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IAPF TRUSTEE NETWORK EVENT

Success Through Transparency

Tuesday 10 September 2019

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Jerry Moriarty
CEO IAPF

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Success Through Transparency

Tuesday 10 September 2019

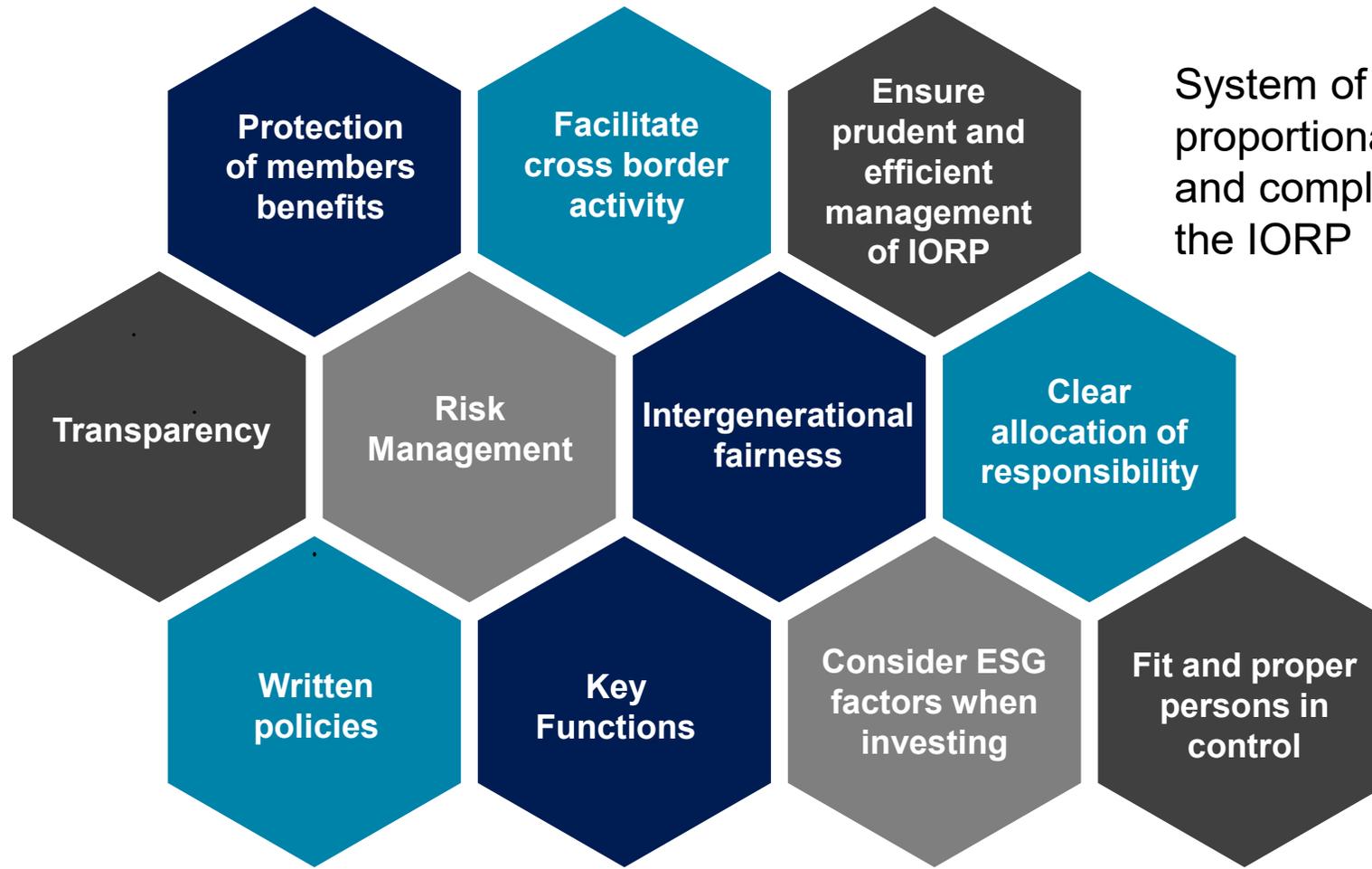




Understanding Transparency

Evelyn Ryder, Aon

Principles underlying IORP II



Transparency – Why is it so important?

