

# **Railway Pension Scheme: Our Transformation**

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# 2 Agenda

- Why me?
- Structure of the Railways Pension Scheme
- Investment Transformation Programme
- Cost discovery – uncovering the hidden costs
- RPMI costs
- Annual checklist

# <sup>3</sup> The Railways Pension Scheme

- Assets of £25 billion
- Split into 27 Pooled Fund segments
- Managed by circa 100 investment managers
- Owned by 113 pensions scheme sections

## What did ITP involve?

- A review of the Trustee's investment beliefs;
- A fundamental evaluation of the organisational culture and governance processes employed in the management of investments.
- A focus on the “value chain”, which looks at alignment of interests across the investment process. This includes cost awareness.

# Cost awareness

“I spent a lot of money on booze, birds, and fast cars. The rest I just squandered.”

— George Best

What gets measured can be managed

- continued improvement in cost discovery, measurement and monitoring
- increased transparency – uncover hidden costs

Input into investment decision making

Aim to improve value add for given level of risk

# Costs – uncovering hidden costs

	2011 Actual £m
External manager fees	46.4
Internal costs	11.3
External suppliers	20.3
<b>Total Direct Costs</b>	<b>78.0</b>
Transaction costs	15.9
PE indirect costs	121.6
Other pooled fund costs	74.4
<b>Total Indirect Costs</b>	<b>211.9</b>
<b>Total Costs</b>	<b>289.9</b>
<b>% of Assets</b>	<b>1.69%</b>

# Uncovering hidden costs – an example

## Statement of Operations Year Ended December 31, 2015

### Expenses

Management fee, net	10,305,870
Professional fees	421,709
Other expenses	108,088
Deal related fees	6,746
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Total expenses	10,842,413
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## Statement of Changes in Partners' Capital Year Ended December 31, 2015

	General Partner	Limited Partners
<b>Balance at December 31, 2014</b>	\$ 25,069,044	\$ 378,479,152
Capital contributions	3,258,818	243,808,798
Capital distributions	(3,495,248)	(124,359,533)
Pro-rata net increase from operations	2,686,095	80,327,779
Recovery of waived management fees	3,076,572	(3,076,572)
Incentive allocation	15,387,923	(15,387,923)
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<b>Balance at December 31, 2015</b>	\$ 45,983,204	\$ 559,791,701
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# 8 Uncovering hidden costs – an example

