

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	11 December 2020	AGENDA ITEM NUMBER
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> <p>Appendix 4 – Brunel Oversight Board Draft Minutes</p> <p>Exempt Appendix 5 – Transition costs & savings update</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) met in December; the minutes of this meeting are not yet available; September draft minutes are in Appendix 4. The next BOB meeting is in January.
- 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 3Q20 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) David Vickers has been appointed as CIO and will take up the post in January.
 - e) 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.
 - f) A verbal update of the December BOB meeting will be given at the meeting.

4.2 Investments:

- a) Following a pause in transitions during 2Q20 due to market volatility as a result of COVID, transitions resumed in July with DGF funds transitioning to the Diversified Returns Fund; Global Small Cap Equity and Sustainable Equity portfolio transitions completed in September. Avon was involved in both the Diversified Return Fund and Sustainable Equity transitions.
- b) As at 30/09/20 Brunel managed over £19bn of assets on behalf of its clients.

- c) 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 has not materially affected 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. Note that the plan only includes the portfolios relating to Avon mandates; additional portfolios will be established along the same timelines. Avon will only be responsible for its share of the transition costs relating to the portfolios the Fund invests in.
- d) Avon's assets that have transitioned now total £3.19bn (at 31/09/20). In addition, Brunel invests £109.3m in secured Income and £40.2m in Renewable Infrastructure on behalf of the Fund. The investments in private Debt has yet to commence.

Brunel portfolio	Value at 30/09/20	Transitioning Mandates / Managers	Date transitioned
Passive Equities	£616.9m	Low Carbon Global Equities - Blackrock	July 2018
UK Equities	£0m	UK Equities - TT International	Nov 2018
Emerging Market Equities (EM)	£246.6m	EM Equities – Genesis, Unigestion	Oct 2019
Global High Alpha Equities (GHA)	£358.0m	Global Equities - Schroders	Nov 2019
Risk Management Strategies	£981.9m	Blackrock LDI and EPS	Oct 2019
Diversified Return Funds	£493.1m	Diversified Growth Funds – Pyrford, Ruffer (partial)	July 2020
Sustainable Equities	£494.0	Jupiter UK Equities, Jupiter Global Sustainable Fund, Brunel UK Equities, Brunel Global High Alpha (partial)	September 2020

- e) 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.
- f) Avon's project plan includes a Risk Register (see Exempt Appendix 2) of risks specific to the transition for Avon. Given Avon is nearing completion of its transition, the risks have reduced.

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 a small underspend (current estimate c. £500k).

- b) Following Avon's transition to each portfolio, the Committee is provided with an update on fee savings and transition costs; see Exempt Appendix 5 for the Diversified Return Fund analysis.

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 December BOB meeting.

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.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306
Background papers	Client Group and BOB papers
Please contact the report author if you need to access this report in an alternative format	