1

Builds Trust

Crucial to ensuring a relationship of trust between a service provider and the client/beneficiary

2

Increased Outsourcing

Due to increasing governance and regulatory requirements Trustees are seeking to outsource more. Trust becomes even more important



Full Disclosure

Clear and accurate information with full disclosures is crucial to a trust based relationship

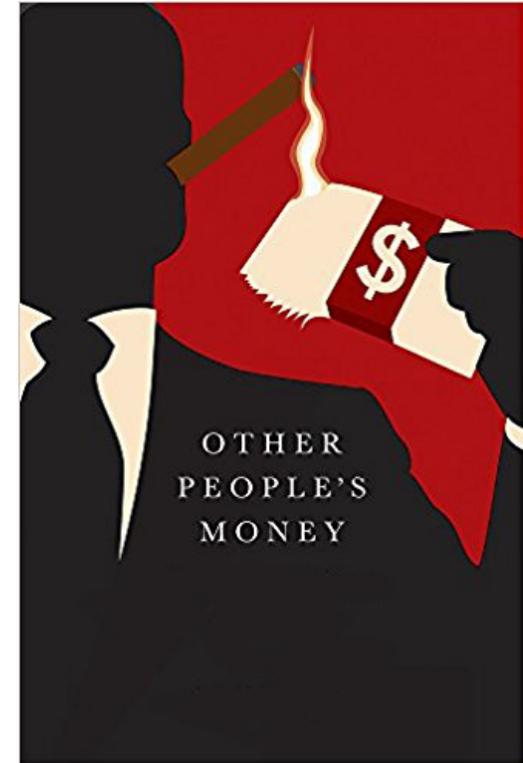
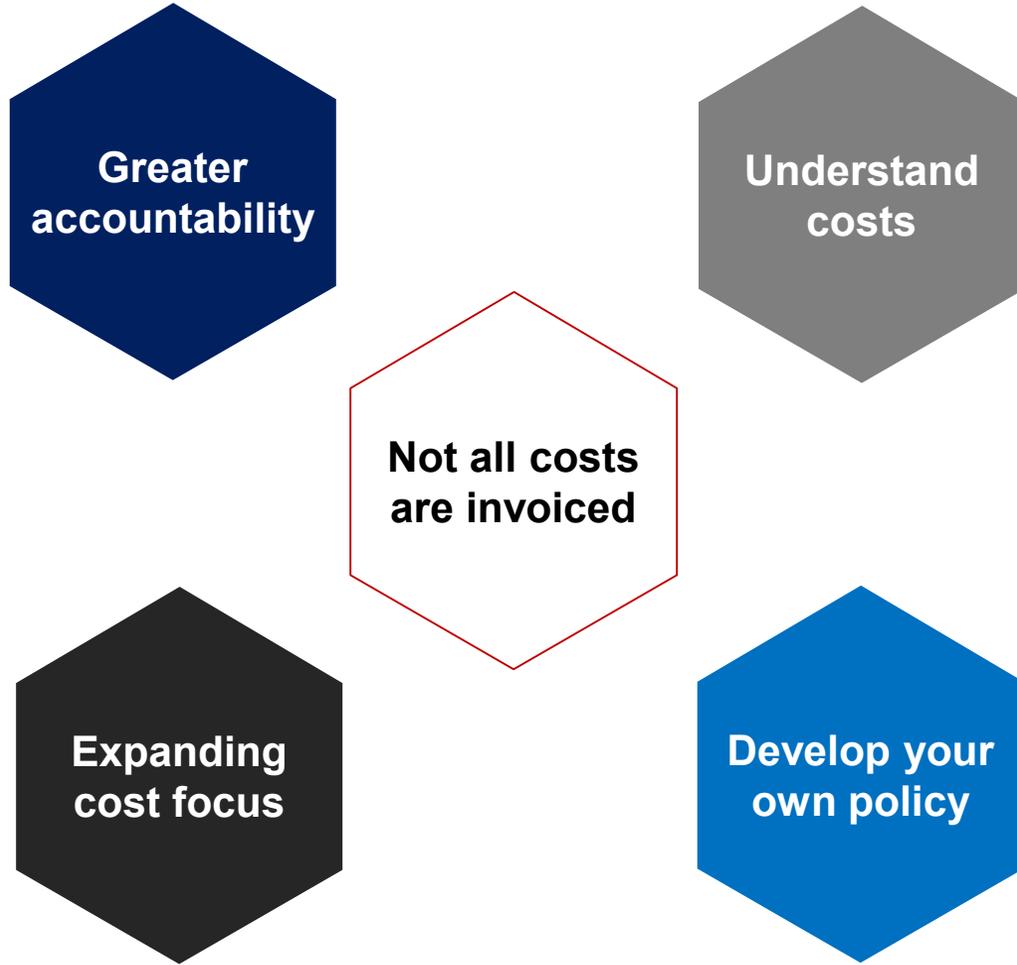
3

