

National Grid UK Pension Scheme (NGUKPS) is a £19bn Defined Benefit pension scheme with over 100,000 members. Although currently cost transparency reporting is not a requirement for DB schemes, as it is for Defined Contribution schemes, in 2018 the trustees of the NGUKPS challenged us to provide more information on overall Scheme costs, including full transaction costs.

We started by assessing what we knew and produced a spreadsheet detailing all the external manager fees we paid under invoice as well as fees and charges levied within pooled structures and paid for by way of an encashment of units. We then analysed financial statements from private equity and other illiquid asset General Partners, but found these difficult to interpret as the language and the information across managers was inconsistent. Finally we added our own financial information such as business and third party administrative service costs. Despite a reasonably complete spreadsheet it was clear that even having spent significant time and effort internally populating it, we still didn't have a complete picture and frankly it added little value in its current format. The different reporting methodologies by each manager and the lack of any information around implicit trading costs only told us half a story.

We realised quite quickly that if we wanted to provide our trustees with better information we would need to consider outsourcing the collection of data to an industry professional information provider. We felt that using an expert who knew what information to ask for, and would be able to extract appropriate information from a variety of different reporting formats, would ensure we got a better quality of output and of course we had an added bonus in that as their universe of UK clients grew we would benefit from being able to benchmark our costs against similar schemes.

We agreed our requirements to provide cost data for the Scheme year 1 April 2017 to 31 March 2018. We simply provided the utility with a list of mandates and manager contacts and let them speak directly to our investment universe. At that time there was little reporting standardisation and we were aware that information was delivered in many different formats. It would have been time consuming and difficult for us to untangle the reports and take what we needed, but our provider had mapping tools and within three to four months they had received all the information they needed and were able to present back to us our total cost of ownership.

At this stage, although interesting, we didn't have anything to compare against, so last summer we repeated the exercise asking for 31 March 2019 data. By then most of our managers were following the Cost Transparency Initiative (CTI) approach and were able to provide information in standard templates. We were also able to get detailed cost information around slippage and financing costs which we hadn't received before and the whole process was far more timely and efficient. Having two years of data allowed us to be comfortable reporting our findings to the trustees. It is fair to say that whilst the total cost of investment increased compared to our own internal work, we feel confident the Scheme is well managed in regards to investment costs.

We have now embarked upon a third year with CTI and our information provider and with three years of data we intend to provide our trustees with much more detailed management information and trend analysis, enabling them to assess and challenge themselves on achieving value for money, an objective which aligns to the sponsoring employers values. CTI has provided the trustees with previously unknown information allowing a full cost of ownership to now be possible. Additionally trustees can be comfortable that as managers

become more familiar with the templates and they design their internal systems to download data directly into them, the output being produced is consistent and transparent. Should reporting legislation change for DB schemes in the future, the work we have done using CTI has put us very much on the front foot and well placed to comply with any new regulatory requirements.