside and outside the pool, measured in bps (1bp = 0.01%). The full table, which is published in the annual report, is provided in appendix 1 of this report for reference.

Environmental Impact of the Proposal

9. There are no known environmental impacts from these proposals.

Safeguarding Considerations/Public Health Implications/Equalities Impact

10. There are no known implications at this time.

Proposals

11. The Committee is asked to:

- a) Use the report as a basis to monitor the Fund's investment management fees and costs for the year to 31 March 2023.

JENNIFER DEVINE Head of Wiltshire Pension Fund

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

Appendix 1

The following information has been prepared in order to enable comparison between the ongoing investment management costs between asset pools and non-pooled investments.

Investment management costs for year to 31 March 2023										
	Asset Pool				Non-Asset Pool				Fund Total	
	Direct £'000	Indirect £'000	Total £'000	Bps	Direct £'000	Indirect £'000	Total £'000	Bps	Total £'000	Bps
Management fees	-	7,449	7,449	33.2	1,264	4,477	5,741	65.7	13,190	42.3
Performance fees	-	-	-	-	-	3,068	3,068	35.1	3,068	9.8
Fees and costs of underlying fund investments	-	-	-	-	-	1,017	1,017	11.6	1,017	3.3
Total fees	-	7,449	7,449	33.2	1,264	8,562	9,826	112.4	17,275	55.4
Asset pool shared costs	326	-	326	n/a	-	-	-	n/a	326	n/a
Transaction costs:										
- Transaction taxes	-	384	384	1.7	-	475	475	5.4	859	2.8
- Broker commission	-	209	209	0.9	-	247	247	2.8	456	1.5
- Transaction related services	-	484	484	2.2	-	766	766	8.8	1,250	4.0
- Other explicit transaction costs	-	195	195	0.9	-	288	288	3.3	484	1.6
- Implicit transaction costs	-	658	658	2.9	-	1,579	1,579	18.1	2,238	7.2
- Indirect transactions costs	-	1,984	1,984	8.9	-	102	102	1.2	2,086	6.7
- Anti-dilution levy	-	70	70	0.3	-	248	248	2.8	319	1.0
Total transaction costs	-	3,845	3,845	17.2	-	3,209	3,209	36.7	7,053	22.6
Operating expenses	-	7,292	7,292	32.5	-	2,346	2,346	26.8	9,637	30.9
Total of all fees and costs	326	18,585	18,911	82.92	1,264	14,116	15,380	175.9	34,291	109.0

Across all investment portfolios, the management fees were 55.4bps in 2022/23. These are calculated on an annualised basis for all portfolios held during the course of the year. Direct costs are those which are directly invoiced to Wiltshire Pension Fund. Indirect costs are those which are charged to the underlying investments – these are disclosed to Wiltshire by cost transparency reporting each year, and are accounted for in the total investment management costs reported in the statement of accounts. These includes fees and costs charged by the underlying funds held in the property and infrastructure portfolios, in order to show a complete reflection of the costs of holdings these investments, in line with the CIPFA guidance on accounting for local government pension scheme management expenses 2016.

1. Asset pool shared costs represent the quarterly amounts invoiced by the Brunel pool for management and ongoing running costs, and also includes monthly consultancy costs associated with administering the Brunel client and oversight board groups.
2. The fee rates in basis points (bps) are based on the actual fees or costs, pro-rated up to a full year where the portfolio was only held for part of the year, as a percentage of the closing market value of the total assets held in the pool or held outside the pool, plus the closing market value for any portfolios which were terminated partway through the year.