Fiduciary Management

Growing rapidly as an effective solution for DB and DC schemes

4

The search for value for money





Investment Cost Transparency - UK Developments

Neil Smith, Aon

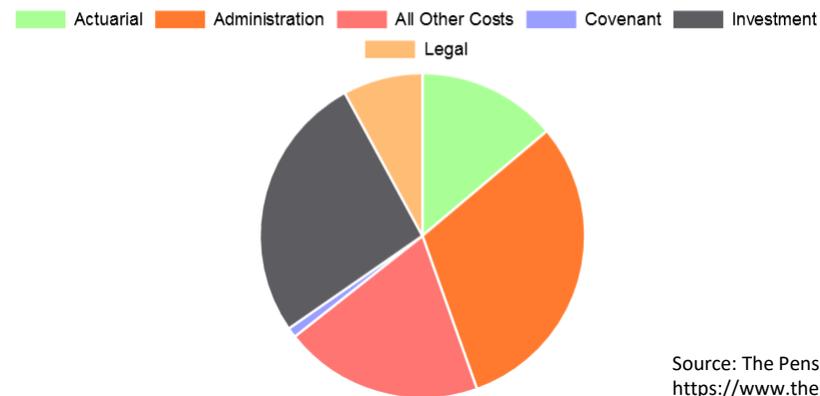
Trustee Responsibilities in the UK

The UK
Pensions
Regulator

'Its important that you understand how much it costs to run your Defined Benefit pension scheme. These costs can include fees for administration, advice and services to members'

Source: <https://www.thepensionsregulator.gov.uk/en/employers/managing-a-scheme/db-scheme-funding-and-costs>

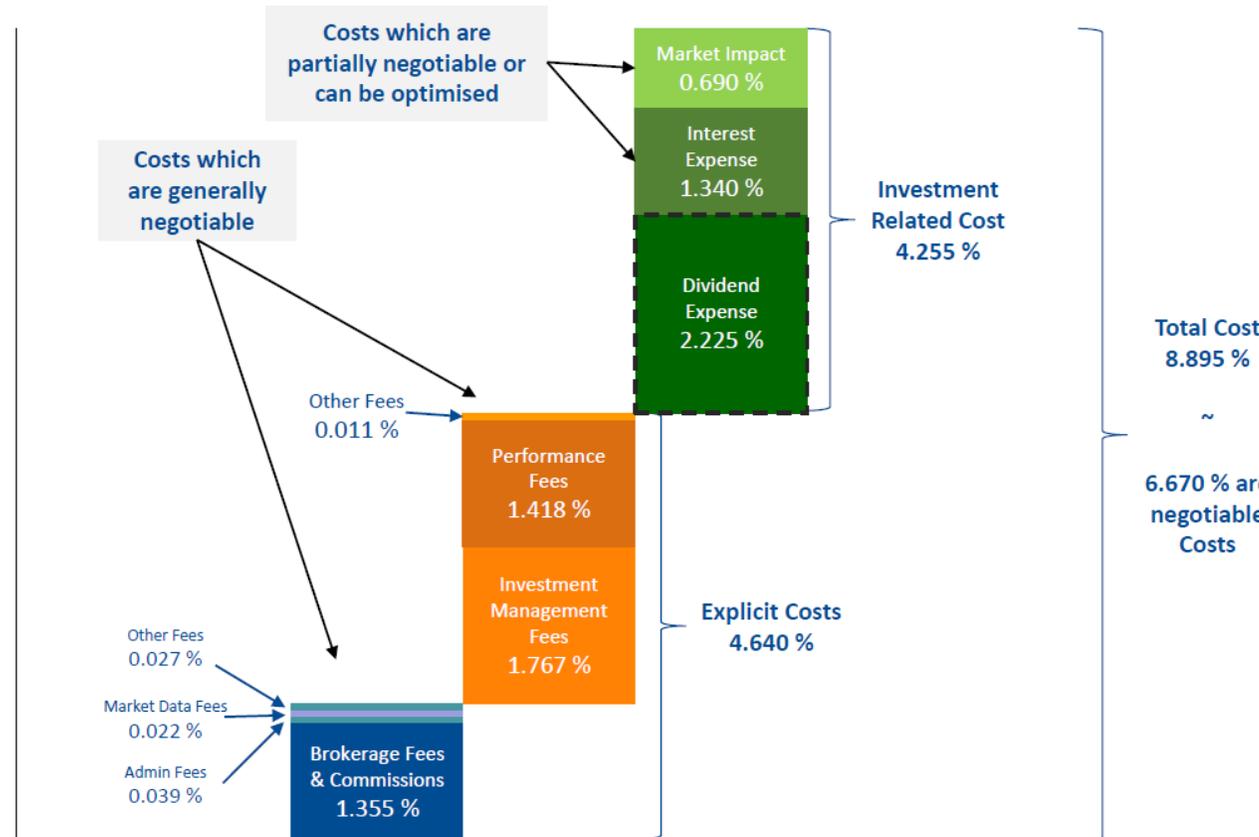
Breakdown of Large DB Scheme Running Costs



