

Bath & North East Somerset Council			
MEETING:	AVON PENSION FUND COMMITTEE		
MEETING DATE:	06 December 2019	AGENDA ITEM NUMBER	10
TITLE:	Brunel Pension Partnership – Update on pooling		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
<p>List of attachments to this report:</p> <p>Exempt Appendix 1 – Project plan for transition of Avon’s assets to Brunel portfolios</p> <p>Exempt Appendix 2 – Risk Register for transition of Avon’s assets to Brunel portfolios</p> <p>Appendix 3 – APF Risk Dashboard March 2019</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 once since the September 2019 update report. The minutes of the November 2019 meeting are not yet available. The next BOB meeting is in March 2020.
- 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) The Assurance Framework is now in place covering the transition of assets, monitoring of portfolios post transition and monitoring Brunel at the corporate level. Quarterly performance and KPI reporting is reviewed by BOB consisting of RAG reporting on agreed metrics and commentary on action taken by Brunel if underperformance or areas of concern including RAG reporting for each portfolio, and performance of each of the internal teams (Compliance & Risk, Investments, Operations) against their KPIs. Each client receives a fund specific quarterly investment monitoring report; CG reviews each portfolio in more depth on a quarterly basis and will highlight any issues/ areas of concern to BOB.
- d) A verbal update of the governance review will be provided at the meeting. Any changes to the governance arrangements will require unanimous approval of the shareholders.
- e) Client engagement days were held in November for Pension Committee and Board members. The focus was the investment portfolios and Responsible Investing.

4.2 Investments:

- a) The transition remains on track with the plan. Our Emerging Markets Equity assets have transitioned to Brunel's Emerging Markets Equity portfolio. Our Global Equity mandate managed by Schroders is transitioning to the Brunel portfolio. The selection of managers for the DGF, Global Small Cap and Sustainable Equity portfolios are in progress (all due to transition in 2020).
- b) Brunel's quarterly investment performance and stewardship activity 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.
- c) Brunel is developing its Climate Change Policy which is due to be published shortly.
- d) Avon's project plan for the transition of its assets (see Exempt Appendix 1) is based on Brunel's timeline for transitioning the assets. There is a slight delay in the transition for the Multi Asset Credit portfolio, but it does not affect the overall transition timeline. 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.

- e) Avon's project plan includes a Risk Register (see Exempt Appendix 2) of risks specific to the transition for Avon. There is no change in the risks.

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 projected outturn for current year is an underspend of £455k with £291k being carry forward to 2020/21, leaving projected underspend of £164k.
- b) BOB considered Brunel's business plan and budget for 2020/21 at its November meeting. The budgets are broadly within the cost envelope agreed as part of the 2018/19 Business Plan. Some custody costs that were in Brunel's budget will be charged direct to the ACS or Clients. The 2020/21 budget includes the appointment of the new CEO and an increase in resources to support the Responsible Investment service provision for clients.
- c) The FCA is changing the basis for calculating the regulatory capital requirements for asset managers. It is anticipated that this will mean extra capital will need to be raised from clients in mid-2020 to meet the new requirement.
- d) The Business Case for pooling is updated following each transition, once fees and costs are known, and is reviewed by CG. A high level review of the Original Business Case (OBC) is done annually. This shows Brunel remains on target to deliver savings of £718m, against the OBC target of £550m, with the break-even year still being in 2023. By 2025, fee savings are projected to be £34.5m (9.1 bps), compared to 8.9bps in the OBC. 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. fee savings are greater than estimated; transition costs are lower than expected). Following Avon's transition to each portfolio, the Committee is provided with an update on fee savings and transition costs.

4.4 The Avon Brunel Risk dashboard is in Appendix 3. There are no changes.

5 BRUNEL WORKING GROUP

5.1 The Brunel Working Group has not met since the September Committee.

5.2 SRM16 which was discussed at the September Committee meeting has been re-issued and approved by Avon in line with the recommendation from the Working Group at its meeting on 21/08/19.

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