

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 MARCH 2018	AGENDA ITEM NUMBER
TITLE:	Brunel Pension Partnership – Update on pooling	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report: Appendix 1 – Draft Minutes of Brunel Oversight Board meeting Exempt Appendix 2 – Brunel paper on Passive Portfolio Appendix 3 – APF Brunel Risk Dashboard Exempt Appendix 4a – Mapping of assets to Brunel Portfolios Exempt Appendix 4b – Portfolio Specifications Exempt Appendix 5a – Project plan for transition of Avon’s assets Exempt Appendix 5b – Risk Register for transition of assets project</p>		

1 THE ISSUE

- 1.1 This report outlines the progress on pooling of assets.
- 1.2 The focus for 2018 is on the transition of assets to the Brunel portfolios. The quoted asset portfolios have been finalised and considered by the Client Group. The transition plan is being developed, including the structure of the portfolios, by Brunel.
- 1.3 The 10 Brunel funds have been asked to indicate the assets that will be transferred into the Brunel portfolios, particularly for quoted assets. The committee is asked to consider the mapping of Avon’s assets.
- 1.4 The Fund is developing its own project plan for transitioning its assets to Brunel. The plan will be consistent with Brunel’s timetable; it will identify governance considerations and risks for the Fund and Committee.
- 1.5 A verbal update will be provided at the meeting.

2 RECOMMENDATION

That the Committee:

- 2.1 **Notes the progress made on pooling of assets.**
- 2.2 **Agrees the mapping of Avon’s passive and actively managed equity and bond assets to Brunel portfolios**
- 2.3 **Agrees the mapping of non-quoted assets subject to finalisation of the portfolio specifications.**
- 2.4 **Agrees to delegate the confirmation of allocation and value of assets to be transferred to each Brunel portfolio to Officers.**
- 2.5 **Notes the project plan for the transition of assets.**

3 FINANCIAL IMPLICATIONS

- 3.1 The budget for 2018/19 is included in the Service Plan budget elsewhere on the agenda. The estimated fees that Avon will pay to Brunel has been calculated in line with the pricing policy that was agreed for 2018/19. As this is a year of transition, the fees are based on a mixture of equal 1/10ths and AUM.
- 3.2 In addition the Client Group and Oversight Board agreed a contingency of £225k to support the local funds in transitioning to the new custodian during 2017/18 and 2018/19. This is to ensure there will be adequate support from Brunel and the custodian above that provided in the business case which was set on the basis that all the funds transitioned within a short time frame by 31/03/18. This will not be achieved due to local fund considerations. This extra spend has been approved by the Shareholders as a Special Reserved Matter. As yet none of this contingency has been used. Our budget for Project Brunel for 2018/19 will not be adjusted until this contingency is used.

4 PROGRESS UPDATE

4.1 Governance:

- a) The Brunel Oversight Board (BOB) has held 2 meetings on 18 January and 22 February. BOB agreed that the minutes of its meetings can be shared with Pension Committees as private papers. The draft minutes of BOB 18 January 2018 meeting are in Appendix 1.
- b) The Client Group has continued to meet twice monthly; the focus is on agreeing the investment portfolios and priorities/timetable for the asset transition plan. Sub-groups have been established to work closely with Brunel on specific areas. Avon is represented on 3 sub-groups, Investments, Financial and Responsible Investing.
- c) Brunel is still waiting for authorisation from the FCA.

4.2 Investments:

- a) Brunel is undertaking significant work to create the portfolio structure to ensure both the initial transition of assets and the portfolios once operating are managed efficiently with regard to transaction and taxation costs.
- b) The portfolio specifications for the quoted asset portfolios have been considered by the Client Group and BOB. As the Private Markets team is now in place work is starting on the private market portfolio specifications which are due to be agreed early in 2Q18.
- c) Brunel has started the process to select a passive manager for the pool. Exempt Appendix 2 is a reference paper prepared by Brunel to explain their approach to this selection process.

4.3 Operational/Financial:

- a) Brunel's 2018/19 Business Plan and Budget was agreed by the Shareholders at the AGM in January 2018.
- b) Brunel has provided each Fund with the fees to be payable to Brunel in 2018/19 in line with the agreed pricing policy for 2018/19 (whilst in transition).

- 4.4 The Avon Brunel Risk Dashboard is in Appendix 3.

5 MAPPING OF ASSETS TO BRUNEL PORTFOLIOS & PROJECT PLAN

5.1 Now that the portfolio specifications for quoted assets have been finalised, Avon can agree how it will map its quoted asset mandates to these portfolios. At this stage, the mapping is indicative to give Brunel information and data for its transition and portfolio planning. Each fund will be asked to confirm its allocation to each portfolio prior to the tender of managers for the portfolio. **As confirmation may not be aligned with Committee or Panel cycle, it is proposed that confirmation of allocation and value of assets to each Brunel portfolios is delegated to officers.**

5.2 The table in Exempt Appendix 4a shows the mapping of Avon's current portfolios to Brunel portfolios. It includes benchmarks, performance targets and indicative fee ranges of Brunel and our mandates. This mapping was considered by the Investment Panel at 21 February 2018 meeting and they agreed the mapping was in line with our strategic policy. The Portfolio Specifications are in Exempt Appendix 4b.

As the portfolio specifications are still draft for non-quoted assets, the mapping of current mandates to these portfolios can be agreed subject to confirmation of the final portfolio specifications. The portfolio specifications will be reviewed by the Panel once they are finalised.

5.3 Mercer will provide the Fund with assurance that each transition of assets to a Brunel portfolio will meet our strategic investment objectives.

5.4 Brunel will be managing the project to transition assets to their portfolios. Their plan will be closely monitored by the Client Group and BOB. In addition, Avon has its own project plan, see Exempt Appendix 5a, which is based on Brunel's current timeline for transitioning the assets to meet the financial targets in the Full Business Case. It should be noted that the timing of transitioning of assets is indicative; it will depend on a number of considerations including the complexity of the transition and market conditions. Avon's project plan identifies when the Committee may be asked to consider issues, and when the Client Group and BOB will be involved in the process.

5.5 Avon's project plan includes a Risk Register (see Exempt Appendix 5b) of risks specific to the transition for Avon. The Committee are asked to consider whether there are any other risks that should be added to the Transition Risk Register.

5.6 Avon's project plan for the transition will be monitored by the Committee at each quarterly meeting.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 EQUALITIES

10.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are considered in this report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Strategic Director of Resources) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	