

Brunel Pension Partnership

Proposal for asset pooling in the LGPS



Annex Number: 10

Document: External reporting and Benchmarking

Template Questions Addressed:

B7. How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.

- a) Please confirm the pool will publish annual net performance in each asset class on a publically accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

B8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.

- a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.

C5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance

- a) Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.
- b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance.
- c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above.

External reporting & benchmarking

Background

1. The purpose of this paper is to provide a response for the questions on the external reporting of performance and the extent benchmarking can be used by Funds to assess their own governance and performance and that of BPP. The relevant questions from the asset pooling template are B7, B8 and C5.
2. The exact requirements by regulators and national bodies have yet to be established. It's anticipated that DCLG and Scheme Advisory Board will look to develop benchmarking indicators at national level.
3. The BPP views the proposal as an opportunity for the reporting of all investment activity to be aligned across Participating Funds and developed utilising its available resources to meet best practice in the reporting to all stakeholders, including the regulators on both investment and operational metrics. BPP will also look to participate in national benchmarking exercises or those appropriate for an LGPS pool or a pool of its size and breadth of assets.

Website & Public Access

4. BPP has already established a website which will allow public access to annual net performance information www.brunelpensionpartnership.org . This will complement an Annual Report which will be generated by BPP, approved by the Oversight Board and audited by the appointed external auditors.
5. This annual report will contain aggregated net performance for BPP along with the performance of the individual Portfolios. Investment management fees and operational costs will also be reported on an aggregate basis.
6. Each Participating Fund already reports its annual investment performance as part of its Annual Reporting which is available on their respective websites.
7. The intention is that as part of the pool, BPP will provide investment performance and cost data to the Participating Funds for inclusion in their individual annual reports and current investment reporting structures.

Performance & Monitoring

8. To enable comparison of performance all investment reporting will take place on a net of fee basis against specified passive indices and the target benchmarks for each Portfolio. Where a specified passive index doesn't exist then a proxy benchmark would be used that reflects the risk and return profile of that Portfolio. Where more complex investments are used (e.g. LDI strategies) reporting will be constructed on a bespoke basis.
9. The basis of each of the Portfolio reports will include the following:
 1. Portfolio net investment performance returns

2. Investment performance of Portfolio benchmark
3. Analysis of over / under performance of Fund against Portfolio benchmark and target on an annual, 3 year, 5 Year and since inception basis.
4. Risk metrics showing absolute and relative; and where appropriate active share
5. Underlying investment returns for each manager within the Portfolio
6. Investment fees (split between management and performance fees)
7. Investment costs (including transactions and TERs)
8. Investment operational management costs metrics showing FTE per £ invested and support / governance staff per FTE.
9. Investment fees and costs against cost/savings model
10. Responsible Investment implementation, ESG risk analysis and Stewardship (voting and engagement) activities.

Comparison of active performance to passive indexation

10. Using the performance reporting outlined above, BPP will be able to monitor and report on the performance of its active mandates against those applicable passive indices.
11. For each active Portfolio, quoted assets will be monitored against a passive index. Where there are no appropriate investable indices for unquoted assets, then these will remain outside of any comparison metric.
12. Each Portfolio will be established with an investment risk and return objective and an appropriate index for passive benchmarking.
13. This benchmarking should reflect a long term investment horizon and be monitored over a minimum (rolling) period of at least a market cycle of between 5 to 7 years depending on characteristics of the asset class. BPP's view is 5 years is more consistent with the economic cycle and that shorter monitoring periods should be avoided to allow long term investing horizons to be utilised which more closely match liabilities.
14. For this specific active / passive comparison, benchmarking should not be limited to returns but will also incorporate risk adjusted returns to reflect the levels of risk from active management versus the passive index risk. Metrics will also be utilised to show the value added from active management fees being paid in excess of the passive approach for these market cycles.
15. This analysis will be reported to the Participating Funds to show the impact of active management on performance and costs to enable them to make strategic decisions on investment strategies and future allocations to Portfolios.

Provision of Information

16. The provision of this information for its investment reporting will be developed through the use, at least initially of a specialist external provider. All Participating Funds currently use different providers and an opportunity exists to rationalise this to a single entity and

standardise the reporting across all Funds providing a consistent and comparable approach.

