

# Croydon Council

<b>REPORT TO:</b>	<b>Local Pension Board 17 October 2019</b>
<b>SUBJECT:</b>	<b>The Local Government Pension Scheme Advisory Board Code of Transparency</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook Head of Pensions and Treasury</b>

## **1. RECOMMENDATION**

- 1.1 To note this report.

## **2. EXECUTIVE SUMMARY**

- 2.1 This report sets out the progress made by the Local Government Pension Scheme Advisory Board in introducing a Code of Transparency. This Code is intended as an aid for administering authorities to report costs. Seven fund managers who manage Croydon Pension Fund assets have so far adopted the Code.

## **3 DETAIL**

### **3.1 Introduction**

- 3.1.1 At their meeting on 29 March 2018 the Board were advised of progress made by the Local Government Pension Scheme Advisory Board in introducing a Code of Transparency to act as an aid for administering authorities in their understanding and reporting on costs charged by fund managers.

- 3.1.2 This report discusses progress made and, for ease of reference, summarises some of the background.

### **3.2 Background**

- 3.2.1 The Local Government Pension Scheme Advisory Board was established by Section 7 of the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013 (as amended) 110-113. Its purpose is to encourage best practice, increase transparency and coordinate technical and standards issues.

- 3.2.2 The move towards investment fee transparency and consistency is seen by the Board as an important factor in establishing the perception that the Scheme is value led and innovative. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and included in the Government's criteria for pooling investments.

- 3.2.3 To assist Scheme funds in obtaining the data they require in order to report costs on a transparent basis the Board, in consultation with various interested parties, developed a voluntary Code of Transparency for fund managers which they launched in May 2017. The Code helps fund managers' clients to gather cost information in a consistent format.
- 3.2.4 An Investment Manager who signs up to the Code agrees that within a period of twelve months it will put in place the systems necessary to allow for the completion and automatic submission of a standard template to each Administering Authority that the fund manager is appointed by. There are separate templates for segregated portfolio management and for pooled funds.
- 3.2.5 The template lists a series of broad headings for reporting costs and expenses and concentrates on those areas which should already be available but may not have been supplied by fund managers either proactively or in a format easily useable by Scheme funds.
- 3.2.6 To date, approximately 120 fund managers have signed up to the Code.
- 3.2.7 It was recognised at an early stage that the original Code was best suited for managers responsible for managing listed assets. Therefore, on 21 May 2019 a new framework of templates and guidance was released by the Cost Transparency Initiative which was founded by the Board. The Board agreed to adopt the new framework but allowed existing signatories to continue to submit the original template for up to 12 months. The new template is designed to attract "alternatives" managers who had felt unable to sign up to the original Code.
- 3.2.8 The full text of the revised Code is appended to this report as Appendix A.

### **3.3 Compliance**

- 3.3.1 As part of the Code, fund managers are obliged to complete and submit the template (without request) to their Scheme clients on either an annual or quarterly basis as agreed with their client. In order to fulfil its stated intention to police the Code, the Board carried out the procurement of a compliance system. They were seeking an online facility intended to:
- Be capable of accepting and storing template data;
  - Check the timeliness of data submission and report late returns;
  - Ensure that template data is signed off by managers as 'true and fair;' and
  - Provide a check against the MiFID II total cost amount submitted separately by managers to their Scheme clients
- 3.3.2 As well as ensuring compliance with the Code the Board were seeking a system which could be used by Scheme clients to:
- Replace the existing excel format templates provided to them by managers;
  - View a useful but limited set of onscreen reporting and comparison tools;
  - Give permission to other Scheme clients or trusted third parties (e.g. their investment adviser) to access and export their template data; and

- Provide advanced reporting facilities under a phase 2 development subject to the agreement of Code clients.

3.3.3 In specifying the system, the Board placed great emphasis on security and confidentiality. They specified that the template data held within the compliance system would need to be separate from any other database held by the service provider and could not be shared by the service provider with any third parties for any purpose. The Board further specified that they may wish to publish aggregate totals or averages from the system as part of the Scheme annual report but that such reporting would not identify any data at the fund, pool, manager or mandate level.

3.3.4 Following a procurement process the Boards appointment Byhiras to develop and host the Compliance and Reporting system. The system is expected to go live in early 2020.

### **3.4 Implications for Croydon Fund**

3.4.1 To date all seven of the Croydon managers not involved with infrastructure or private equity have signed up to the original Code:

Aberdeen Standard Life  
Janus Henderson  
LGIM  
M&G  
PIMCO  
Schroders  
Wellington

The other eight managers will be encouraged to sign up to the revised Code.

## **4 DATA PROTECTION IMPLICATIONS**

4.1 Will the subject of the Report involve the processing of “personal data?”

No

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### **BACKGROUND DOCUMENTS:**

None.

Appendices

**Appendix A:** LGPS Investment Code of Transparency (“the Code”), 18th May 2017

LPB 17102019

## **LGPS Investment Code of Transparency (“the Code”)**

**Date of Publication: 18th May 2017**

### **Definitions**

For the purpose of this Code the following definitions shall apply:

**Administering Authority** means the administering authority of a pension fund within the LGPS. For the purposes of the Code only this term shall also apply to the operator of any LGPS investment pool.

**Board** means the Local Government Pension Scheme Advisory Board, England and Wales.

**Investment Manager** means an investment manager, who has been or wishes to be, appointed by an Administering Authority in accordance with the Investment Regulations.

