

LGPS Code of Transparency

Training

Objective

- A general overview of the LGPS Transparency Code
- Rationale for the Code
- Implementation of compliance to the Code
- Effect on the Pension Fund Accounts

Rational for the code

- A voluntary Code of Transparency into investment management fees and cost was developed and approved by the scheme advisory board (SAB) was launched in May 2017
- The Financial Conduct Authority wanted to see a more consistent and standardised disclosure of costs and charges for institutional investors, providing a clearer understanding of costs and charges for a given fund or mandate.
- This would allow investors to compare charges between providers giving them a clear expectation of the disclosures they can expect

Implementation of compliance to the Code

- Fund Managers have been encouraged to sign up to the code
- 9 out of 11 funds within the Havering Portfolio have confirmed they are transparency compliant
- Templates have been developed to evidence all costs and charges, previously unseen
- A Compliance and Reporting System is being developed which will enable managers to evidence compliance with the code, via a single line portal

Effect on the Pension Fund Accounts

The major effect the code will have on the Pension Fund Accounts is to give a clearer and more accurate disclosure of the management costs incurred, these are made up of

- Direct Costs – Management Fees invoiced directly from Investment manager
- Indirect Cost – Costs deducted from the value of the fund

It is the indirect costs that the code is trying to address, in the past they have been hidden by offsetting these against the value of the fund, so we have not always know the true cost of these.

Effect on the Pension Fund Accounts

The bottom line value of the fund will not be effected by the changes to the code, it is just a matter of reporting the management cost in a different place in the accounts

See following examples

Example 1 – Before Indirect Fees adjustment

Fund Manager SORP £mil				
Value of fund XXXX	purchases	Sales	Change in market Value	Net Value of Fund
694	60	40	17	731
The indirect fees have already been deducted from the fund value by the fund Manager				
Management Fees				
Direct Fees			-3	

Example 1 – Net Asset Statement before Indirect Fee Adjustment

Net Asset Statement (Abbreviated Version for example only)				
				£mil
Contributions				40
Benefits				-38
Net additions (withdrawals) from dealings with mem				2
Manangement cost				
Direct Costs (invoices)				-3
Net additions/(withdrawals) including fund manager				-1
Investment Income				10
Profit Loss on disposal of Investments and change in Market Value				17
Net returns on investments				27
Net increase (decrease) in the net assets available for benefits during the year				26
Opening net assets of the Fund at start of year				707
Closing net assets of the Fund at end of year				733

Example 2 – After Indirect Fees adjustment

As the indirect fees have already been deducted from the fund value, to correct this we increase the sales figure and the closing change in market Value
See example below

Value of fund XXXX	purchases	Sales plus indirect fees added back	Change in market Value increased by indirect fees	Net Value of Fund
700	60	40	17	737
Indirect fee Adjustment		1	1	
700	60	41	18	737

The indirect fees are then deducted from the value of the fund through the Management cost disclosure

Mananagment Fees	
Direct Fees	-3
indirect fees	-1
	-4

Example 2 – Net Asset Statement before Indirect Fee Adjustment

Net Asset Statement (Abbreviated Version for example only)				
				£mil
Contributions				40
Benefits				-38
Net additions (withdrawals) from dealings with mem				2
Manangement cost				
Direct Costs (invoices)				-3
indirect costs				-1
				-4
Net additions/(withdrawals) including fund management expenses				-2
Investment Income				10
Profit Loss on disposal of Investments				18
Net returns on investments				28
for benefits during the year				26
Opening net assets of the Fund at start of year				707
Closing net assets of the Fund at end of year *				733
*Closing net assets at year end not effected by adjustment				

Zero Effect on the Closing Net Asset Value

- As shown in example 2, the effect of the adjustment made for the disclosure of the indirect fees on the net asset value is zero
- We increased the Management costs (by including the indirect fees) which has been offset by the increased change in market value.
- This adjustment meets the objective to give a clearer and more accurate disclosure of management costs incurred as laid out by the Transparency code