17. BPP will potentially have the resources and expertise in-house to develop its own reporting capabilities to enable it undertake more flexible reporting that can be bespoke to the BPP fitting in with its own specific needs in-line with best practice.

Reporting to Participating Funds

18. Regular Investment performance will be reported to the Participating Funds on delivery of asset allocation strategies and performance against benchmarks. This will effectively be the performance of each Portfolio the Fund is invested in along with the specific benchmark and performance target attributed to that investment. Similar to the current quarterly investment reporting currently received from investment managers this will also include attribution data, holdings details, and a narrative on performance.
19. The Oversight Board will monitor the quality of this reporting, through the use of Service Level Agreements.
20. Each Participating Fund will still be responsible for measuring and monitoring results of their individual investment strategy, as they may have set their own performance objectives for their overall investment strategy and potentially for each Portfolio invested in.
21. Participating Fund's will report their investment performance to their Pensions Committee meetings. The reporting framework and suite used will be produced and agreed by BPP in consultation with the Participating Funds.

Operational Reporting

22. The investment and operational performance of BPP will be reported regularly to the Oversight Board. This would focus on the specific performance of each of the Portfolios against their targets along with metrics showing the operational efficiency and cost savings achieved by BPP.
23. Cross pool performance measurement of both Portfolios and operational performance will provide the Oversight Board information to assess the relative performance of BPP and the pooled assets. However, performance of Portfolios against Portfolio investment objectives and against delivery of investment strategies of Participating Funds will be a more fundamental measurement of performance.

Sharing of data & best practice

24. With the publication of net performance information as outlined above, this will allow the sharing of data between Participating Funds so they can benchmark performance. Although actual performance will vary between Funds based on the actual allocations between Portfolios, performance in each asset class should converge over time.
25. The use of standardised reporting and the sharing of a single set of investment principles and fiduciary investment management services, which benefit from scale, will ensure best practice is achieved for all Participating Funds.

Assessing governance and performance

26. Net investment performance is a good measure of performance although as importantly is the governance requirements of the Participating Funds and BPP.
27. The governance of a Participating Fund's investments should be improved in the knowledge that performance and cost information will exist and be shared with them in respect to the whole pool. This will allow easier comparisons for a Fund reviewing costs relative to performance with both its peers and the industry.
28. The governance of BPP will be monitored against other metrics which aren't investment related. Regularly review and monitoring of operational and oversight costs will be reported to the Oversight Board, which includes representatives from each Participating Fund.
29. Therefore regular reviews would be undertaken to monitor different aspects of the BPPs performance. This would include areas such as:
 - Budgets
 - Costs / transaction fees
 - Transition analysis
 - Review of custodian risks
 - Financial impact of Responsible Investment and other market related risks
 - Review of performance of BPP Company executives and non-executives
 - Overall cost of BPP as a percentage of assets under management
 - Review of audit and compliance assessments
 - Review of advisers performance
 - Review of Oversight Board members attendance and training records
 - Review of performance of BPP in relation to industry standards and benchmarking clubs.

Implementation and Transition Costs and Savings

30. The proposed implementation and set up costs and savings of the BPP forms part of the business case submission. The proposed implementation plan includes the budget which will be monitored and reviewed by the Oversight Board.
31. In respect of the transfer of assets from Participating Funds to the BPP, transitions costs are extremely challenging to forecast as they depend on many market variables at the date of transfer. A proposed transition plan and timeframes has been developed for the purpose of the business case. This plan outlines both the proposed transition costs and net savings achievable from the implementation of pooling arrangements based on current markets.
32. This plan will be continually reviewed and updated based on the latest information. This may require further analysis from the transition manager to amend the forecast in line with the latest market data.
33. As each transition takes place a full pre and post transition plan will be provided showing in detail the forecast and actual costs and the respective impact on performance during this period. This information will then be incorporated into the cost / saving model.

34. These plans will be regularly submitted to the Oversight Board for update and review. This information will also be available to Participating Funds in respect of their investments which can be shared with their Pension Committees.
35. The investment costs, fees, savings and net performance are outlined in the reporting and benchmarking templates above.