Source: The Pensions Regulator DB Scheme Costs Comparison Tool
<https://www.thepensionsregulator.gov.uk/en/trustees/managing-db-benefits/db-scheme-costs-comparison-tool>

How easy is it to understand Investment Costs?

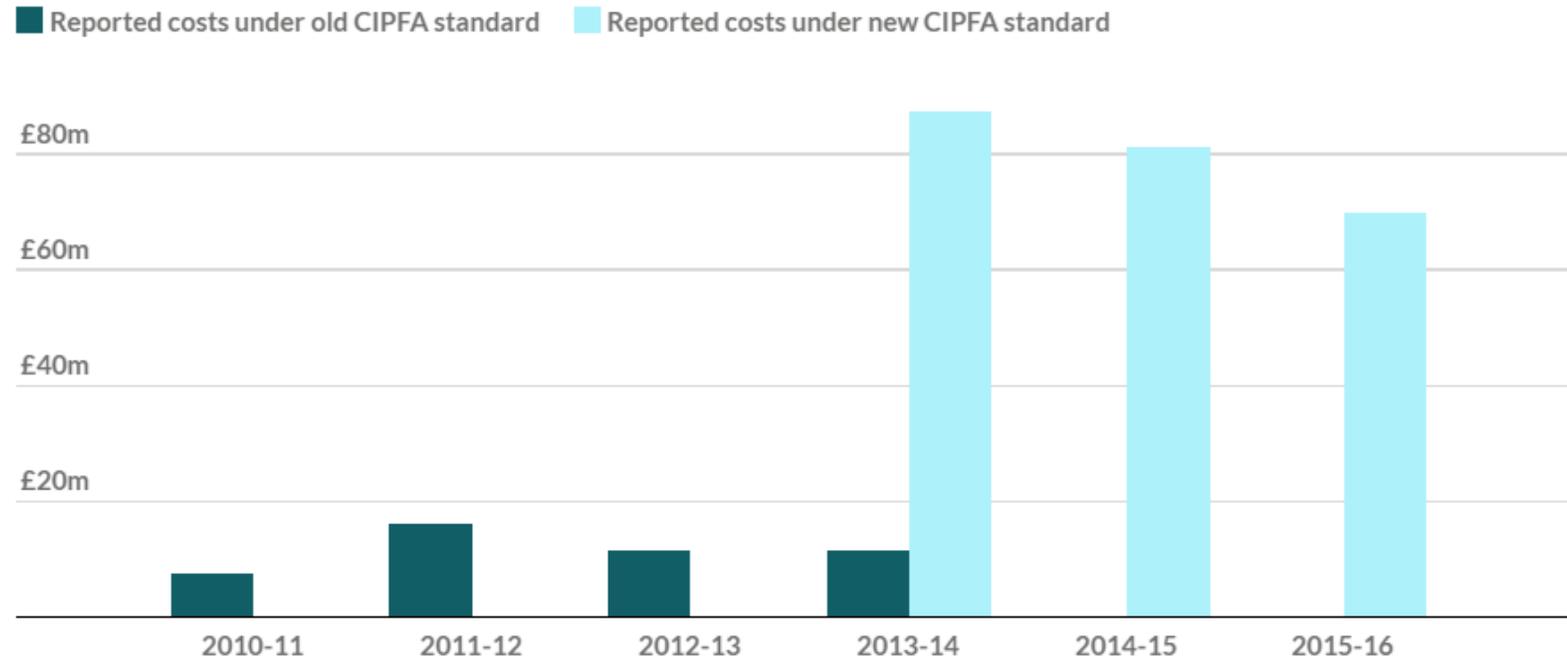
Hedge Fund Costs – Aon Fiduciary Analysis (Illustrative)



Source : XTP

West Midlands Pension Fund

West Midlands Pension Fund investment management costs



Source: <https://www.professionalpensions.com/professional-pensions/analysis/3010860/how-west-midlands-cut-costs-by-millions-of-pounds-through-transparency>

Cost Transparency – Why now?

