

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 JUNE 2018	AGENDA ITEM NUMBER
TITLE:	Brunel Pension Partnership – Update on pooling	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft minutes of Brunel Oversight Board meeting Exempt Appendix 2a & b – Brunel paper on Passive Portfolio Manager Appointment Exempt Appendix 3a – Project plan for transition of Avon’s assets to Brunel portfolios Exempt Appendix 3b – Risk Register for transition of Avon’s assets to Brunel portfolios Appendix 4 – Internal Audit Report on Brunel Transition Appendix 5 – APF Risk Dashboard June 2018		

1 THE ISSUE

- 1.1 This report outlines the progress on pooling of assets covering governance, investments and operational/financial aspects of the pool.
- 1.2 The Investment Panel reviewed specific investment aspects at its meeting on 23 May 2018.
- 1.3 The Fund has its own project plan for transitioning its assets to Brunel, consistent with the Brunel project plan. The Fund’s plan identifies governance and risks for the Fund and Committee.
- 1.4 An audit has been undertaken on Avon’s project plan for transitioning its assets to Brunel and the governance arrangements for pooling. The audit assessed the framework of controls to be Level 5 – Excellent.
- 1.5 A verbal update will be provided at the meeting.

2 RECOMMENDATION

That the Committee notes:

- 2.1 the progress made on pooling of assets.
- 2.2 the updated project plan for the transition of assets.
- 2.3 the Internal Audit report.

3 FINANCIAL IMPLICATIONS

- 3.1 The management fees that Avon will pay to Brunel are included in the budget for 2018/19. They have been calculated in line with the pricing policy that was agreed for 2018/19.

4 PROGRESS UPDATE

4.1 Governance:

- a) Brunel Oversight Board (BOB) has met once since the March update report. The minutes of BOB meetings are attached in Appendix 1.
- b) The Client Group (CG) meets each month for a full meeting; there is also a weekly update call. The CG has 5 sub-groups to work closely with Brunel on specific areas namely, Services, Technical Accounting, Financial, Investment & Transition and Responsible Investments. Sub-group activity and output is discussed at weekly calls.

4.2 Investments:

- a) Brunel is creating a Tax Transparent Vehicle structure to ensure both the initial transition of assets and the portfolios once operating are managed efficiently with regard to transaction and taxation costs. Progress is on track.
- b) Brunel has selected the passive equity manager for the pool. Exempt Appendix 2a & 2b is a paper prepared by Brunel explaining the decision and impact on the Avon Pension Fund's Global Equity Low Carbon Fund. Mercer has confirmed that the transition to the Brunel portfolio will meet our strategic objective. The expected transition is in line with the project timetable.
- c) The portfolio specifications for the private market and alternative assets have been discussed with the Client Group and have since been..
- d) Brunel has started the selection process for two active equity portfolios, UK Equities and Low Volatility Equities.
- e) Brunel has appointed advisors to assist with specific aspects of the transition. An advisor will assist Brunel in analysing the transactional costs and implementation shortfall aspects of the Passive transition. Another advisor has been appointed to assist with the evaluation of the UK Equity and Low Volatility tenders.
- f) Brunel has published its Responsible Investing Policy. It includes all the aspects within Avon's current RI policy.

4.3 Operational/Finance:

- a) Brunel provides BOB with a business update at each meeting which includes monitoring of the budget and the transition plan. Due to timing of this meeting there is not an update on the 2018/19 budget as yet.
- b) Brunel is developing their Internal Control Environment for recording, monitoring and managing client assets and reporting to their clients. The systems required will be compliant with FCA standards. In addition, the accounting system is now in place.

- 4.4 The Avon Brunel Risk dashboard is in Appendix 5.

5 TRANSITION OF AVON ASSETS TO BRUNEL PORTFOLIOS

- 5.1 At the March Committee meeting the Committee agreed the mapping of the Avon mandates to the Brunel portfolios, subject to the final portfolio specifications for private markets being reviewed by the Panel. The Panel at its meeting on 23 May 2018 confirmed these are in line with the Fund's strategic objectives at the asset class level. Officers are in discussions with Brunel about some explanatory wording in the specifications.
- 5.2 Avon's project plan for the transition of its assets (see Exempt Appendix 3a) which is based on Brunel's current timeline for transitioning the assets has been updated since the last Committee meeting. The timing of transitioning of assets is still subject to change but further granularity has been provided since the previous version; actual timing will depend on a number of considerations including the complexity of each transition and market conditions. Please note that this plan only includes the portfolios relating to Avon mandates; additional portfolios will be established along the same timelines. Avon will only be responsible for the transition costs relating to the portfolios the Fund invests in.
- 5.3 Avon's project plan includes a Risk Register (see Exempt Appendix 3b) of risks specific to the transition for Avon. There are no changes to this since the March Committee meeting.
- 5.4 Once assets transfer to the Brunel Portfolios, the Committee will receive a report showing the outcome for the Fund and for the pool.

6 INTERNAL AUDIT REPORT ON THE TRANSITION OF AVON ASSETS TO BRUNEL PORTFOLIOS

- 6.1 Internal audit have completed a review of the controls and governance arrangements for pooling and the plan for transitioning Avon's assets to the Brunel portfolios. The Audit recognised that the transition plan itself is the responsibility of Brunel; the focus of the audit was Avon's own plan for transitioning and the governance around it and pooling in general.
- 6.2 The audit assessed the framework of controls as level 5 – Excellent (see Appendix 4 for the report).

7 RISK MANAGEMENT

- 7.1 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.

8 EQUALITIES

- 10.1 An equalities impact assessment is not necessary.

9 CONSULTATION

- 9.1 The Investment Panel is consulted on investment related issues.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

- 10.1 Are considered in this report.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer and Section 151 Officer has 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	