

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 September 2019</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>Brunel Pension Partnership – Update on pooling</b>	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<p>List of attachments to this report:</p> <p>Appendix 1 – Minutes of Brunel Oversight Board meeting</p> <p>Exempt Appendix 2– Project plan for transition of Avon’s assets to Brunel portfolios</p> <p>Exempt Appendix 3 – Risk Register for transition of Avon’s assets to Brunel portfolios</p> <p>Appendix 4 – APF Risk Dashboard March 2019</p> <p>Exempt Appendix 5 – Special Reserve Matter 16</p> <p>Appendix 6 – Pooling extract from Annual Report</p>		

## **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 reviews specific investment aspects at its regular meetings.
- 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 2019/20. They have been calculated in line with the current pricing policy. The fees and pricing policy have been approved by the Shareholders.

### **4 PROGRESS UPDATE**

#### **4.1 Governance:**

- a) Brunel Oversight Board (BOB) has met twice since the June 2019 update report. The minutes of the July 2019 meeting are attached, but no minutes are available for the meeting held on 26/09/19.. The next BOB meeting is 21 November 2019.
- b) The Client Group (CG) meets monthly with weekly update calls as required. Six sub-groups work with Brunel on specific aspects of the services to be delivered. Sub-group activity and output is discussed at each meeting/call.
- c) Work is progressing to provide full KPI monitoring of Brunel to BOB and CG. An assurance framework for monitoring the transition process by the CG is in place and CG provides independent assurance to BOB at the end of each transition. Quarterly investment performance reports covering all the operational portfolios are now provided by Brunel for BOB. CG considers a more detailed version as part of its monitoring process and will highlight any issues/ areas of concern to BOB. Each client receives its own quarterly investment performance report covering just the portfolios that the client is invested in.
- d) The 'business as usual' reports for monitoring all of Brunel's activities are being finalised by Brunel in conjunction with CG. This will consist of RAG reporting on agreed metrics and commentary on action taken by Brunel to bring back into line underperformance or areas of concern. A summary report will be considered by BOB which will include a RAG for each portfolio, and performance of each of the internal teams (Compliance & Risk, Investments, Operations) against their KPIs.
- e) Brunel is reviewing the governance arrangements to ensure they are aligned with best practice, operate efficiently, and are consistent with the operating model of Brunel now operational. A report is to be considered at September BOB meeting (update to be provided at committee meeting).

The review covers the Articles of Association, the Shareholders Agreement (not all the related policies) and the Services Agreement. The Client Group is working with Brunel on the review, with the intention of concluding the review during 2019. Any changes to the governance arrangements will require unanimous approval of the shareholders.

- f) One Special Reserve Matter was considered by BOB. See Exempt Appendix 5 for detail.
- g) Client engagement days have been scheduled for November on 12<sup>th</sup>, 13<sup>th</sup> and 19<sup>th</sup>. An invite has been circulated to all members. One of the aspects on the agenda will be Brunel's approach to Responsible Investing.

#### 4.2 Investments:

- a) The transition remains on track with the plan. The creation of the Emerging Markets Equity portfolio is nearing completion; the selection of managers for the Global High Alpha, LDI and DGF portfolios are in progress. The Investment Panel discussed the new portfolios and progress at its meeting on 02/09/19.
- b) Two more portfolios have been launched, Global Smaller Companies and Global Sustainable Equities for transition in 2020.
- c) Brunel provides quarterly reports covering investment performance and stewardship activity. These reports are now included in the Investment Panel meeting paper; Panel will highlight any issues or areas of concern via its normal reporting (covering all our managers) to Committee.
- d) Brunel is developing its Climate Change Policy.
- e) Avon's project plan for the transition of its assets (see Exempt Appendix 2) is based on Brunel's timeline for transitioning the assets. There is no change from June update. The timing of transitioning of assets is continuously reviewed by Brunel and CG 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.
- f) Avon's project plan includes a Risk Register (see Exempt Appendix 3) of risks specific to the transition for Avon.
- g) There have been no further transitions to report since June meeting.

#### 4.3 Operational/Financial:

- a) Brunel provides BOB with a business update at each meeting which includes high level monitoring of the budget and the transition plan. CG monitors the budget variances in detail on a quarterly basis, raising any issues with BOB. The outturn for 2018/19 was an underspend of £674k, of which £385k is to be carried into 2019/20 due to timing differences (agreed with CG), leaving a net underspend of £289k.
- b) Brunel's business plan and budget for 2020/21 is being developed and will be discussed with CG before initial consideration by BOB later this year /early 2020.
- c) The Business Case for pooling is updated following each transition, once fees and costs are known, and is reviewed by CG. To date only 3 portfolios have transitioned: UK equities, passive equities and Low Volatility equities. The actual savings and transition costs realised to date are ahead of the budget (i.e. savings are greater than estimated; transition costs are lower than expected). Following Avon's transition to each portfolio, Committee are provided with an update on fee savings and transition costs.
- d) From 2018/19, all LGPS funds are required to include information about pooling in their Annual Reports. The CIPFA guidance is prescriptive as to the data to be included, actual costs and savings against the Original Business Case (OBC,) which was based on 2016 asset allocation and fee rates, as opposed to current asset allocation and fees charged. As we are at very early

stage of the transition, timing differences to the OBC means that the current outturn differs to the OBC (see Appendix 6 for extract from Annual Report).

4.4 The Avon Brunel Risk dashboard is in Appendix 4. There are no changes.

## 5 BRUNEL WORKING GROUP

5.1 The Brunel Working Group has met twice since the June Committee meeting as follows:

a) 22 July 2019

- Discussed the BOB papers for meeting on 25 July 2019
- Discussed CEO resignation in light of letter to Shareholders from Brunel Board and Fund's view ahead of discussion at BOB

b) 21 August 2019

- Discussed SRM16 issued by Brunel to agree whether Fund will approve/reject (see Exempt Appendix 5).

## 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 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## 8 OTHER OPTIONS CONSIDERED

8.1 None.

## 9 CONSULTATION

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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<b>Background papers</b>	Client Group and BOB papers
<b>Please contact the report author if you need to access this report in an alternative format</b>	