

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	21 SEPTEMBER 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 – Project plan for transition of Avon’s assets to Brunel portfolios Exempt Appendix 2b – Risk Register for transition of Avon’s assets to Brunel portfolios Appendix 3 – APF Risk Dashboard June 2018 Exempt Appendix 4 – Brunel: Secured Income Portfolio Paper Exempt Appendix 5 – Brunel: Stock Lending And Voting Policy Paper		

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 10 September 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 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.

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 June 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 now has 6 sub-groups to work closely with Brunel on specific areas namely, Services, Technical Accounting, Financial, Investment & Transition and Responsible Investments and Strategic & Governance (CG chair & vice chairs and Brunel exec). Sub-group activity and output is discussed at weekly calls.
- c) Client Group and Brunel are drafting the KPIs for monitoring all aspects of Brunel service that will be used for reporting back to BOB and Committees.

4.2 Investments:

- a) Brunel is creating an Authorised Contractual Scheme (ACS) to ensure both the initial transition of assets and the portfolios once operating are managed efficiently with regard to transaction and taxation costs. FundRock has been appointed as the ACS operator and progress to get it authorised for transitioning assets is on track.
- b) The transition to the passive equity portfolio was completed in July, in line with the timetable. The transition costs are still to be confirmed by the independent advisor. Initial analysis indicates they will show savings against the Business Case assumption.
- c) The selection process for the two active equity portfolios, UK Equities and Low Volatility Equities is nearing completion, on track with timetable. 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.
- d) The process for managing investments in private market and alternative assets has been discussed with the Client Group. Brunel will act as an internal multi manager, selecting funds on the clients' behalf as legacy assets are realised over time and new allocations are made. 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.
- e) The first commitment cycle for private market investments will close at end of September. Avon has made commitments to the Secured Income and Infrastructure portfolios in line with the Fund's strategic asset allocation of a 7.5% allocation to Secured Income and a 2.5% 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.
- f) Brunel's capacity to provide private market portfolios is ahead of the original Business case. Some Long Lease Property Funds have already been selected for the Secured Income Portfolio (see Brunel paper in Exempt

Appendix 4). Further funds will be selected for this portfolio over the next 18 months to fully commit Avon's allocation.

- g) Brunel has appointed advisors to assist with specific aspects of the transition. An advisor is assisting 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.
- h) Following the publication of its Responsible Investing Policy, Brunel is now developing its Stewardship and Stock Lending policies (see Exempt Appendix 5 that was discussed with BOB at July meeting). The ACS gives Brunel greater control over both stock lending and voting compared to investing via pooled funds.

4.3 Transition Plan:

- a) Avon's project plan for the transition of its assets (see Exempt Appendix 2a) 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. Avon will only be responsible for the transition costs relating to the portfolios the Fund invests in.
- b) Avon's project plan includes a Risk Register (see Exempt Appendix 2b) of risks specific to the transition for Avon. There are no changes to this since the March Committee meeting.
- c) Once assets transfer to the Brunel Portfolios, the Committee will receive a report showing the outcome of the transition.

4.4 Operational/Finance:

- a) Brunel provides BOB with a business update at each meeting which includes monitoring of the budget and the transition plan. The 17/18 outturn was below budget. At July BOB meeting the 18/19 expenditure was within the budget.
- b) Client Group and Brunel are reviewing the Original Business Case which forms part of the business planning, for actual savings for completed transitions, cost changes and revised assumptions due to known changes. This review will be ongoing during the transition.
- c) Brunel is developing their Internal Control Environment for recording, monitoring (including compliance) and managing client assets and reporting to their clients. The systems required will be compliant with FCA standards.
- d) Middle office administration for the private market portfolios is being put in place to support the management of these assets (cash management around drawdowns, distributions for example).

4.5 The Avon Brunel Risk dashboard is in Appendix 3.

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 The Investment Panel is consulted on investment related issues.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 Report is for noting.

9 ADVICE SOUGHT

9.1 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	