## Related Party Transactions

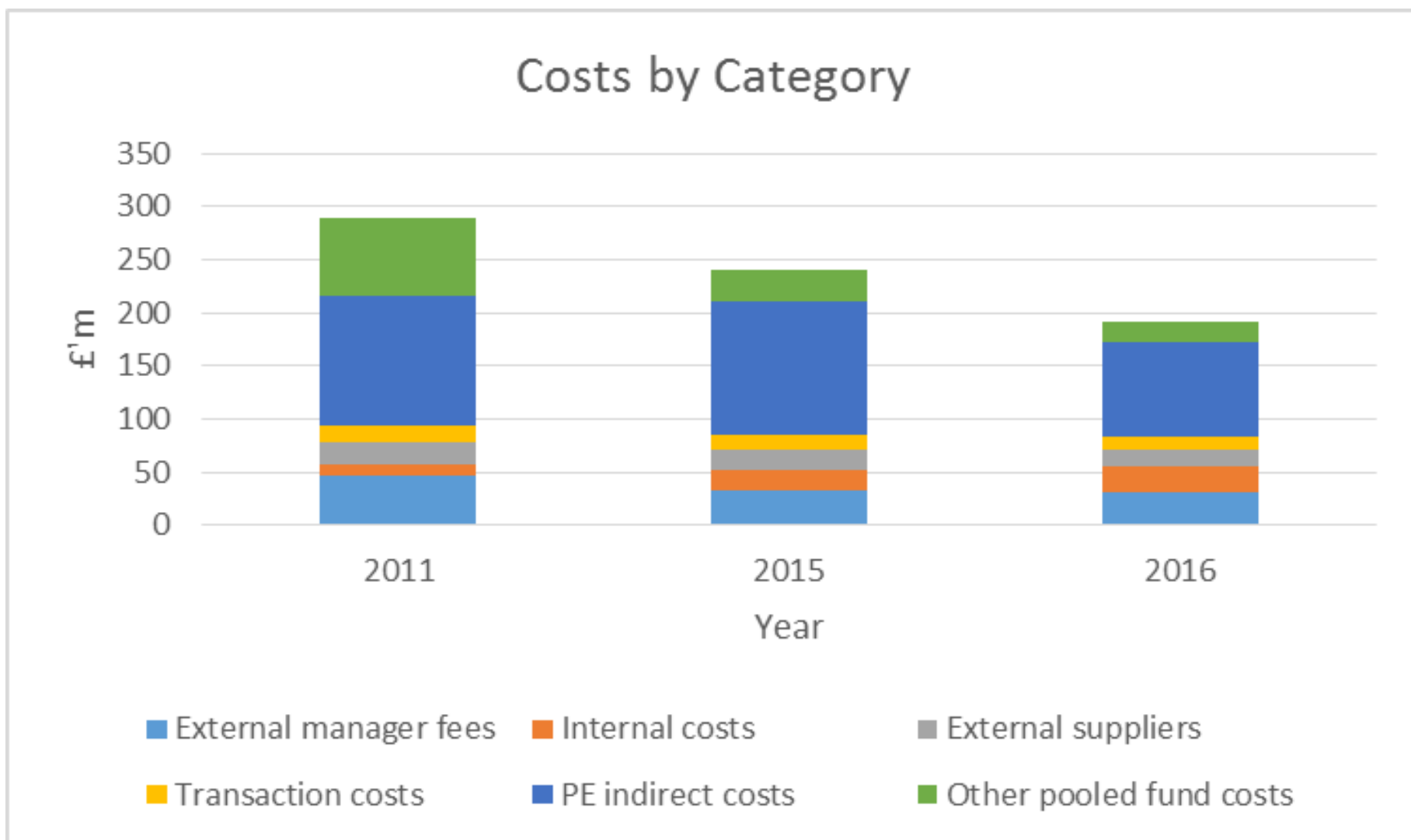
investments. The management fee will be reduced further by fees received during the preceding quarterly period by the General Partner for certain activities described in the Agreement. Management fees were reduced for fees received of \$893,269 for the year ended December 31, 2015. At December 31, 2015, there were no additional fees received during the preceding period that are available for future offset.

## Income and Expense Allocation

in proportion to their respective contributions. During the year ended December 31, 2015, the General Partner received a priority allocation of \$3,076,572 to reflect the effect of cumulative waived management fees for deemed contributions as of the balance sheet date. In addition, during the year ended December 31, 2015, the General Partner received carried interest allocations of \$15,387,923. Carried interest is allocated but not paid to the General Partner until



# Costs – flight path



# Costs – The “Big Picture”

	2011 Actual £m	2015 Actual* £m	2016 Budget £m
External manager fees	46.4	33.0	31.1
Internal costs	11.3	18.7	23.9
External suppliers	20.3	19.8	16.4
<b>Total Direct Costs</b>	<b>78.0</b>	<b>71.5</b>	<b>71.4</b>
Transaction costs	15.9	13.2	12.3
PE indirect costs	121.6	125.5	89.6
Other pooled fund costs	74.4	30.4	19.0
<b>Total Indirect Costs</b>	<b>211.9</b>	<b>169.1</b>	<b>120.9</b>
<b>Total Costs</b>	<b>289.9</b>	<b>240.6</b>	<b>192.3</b>
% of assets	1.69%	1.06%	0.82%

# 11 Annual Checklist

What?	When?
Identify all pooled investment vehicles (PIV) in all mandates	At the year end
Write to managers to ask for transaction costs	January
Write to managers and obtain audited accounts for each PIV	Throughout the year, normally complete about September
Review each set of accounts and extract total costs	Q4
Split costs into different types	Q4
Extrapolate to work out our share of the costs	Q4
Sample check accounts back to the LPAs	Q4
Budget costs for the coming year by using the bp calculated above, and asset projections	Q4

# Pitfalls

- Managers don't respond
- Managers don't send audited accounts
- Managers don't send transaction cost information
- Accounts will normally be for the fund as a whole, not just your pension scheme
- Even when you have all the information it's tricky!

**Thank You  
and  
Good Luck!**