

## Brunel Oversight Board Meeting

### Minutes

**Purpose:** To review Brunel/Client progress agree next steps

**Date and time:** Wednesday 18 July 2018, 14:30 – 16:30

**Location:** Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU

**Dial-in details:** Dial In: 0330 336 1949 | Participant Pin: 889460

Pension Committee Representatives		
David Veale	Avon	
John Chilver	Buckinghamshire	Phone
Derek Holley	Cornwall	Phone
Rufus Gilbert	Devon	
Ray Bloxham	Devon	
Peter Wharf	Dorset	Apologies
Joanne Segars	EAPF	Phone
Hywel Tudor	EAPF	
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair
Mark Simmonds	Somerset	
Tony Deane	Wiltshire	
Member representative observers		
Andy Bowman	Scheme member rep.	
Ian Brindley	Scheme member rep.	
Fund Officers and Representatives		
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	Apologies
Sean Johns	Cornwall	Apologies
Mark Gayler	Devon	
Richard Bates	Dorset	
Craig Martin	EAPF	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	Chair – CG
Anton Sweet	Somerset	Apologies
Nick Weaver	Wiltshire	
Nick Buckland	JLT - Client Side Executive	
Sophie McClenaghan	JLT - Client Side Assistant	Minutes
Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	Apologies
Steve Tyson	Brunel Shareholder NED	
Matthew Trebilcock	Brunel, CRD	

Dawn Turner	Brunel, CEO	
Joe Webster	Brunel, COO	
Mark Mansley	Brunel, CIO	
David Anthony	Brunel, Head of Finance	
Richard Fanshawe	Brunel, HPM	
Faith Ward	Brunel, CRIO	

Item	Agenda	Paper provided	Owner
1	Confirm agenda Requests for AOB Any new declarations of conflicts of interest	Agenda  C of Interests	Chair
	<p>Apologies were received from Denise Le Gal and Peter Wharf.</p> <p>RG introduced Councillor Ray Bloxham (RB) who will be taking over as Devon's representative, and commented on how successful he felt the partnership was, and will continue to be. BOB thanked Rufus for his work with Brunel.</p> <p>Hywel Tudor (HT) was introduced as EAPF's deputy representative supporting JS.</p> <p><u>Conflicts of interest</u></p> <ul style="list-style-type: none"> <li>NB's relationship with Cornwall has now ended.</li> <li>HT is a pensioner and member of committee. This was noted for the minutes, but not recorded in the register as not deemed a Conflict of Interest.</li> </ul> <p>No AOB was received</p>		
2	Review 22 March BOB minutes	Minutes	Chair
	The March minutes were agreed and confirmed as final.		
3	<p>Brunel update report</p> <ul style="list-style-type: none"> <li>Summary management accounts</li> <li>Business activities and developments</li> <li>Personnel and recruitment</li> <li>Risk register</li> <li>Compliance, regulatory or legal matters (inc GDPR)</li> <li>Press coverage and website</li> <li>Investment update</li> <li>Transparency code</li> <li>KPI and SLAs</li> </ul>	Update report	MT/SC

	<ul style="list-style-type: none"> <li>• Brunel reporting</li> <li>• Business Case review update</li> <li>• Private markets</li> </ul>		
	<p>MT provided an overview of the Brunel update report which was included for noting. MT confirmed that any substantive items were included as stand-alone papers elsewhere on the agenda.</p> <p>Updates included:</p> <ul style="list-style-type: none"> <li>• Brunel has completed the custodian transition without being required to call on the additional £225k approved by Shareholders in November 2017. The matter is now closed and the additional funds are therefore no longer available to Brunel.</li> <li>• The terms of reference amendment was 100% approved by the Shareholders.</li> <li>• The passive transition commenced on 11<sup>th</sup> July 2018, includes 9 funds and £6bn of assets. As the transition is not fully complete final details are not yet known, but SC provided an update on estimated costs. The annual fee savings are estimated to be better than the original estimate (£1.8m vs £1m). In addition, the passive transition costs are estimated to be lower than expected (£1m vs £3m). A full written report confirming fee savings and finalised costs will be taken to the September meeting post the completion of the passive transition.</li> <li>• Brunel is in the process of selecting and appointing active UK and Low Volatility equity managers.</li> <li>• Brunel has begun working with the CG to review the business case. The business case review is timetabled to come back to BOB at the September meeting.</li> <li>• Development costs, prior to year-end Brunel was under budget for costs relating to development stages 3a&amp;b. Post year end, there were some late costs which meant that stage 3a&amp;b development costs were £89k over budget, however, overall development costs (stages 3a&amp;b and 3c) resulted in a total underspend of £570k. MM noted that often actions such as appointing a transition manager can result in large savings (i.e. transition cost savings) but will reflect a cost in the Company's budget and therefore it is important to keep the full picture in mind when evaluating Brunel's costs.</li> <li>• The £340k for private markets has not yet been agreed or incurred. This will be covered later under item 5.</li> <li>• JS asked if papers can clarify whether the intended audience is Clients or Shareholders. RT confirmed all papers at BOB are for members of BOB in their oversight capacity. Although some BOB members are Shareholders, not all are. Papers for shareholders will be provided separately.</li> <li>• There were data breaches reported by State Street (details were included in appendix 6). The cause of the breaches was quoted as human error, it was queried whether this was an indication of a systematic cultural issue. Brunel communicated</li> </ul>		

