

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>25 September 2020</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>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 2019ow</p> <p>Appendix 4 – Brunel Oversight Board Minutes</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 2020/21. 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 in recent months, in June and September. The minutes of the September meeting are not yet available; June minutes are in Appendix 4. The next BOB meeting is in December.
- b) The Client Group (CG) meets monthly with mid-month update calls as required. Five 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) Quarterly performance and KPI reporting is reviewed by BOB consisting of
  - (i) RAG reporting on agreed metrics and commentary on action taken by Brunel if there is underperformance or areas of concern for each portfolio,
  - (ii) Performance of each of the internal teams (Compliance & Risk, Investments, Operations) against their KPIs.

CG reviews each portfolio in more depth on a quarterly basis and will highlight any issues/ areas of concern to BOB. Any issues raised by BOB will be reported back to committee (verbal update due to timing). To summarise 2Q20 RAG reporting:

- (i) The listed active and passive portfolios are all rated green meaning there are no concerns with the portfolios
  - (ii) The private market portfolios are rated green; however, deployment of capital in some asset classes is slower than anticipated due to COVID-19.
  - (iii) There are no RED rated strategic risks.
- d) During the quarter an operational survey was issued to Clients by the Client Operations subgroup. The results were generally positive with an average rating of good in terms of overall service provision. Importantly it identified areas for development and a workplan has been agreed and will be taken forward by the client subgroups. This survey will be undertaken annually and the next survey will gauge the success of the work done on the items identified.
  - e) The recruitment process for the new CIO is in progress.
  - f) Client Group and Brunel are reviewing the governance arrangements. The objective of the review is to ensure communications between the relevant parties are effective and arrangements are updated for regulatory/legal changes. BOB have been updated as to progress. Any changes to the governance arrangements will require shareholder approval.
  - g) A verbal update of the September BOB meeting will be given at the meeting.

## 4.2 Investments:

- a) No assets transferred in 2Q2020. The transition remains on track with the revised plan that allowed for slight delays during 2Q20 due to market volatility as a result of COVID-19. Transitions resumed in July with Avon's DGF funds transitioning to the Diversified Returns Fund. The Global Small Cap Equity and Sustainable Equity portfolio transitions are due to complete in 4Q20. As at 30/06/20 Brunel managed £12.7bn of listed assets and commitments of £5.8bn in private markets on behalf of its clients.
- b) Avon's project plan for the transition of its assets (see Exempt Appendix 1) is based on the timeline agreed by Client Group and Brunel for transitioning the assets. The slight delay in the transition plan due to COVID-19 does not materially affect the overall transition timeline for Avon. 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.
- c) Avon's assets that have transitioned now total £2.96bn (using 30/06/20 values). In addition, Brunel invests in private assets on behalf of the Fund.

<b>Brunel portfolio</b>	<b>Value at 30/6/20</b>	<b>Transitioning Mandates / Managers</b>	<b>Date transitioned</b>
Passive Equities	£596m	Low Carbon Global Equities - Blackrock	July 2018
UK Equities	£167m	UK Equities - TT International	Nov 2018
Emerging Market Equities (EM)	£233m	EM Equities – Genesis, Unigestion	Oct 2019
Global High Alpha Equities (GHA)	£468m	Global Equities - Schroders	Nov 2019
Risk Management Strategies <sup>1</sup>	£1,000m	Blackrock LDI & EPS	Oct 2019
Diversified Returns Fund	£495m	DGFs – Pyrford, Ruffer <sup>2</sup>	July 2020
<i>Secured Income</i>	<i>£110m</i>	<i>n/a</i>	<i>n/a</i>
<i>Renewable Infrastructure</i>	<i>£40m</i>	<i>n/a</i>	<i>n/a</i>

<sup>1</sup> Brunel only appoint manager for the RM strategies; Avon retain responsibility for all other aspects.

<sup>2</sup> The allocation to DRFs has been reduced; therefore, part of the allocation to Ruffer has been retained and will be sold down to fund the private market allocations

- d) 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. The portfolios are all in line with expectations. Performance of the UK Equity portfolio has improved in recent quarters.

- e) Brunel have been assessed by PRI as part of their annual appraisal programme, achieving above average scores of A/A+ for relevant modules. In addition, Brunel Pension Partnership (the pool) has been awarded Environmental Finance's Pension Fund of the Year award. This is in recognition of the successful efforts of the pool to take effective leadership on responsible investment.
- f) 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 £115k.
- b) Brunel is reviewing its level of regulatory capital to ensure it continues to meet FCA Regulatory Capital requirements sand still maintaining an efficient balance sheet. The main issue is the short-term volatility of the pension deficit on the accounting basis, which is included in the regulatory capital calculation.
- c) The Business Case for pooling is updated following each transition, once fees and costs are known, and is reviewed by CG. Brunel as a pool is on target to deliver savings in the OBC (£550m), with the break-even in 2023. To date 5 listed market portfolios have transitioned: UK, passive, Low Volatility, Emerging Markets and Global High Alpha Equities with the Diversified Returns Fund transition yet to complete. In addition, Brunel have appointed a manager for LDI strategies on a bespoke basis. The actual fee savings and transition costs realised to date are ahead of the budget (i.e. fee savings on portfolios that have transitioned are greater than estimated; transition costs are lower than expected but mainly due to timing).
- d) Following Avon's transition to each portfolio, the Committee is provided with an update on fee savings and transition costs; the next update will be after DRF and Sustainable Equities complete.
- e) Avon's net savings achieved to date against the Original Business Case is reported in the Annual Report and Statement of Accounts in line with CIPFA guidance. For 2019/20 the disclosure is:

	2019/20			
	<i>Budget</i>		<i>Actual</i>	
	<i>In year</i>	<i>Cumulative</i>	<i>In year</i>	<i>Cumulative</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
Set Up Costs	-	1,265	-	1,072
Ongoing Brunel Costs	893	1,568	1,389	2,425
Avon internal savings	(267)	(525)	(215)	(430)
Transition Costs	4,067	7,024	2,824	3,796
Fee saving	(1,216)	(1,340)	(1,384)	(1,629)
<b>Net cost /(saving)</b>	<b>3,478</b>	<b>7,991</b>	<b>2,614</b>	<b>5,234</b>

The current position is that the Fund is ahead of the OBC despite higher ongoing costs of Brunel. Significant fee savings have been achieved on transitioned assets; however, transition costs, which is the least predictable variable are currently below expected costs.

4.4 There are no changes to the Avon Brunel Risk dashboard (see Appendix 3).

## **5 BRUNEL WORKING GROUP**

5.1 The Brunel Working Group met ahead of the June and September BOB meetings.

## **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 in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is 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 EQUALITIES**

8.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## **9 OTHER OPTIONS CONSIDERED**

9.1 None.

## **10 CONSULTATION**

10.1 The Council's Monitoring Officer and Section 151 Officer have 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>	