1

Financial Conduct Authority

FCA Asset Management Study in 2017 identified the lack of cost transparency as a key issue within the UK institutional investment market

The Institutional Disclosure Working Group (IDWG) was set up in 2017 with a remit of creating cost disclosure templates

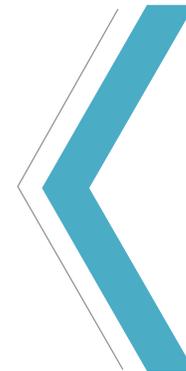
3

Cost Transparency Initiative (CTI)

Formerly launched IDWG templates in 2019.

Voluntary (currently!) initiative.

Well over 100 asset managers already been asked by asset owners for data



Competition and Markets Authority

Set a series of remedies for fiduciary management and investment consulting industries.

Compulsion for Fiduciary Managers to provide improved cost disclosure data to prospective and existing clients from 2020

2

Cost Transparency – Why now?



4

Department for Work and Pensions

Introduced a legislative requirement from October 2020 for enhanced disclosures in Trustees' Statement of Investment Principles.

Report policy for evaluation of asset management and transaction costs



Work and Pensions Select Committee

August 2019 – recommended UK government introduces legislation to make the use of CTI templates mandatory

'...worrying evidence that some trustees are making investment decisions without a clear understanding of how much those decisions cost'

5

Increased pressure on both asset managers and asset owners

CTI User Cost Template



PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

THE
INVESTMENT
ASSOCIATION

Local Government Pensions
SAB
England and Wales

USER SUMMARY v.1.0

1. ACCOUNT INFORMATION					
Client/Investor					
Portfolio issuer					
Fund					
Report period		Start:		End:	
Currency of report					
Average value of client holding					
2. PORTFOLIO INVESTMENT ACTIVITY					
Start asset value					
End asset value					
Purchases					
Sales					
IMPLIED OVERALL INVESTMENT GAIN / PERFORMANCE (%)					
3. PORTFOLIO TRANSACTION COSTS					
GROSS RETURN (%)					
4. ONGOING CHARGES					
4.1. Investment management					
4.2. Administration					
4.3. Governance, regulation & compliance					
4.4. Distribution, communications & client service					
Total ongoing charges					
5. INCIDENTAL COSTS					
NET RETURN (%)					
6. ONE-OFF COSTS					
7. ANCILLARY SERVICE CHARGES					
CLIENT RETURN (%)					