	<p>with State Street regarding the breach and State Street have reassured Brunel that they have further improved processes. It was noted the breach was not material in terms of data.</p> <ul style="list-style-type: none"> <li>• The transition to State Street has not yet been fully completed. The delay is due to some markets not yet having been opened. Brunel do not see this as a material risk however are working with State Street and the CG to finalise the transition.</li> <li>• Brunel has currently recruited to all posts in the business plan, however recruitment continues for any growth or turnover. The reported departure of a member of staff was discussed and her reasons for leaving noted; she has returned to her previous employer.</li> <li>• KPIs are being developed between Brunel and the CG. A lot of the KPI's will rely on management information so as Brunel develops its policies and procedures these will be included in the service level document. RT asked how company management and investment manager oversight will be differentiated for KPIs. Investment manager oversight will be monitored through ensuring Brunel follow its stated procedures to appoint managers and manage risk. The internal audit report will give additional assurance.</li> </ul>		
4	Remuneration committee report	RemCo report	ST/JW
	<p>JW presented the report and highlighted the recommendation. Brunel has reviewed the remuneration policy and is proposing 4 items of change.</p> <ol style="list-style-type: none"> <li>Maximum Chair and NED payments per annum, to be capped as set out in the report and reviewed by RemCo annually.</li> <li>Recognition Awards, to be capped at a reduced level per award and in total, as set out in the report..</li> <li>Salary caps, to be linked to CPI.</li> <li>External review, to be once every two years (word definition only).</li> </ol> <p>A query was received on the cap for the Chair and NED payments as when it was initially set up it was understood that costs would be higher in year 1 but this policy does not reflect any reduction in cost following year 1. JW responded that the requested policy is the cap for the Chair and NED and not the budget. The update is to ensure the remuneration policy includes the same wording as the contract letters already in place for greater transparency.</p> <p>It was clarified that the recognition awards are recognition of one off exceptional work and are not bonuses.</p> <p>SC as Chair of the CG confirmed its support of the above proposals.</p>		

	<p><b>The BOB supported the following recommendations:</b></p> <p><b>i. The Oversight Board support the revised Remuneration Policy and the issuing of a Special Reserve Matter</b></p> <p><b>ii. The Oversight Board note that during the year Brunel have been working within the Remuneration Policy</b></p> <p><b>These four items will be sent to Shareholders to request approval.</b> There will be a selection box for each of the four items, to avoid any possibility of a vote against one item affecting the rest.</p>		MT/ 20 July
5	Private markets <ul style="list-style-type: none"> <li>Business case for delivery</li> </ul>	Paper/ Presentation	DT/JW
	<p>JW presented the paper which detailed a proposal which, if supported would result in the issue of a Special Reserved Matter to Shareholders.</p> <p><i>The business case was explained and JW commented that additional budget was needed, as set out in the report, to realise estimated total savings of £70m by 2036.</i></p> <p>Brunel is proposing that it replaces the property multi-managers currently used by Funds as manager of the underlying portfolio of pooled property fund managers. Brunel is confident that it can do as good a job as the current multi-managers if it receives the additional budget. The private markets team have already shown their ability to replicate the service for lower cost by negotiating reduced management fees with two of the underlying funds.</p> <p>It was asked if other pools were likely to follow this approach. No other pool has as many pooled property fund holdings as the Brunel funds which currently have 146 underlying holdings between them.</p> <p>To enable Brunel to take on the role additional resource is required particularly with respect to the procurement of an administrator, hence the requested additional budget.</p> <p>JW confirmed that the budget provided has been calculated on a prudent basis and only accounts for 1 fund manager's agreed fee reduction. Brunel has since agreed a fee reduction with another manager and will continue to liaise with all of the underlying managers to negotiate on fees, and given the early signs is confident of a positive outcome.</p>		