**Investment Regulations** means The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as from time to time amended or replaced).

**LGPS** means the Local Government Pension Schemes for England and Wales, Scotland and Northern Ireland.

**Template** means the template information form for the relevant investment types provided by the Board as updated from time to time and made available on the Board’s website.

### **A Introduction**

1. The Board is a body established under the Local Government Pension Scheme Regulations 2013. The function of the Board is to provide advice to the Secretary of State on the desirability of making changes to the LGPS. The Board also has the function of providing advice to Administering Authorities and local pension boards in relation to the effective and efficient administration and management of the LGPS and their pension funds. The Board has the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.
2. The Board views the move toward investment cost transparency and consistency as an important factor in the LGPS being perceived as a value-led and innovative pension scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and is included in the government’s investment reform guidance and criteria for LGPS pooling.

3. To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board has worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code.
4. The Administering Authority and the Board recognise their obligations pursuant to the Freedom of Information Act and the Section 45 FoIA Code of Practice and will engage with Investment Managers appropriately in that respect.

## **B Application of the Code**

5. The Code is a voluntary code and covers the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities.
6. An Investment Manager may sign up to the Code in writing in the form agreed by the Board. By doing so the Investment Manager is demonstrating its commitment to the transparent reporting of LGPS investment costs and fees to administering authorities.
7. An Investment Manager who signs up to the Code in respect of the investment types covered by the Code agrees that within a period of twelve months of signing up to the Code (or such longer period as the Board may in its discretion agree) it will put in place the systems necessary to allow the completion and automatic (i.e. without the client having to make a request) submission of the Template(s) to each Administering Authority that the Investment Manager is appointed by (whether at the time of signing up to the Code or in the future).
- 7A.** Where an asset class is not covered by the template(s) available under the Code, an investment manager may sign up on the understanding that within a period of 12 months (or such longer period as the Board may in its discretion agree) it will put in place the systems necessary to allow the completion and automatic (i.e. without the client having to make a request) submission of cost data substantially similar in scope and detail to that covered by existing templates. The exact format of that cost data is to be agreed with each Administering Authority that the Investment Manager is appointed by (whether at the time of signing up to the Code or in the future). Managers who sign up to the Code under this provision must adopt and make use of relevant Code templates as they become available.
8. The Template(s) must be submitted automatically (i.e. without the client having to make a request) each year to each Administering Authority (if required by the Administering Authority) and to any independent third party appointed by the Board in accordance with paragraph 12. Administering Authorities may also request such submissions on a quarterly basis.
9. There are separate Templates for segregated portfolio management and for pooled funds. Where an Investment Manager operating a segregated mandate invests in a pooled fund as part of that mandate, the reporting will be done via the Investment Manager's own Template.
10. The Investment Manager will not vary the Templates except with the written agreement of the Board and the relevant Administering Authority.
11. The templates covered by this Code are those within the framework published from time to time by the Cost Transparency Initiative (CTI). The only exceptions being Code signatories prior to 21st May 2019 (see (11A.) below) and managers based in the US who may complete the Institutional Limited Partner Association (ILPA) template.
- 11A.** Signatories to the Code prior to the 21st May 2019 may continue to complete the LGPS template for a period no longer than 12 months i.e. 20th May 2020. Such

signatories are expected to discuss moving to the CTI templates with their clients as soon as possible within this period. Continued supply of LGPS templates beyond this period will be considered a breach of the Code.

- 12.** The Board may appoint an independent third party to audit Templates provided in accordance with the Code and general compliance of the Code by Investment Managers. The third party may also be asked by the Board to collate, analyse and publish generic, non-attributable information obtained from the Templates at a national level. The Investment Manager shall co-operate with the Board and/or appointed third party and provide such information and explanations as the third party may reasonably require within a reasonable period of request.
- 13.** The third party shall report the findings of any audit direct to the Board, including any recommended actions or improvements. The Investment Manager shall co-operate and work with the Board to address and implement any recommended actions or improvements.
- 14.** The Investment Manager may, subject to any overarching legal or reporting requirements, require an Administering Authority to sign up to a reasonable confidentiality agreement not to disclose the information contained in the Template to any third parties (excluding any third party appointed by the Board).
- 15.** The Board agrees that when an Investment Manager signs up to the Code in the agreed form it will, as soon as reasonably practicable, list the Investment Manager on its website and allow the Investment Manager to use the Code's logo on its marketing literature in accordance with the Code Logo Use and Guidance (available from the Board website and amended from time to time). The Code Logo Use and Guidance can be downloaded from the Board website.
- 16.** The Board owns the Code logo and will retain all intellectual property rights and any other rights in the Code logo. An Investment Manager will not acquire any rights, title or interest in the Code logo and will not use the Code logo except as expressly specified in the Code and the Code Logo Use and Guidelines.
- 17.** An Investment Manager will be permitted to use the Code logo on a non-exclusive basis to communicate their compliance with the Code. The Code logo will convey to stakeholders that the Investment Manager is compliant with the Code and committed to the transparent reporting of LGPS investment costs and fees.
- 18.** An Investment Manager will not use the Code logo for any other purpose nor for the benefit of any other person and will not alter or change the Code logo in any way – ownership of any modifications in the Code logo will vest in the Board.
- 19.** The Board may revoke use of the Code logo and remove an Investment Manager from the list on its website at any time if an Investment Manager is reported by an Administering Authority to be in breach of the Code.