

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	10 SEPTEMBER 2018	AGENDA ITEM NUMBER
TITLE:	Brunel Pension Partnership – Update on pooling	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Private Markets Investment process Exempt Appendix 2 – Private Markets Allocation Policy (draft) Exempt Appendix 3 – Secured Income Portfolio Exempt Appendix 4 – Approach to Stewardship and Stock Lending Exempt Appendix 5a – Project plan for transition of Avon’s assets to Brunel portfolios Exempt Appendix 5b – Risk Register for transition of Avon’s assets to Brunel portfolios		

## **1 THE ISSUE**

- 1.1 This report outlines the progress on pooling of assets with specific reference to the investment activities.
- 1.2 Brunel’s transition plan has been refined providing more detail on the transition to the equity portfolios offered by Brunel. It is monitored by the Client Group Investment sub-group on a regular basis.
- 1.3 The Avon Risk Register for the transition of its assets to Brunel is included as an appendix.
- 1.4 A verbal update will be provided at the meeting.

## **2 RECOMMENDATION**

**That the Panel:**

- 2.1 Notes the progress made on pooling of assets.**
- 2.2 Notes the project plan for the transition of assets.**

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The 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. As this is a year of transition, the fees are based on a mixture of equal1/10ths and AUM. In later years a greater element of costs will be paid via portfolio fees.

### **4 PROGRESS UPDATE**

#### **4.1 Investments:**

- a) Brunel has appointed FundRock as operator of the ACS (Authorised Contractual Scheme, the Tax Transparent vehicle) for the c. £7.5 billion of actively managed equity assets for the pool. The private market and passively managed assets will not be held within the ACS. An ACS structure will ensure both the initial transition of assets and the portfolios once operating are managed efficiently with regard to transaction and taxation costs.
- b) The passively managed assets transitioned to LGIM in July in line with the transition timetable. Avon transitioned its Low Carbon Global Equity Fund (c. £480m) to LGIM. The transition report will be issued to the Client Group once the transition advisor has completed its analysis.
- c) The tender process to select managers for the Active UK Equity portfolio and Low Volatility Global Equity portfolio is now in the final evaluation and due diligence stage. These portfolios are expected to be launched later in 2018 and will be the first portfolios held within the ACS.
- d) Avon will be transitioning its active UK Equity assets (c. 190m) into the UK Equity Portfolio. Mercer has confirmed that this will meet our strategic objective.
- e) Brunel has shared their Investment Manager Selection Policy and Investment Manager Accord with the Client Group. The Selection Policy sets out their approach to appointing managers; the Accord sets out their approach to the ongoing partnership with the selected managers.
- f) Brunel has consulted the Client Group on the process for managing Private Market assets and the Allocation policy for the Private Market Portfolios (the 5 private market portfolios are Private Equity, Private Debt, Property, Infrastructure and Secured Income) Brunel will act as an internal multi manager, selecting funds on the clients' behalf as legacy assets are realised over time. As with current externally managed private asset programmes, there will be regular commitment cycles in order that Brunel can benefit from scale when making investment decisions. The allocation policy for private markets has yet to be finalised. The principle of the policy is to ensure fair allocation based on the commitments made in each cycle where capacity permits, so that clients that invest in any one cycle will have similar performance outcomes. (See Exempt Appendices 1 and 2 for the Brunel papers, included for information only).
- g) Avon has made commitments to the Secured Income and Infrastructure portfolios in the 2018 commitment cycle in line with the Fund's strategic asset allocation with a 7.5% (new) allocation to Secured Income and a 2.5% (new) allocation to Infrastructure (with a significant focus on renewables). It should be noted that the Secured Income Portfolio may also include renewable

energy assets. Mercer has confirmed the allocations to these portfolios meet our strategic objectives.

- h) Brunel has prepared a paper for Avon regarding the selection of Long Lease Property Funds for the Secured Income Portfolio (see Exempt Appendix 3). Further funds will be selected for this portfolio over the next 18 months to fully commit Avon's allocation.
  - i) Following the publication of its Responsible Investing Policy, Brunel is developing the Stewardship and Stock Lending policies. The ACS gives Brunel greater control over both stock lending and voting.
    - The stock lending policy is aligned with Avon's current programme; however it will enable Brunel to have greater control over lending decisions around voting and market events.
    - The Stewardship Policy is being developed in conjunction with the Client Group's Responsible Investing sub-group. The ACS gives Brunel greater control over voting and the scale of Brunel potentially provides the opportunity for greater impact. There will be a single voting policy across Brunel. It includes all the aspects within Avon's current RI policy. Brunel is in the process for appointing its Engagement and Voting Overlay provider. See Exempt Appendix 4 for the Brunel update paper outlining the approach to Stewardship and Stock Lending.
- 4.2 Avon's project plan for the transition of its assets (see Exempt Appendix 5a) which is based on Brunel's current timeline for transitioning the assets has been updated. The timing of transitioning of assets is continuously reviewed by Brunel and the Client Group to ensure Client priorities are considered. 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.
- 4.3 Avon's project plan includes a Risk Register (see Exempt Appendix 5b) of risks specific to the transition for Avon.

## **5 RISK MANAGEMENT**

- 5.1 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.

## **6 EQUALITIES**

- 10.1 An equalities impact assessment is not necessary.

## **7 CONSULTATION**

- 7.1 N/a

## **8 ISSUES TO CONSIDER IN REACHING THE DECISION**

- 8.1 Report is for noting only..

## 9 ADVICE SOUGHT

9.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Liz Woodyard, Investments Manager 01225 395306
<b>Background papers</b>	Brunel Client Group, Oversight Board papers, Brunel papers
<b>Please contact the report author if you need to access this report in an alternative format</b>	