	<p>The CG has worked with Brunel on the development of this model and has concluded that clients need to provide Brunel with the tools to realise the £70m saving to realise the business plan.</p> <p>Brunel's estimates are based on significant market research. By the time the business plan is finalised Brunel will have firm costs as part of the procurement.</p> <p>The resource required at Brunel to meet the current transition timetable is a significant risk to the pool and is reflected in the business plan. Resource constraints are being discussed with the CG.</p> <p>There is an understanding that the costs will be split by total fund AUM. The intent is that the funds that use it will pay for the service but it is acknowledged that the pricing policy will need amending to reflect this. Brunel and the CG will be working on this to ensure that the split of costs is equitable.</p> <p>Brunel has already interviewed for the additional post required to oversee the outsourced administrator and has a preferred candidate that will be offered the role provided BOB and shareholder support is received. Provided BOB support is received Brunel will commence the procurement process immediately however legal agreements will not be confirmed until after the shareholder vote is complete.</p> <p>This proposed model which uses a third party administrator is appropriate for all private market asset classes and appropriate for all Funds, however it was noted that unlike any of the other Funds, Dorset hold property directly, and therefore they will not realise any meaningful savings in relation to property at this time, but will benefit from the delivery of the remaining Private Markets portfolios that will be provided through this model.</p> <p>Third party administrator contract will likely be 5 years plus 5 and will be operated as a strategic partner. Brunel will have the ability to give notice if required. The administrator will be directly responsible to JW as COO.</p> <p><b>BOB agreed to support the following recommendation:</b></p> <p><b>The Oversight Board support the revised Private Markets business case and the issue of a Special Reserve Matter. The business case includes a 5% additional expenditure on the current year budget plus an ongoing cost thereafter. This expenditure enables material client fee savings to be achieved, which are otherwise at risk.</b></p> <p><b>A Shareholder reserve matter will be sent out to Shareholders shortly.</b></p>	<p>MT/ 20 July</p>
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6	Voting and stock lending policies <ul style="list-style-type: none"> <li>Engagement session</li> </ul>	Presentation	FW/MM
	<p><u>Stock lending</u></p> <p>MM provided a summary of stock lending. Most funds, but not all, do some stock lending. State Street have estimated that the income which could be received from stock lending is not dissimilar to the cost of running Brunel (around £5m). State Street will manage stock lending and is included as part of the administration contract.</p> <p>There will be a single Brunel Stock lending policy which can be switched on and off on a portfolio by portfolio basis. Brunel is building on LGIM's cautious stock lending policy to create its own policy.</p> <p>FW is working with MM on the policy as there are a number of responsible investment issues, specifically around voting, however FW is confident that these issues can be incorporated adequately.</p> <p>It was asked how Funds will receive the income. Income will be transparent in the value of units. Each client will receive 100% of the income derived from the stock lending of its proportional investment in portfolios with stock lending switched on. <b>The draft policy will come to the September BOB meeting.</b></p> <p><u>Stewardship policy</u></p> <p>The Stewardship policy will include Brunel's engagement and voting policies. Brunel is developing a UK policy and will utilise the stewardship manager for expertise in other geographies. There will be a single Brunel voting policy. FW estimates that there will be around 25,000 decisions per annum hence Brunel will employ a specialist to manage this process on its behalf. Brunel will look to arbitrate differing views from investment managers and will be mindful of the view of LAPFF although will not be led by it. FW reported on the timeline for development of the Stewardship policy, which included the <b>draft policy being tabled at the September BOB meeting.</b></p> <p>Brunel requested that if there are any particular areas where members have views to share these with the team as early as possible.</p>		<p>MM/ 27 Sep</p> <p>FW/ 27 Sep</p>
7	Shareholder NED role and report	Update report	MT/ST
	<p>ST provided an overview of his report, praising the partnership and the Brunel Company for so many achievements over the past year. ST noted that in a survey at a LGPS conference last week it was asked which pool is best placed for long term success. Brunel received 37%</p>		

	<p>of the votes, the highest of any pool.</p> <p>ST is concerned around resourcing of Brunel and believes the Company is operating at minimum requirements and acknowledges some key person risk. ST reiterated that Brunel has offered to attend committee meetings.</p> <p><b>It was requested that Shareholder NED update is added as a standing agenda item for future BOB meetings.</b></p> <p>It was queried if there will be a key person risk report. DT noted that key person risk is currently included as a risk in the Brunel Business Report. The September Remuneration Committee meeting will include a session on resilience and succession planning.</p> <p>There were several comments around the third bullet point in ST's report regarding the potential for streamlining Fund's investment strategies. There was a concern that this is being accepted as the future direction and a significant challenge to individual Fund's sovereignty. ST believes this is a future risk to the Funds and could be discussed at a later date.</p>		JLT/ 27 Sep
8	<p>AOB</p> <p>Future meeting dates</p> <ul style="list-style-type: none"> <li>- 27 September 2018</li> <li>- 1 November 2018</li> <li>- Cross Pool Forum 27 March 2018</li> </ul> <p>CP forum reps (x3)</p>		Chair/SC
	<p>RT asked whether Brunel would provide a short note on equity protection in due course. MM agreed to consider this for a future meeting.</p> <p>RT asked around the Hedge Fund portfolio. MM commented that there is a portfolio in the plan, but due the client demand and complexity of the asset class, it would near the end of the transition timetable. The plan will be developed over the coming months and years, and CG and BOB would kept informed of progress.</p> <p>SC commented that the CP forum reps have not been officially requested yet so this item was deferred to the September meeting.</p> <p>DA provided a hand out of the internal audit plan.</p>		

**Produced: JLT on 18/07/2018**