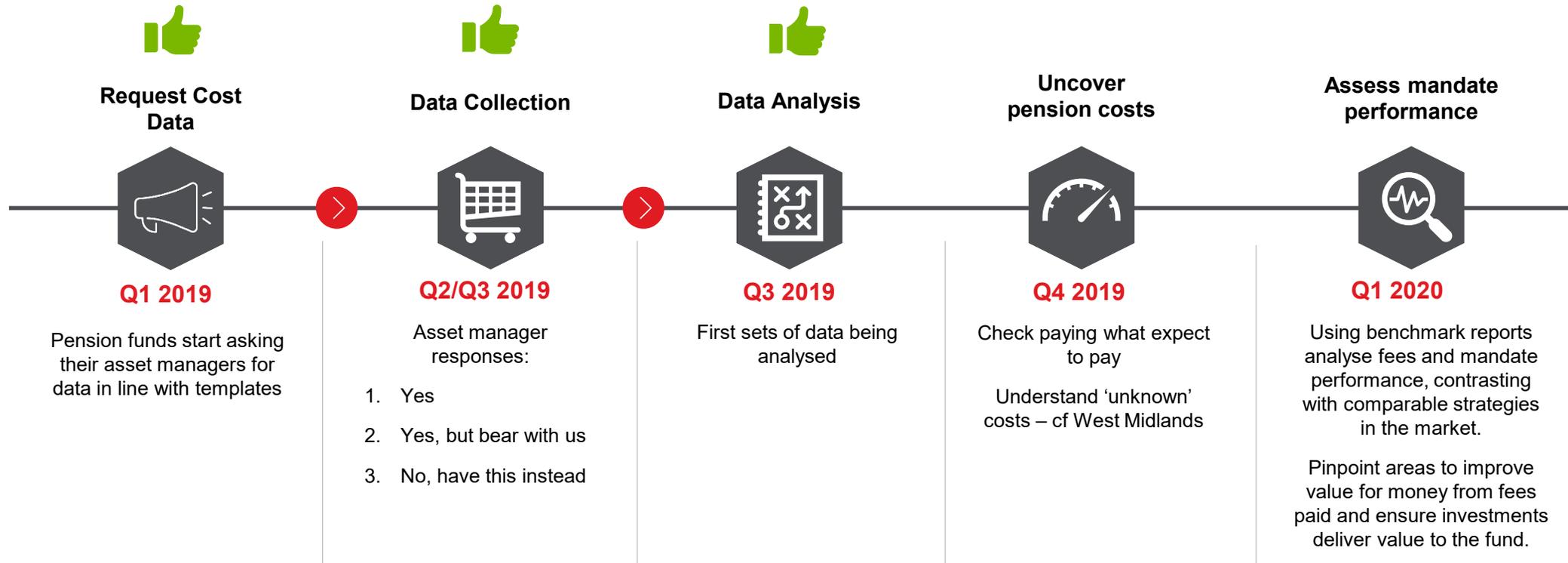
Source : CTI website

Context is important - Benchmarking

Mandates	Comparison to:	Fees vs AUM	Fees vs Performance Quadrant	Pro-rata expenses?	Expense line to review?	Page
<p>Summary explanation:</p> <p>Mandate x: Your individual mandate</p> <p>Comparison to equivalent mandate strategies in the market</p> <p>Market percentiles: 0, 50th, 100th</p> <p>Implied £ gap</p> <p>Relative position of overall costs vs the market</p> <p>Lower performing: higher fees Higher performing: higher fees</p> <p>Lower performing: lower fees Higher performing: lower fees</p> <p>Are the fees charged for a mandate in proportion with the AUM of the fund overall?</p> <p>Identifies the expense line that may warrant further review as being relatively above the market</p> <p>Implied £ gap</p> <p>#</p>						
Mandate 1: UK Equity Fund	UK Large Cap Equity strategies	0 50 th 100 th 		—	Administrative costs £50k	12
Mandate 2: Fixed Income Fund	Fixed Income strategies	0 50 th 100 th £1.6m		↑	Portfolio transaction costs £1.1m	13
Mandate 3: Emerging Fund	Emerging market strategies	0 50 th 100 th £850k		—	Investment management fees £750k	14
Mandate 4: Private Equity Fund	Private Equity strategies	0 50 th 100 th 		↓	Ancillary service costs £75k	15

Source: Aon. Example benchmarking metrics

UK Market Reaction

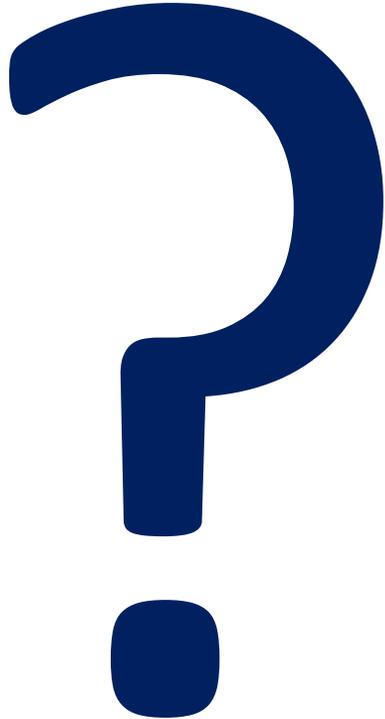


Are you receiving value for money?



DB PENSIONS: DE-RISKING FOR THE FUTURE

Q&A



Evelyn Ryder, Aon

Neil Smith, Aon

Jerry Moriarty, IAPF

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UPCOMING EVENTS

DATE	EVENT
17 September	Trustee Network Event 'Securing Income from European Renewable Energy Investments'
3 October	Benefits Conference
16 October	Trustee Training Essentials
22 October	Breakfast Seminar
23 October	Trustee Training Refresher
5 November	Trustee Network Event
14 November	Trustee Network Event
20 November	Trustee Training Essentials
28 November	Governance Conference
4 December	Trustee Training Refresher
5 December	Trustee Network Event



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