

| Bath & North East Somerset Council | | |
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| MEETING: | AVON PENSION FUND COMMITTEE | |
| MEETING DATE: | 26 March 2021 | 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</p> <p>Exempt 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 January; the minutes of this meeting are not yet available; December minutes are in Exempt Appendix 4. The next BOB meeting is in March.
- 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.

There were no RED rated strategic risks and CG have not raised any material issues with BOB.

- d) A number of decisions for approval are currently being considered by the Shareholders:
 - i. The Business Plan and Budget for 2021/22. The Business Plan focuses on 3 key client priorities, namely, improved client reporting, delivering the Paris aligned portfolios and increasing resilience in the private markets team. To accommodate this Brunel are proposing a 3% increase in the budget that was supported by CG and BOB.
 - ii. The appointment of a new Shareholder NED is in the process of being approved by the Shareholders. In addition, two new NEDS are being recruited.
 - iii. Changes to the Shareholder Agreement (SHA) for changes in regulations and the fact that Brunel PP Ltd is now operating.
- e) The next stage of the governance review is now underway with proposed changes being considered by CG and legal officers. The objective of the review is to ensure communications between the relevant parties are effective and arrangements are updated for regulatory/legal changes. Any changes to the governance arrangements will require shareholder approval.
- f) A verbal update of the March BOB meeting will be given at the meeting.

4.2 Investments:

- a) There have been no further transitions since the last update.
- b) The transition of the listed assets is nearing completion for Avon with only the Multi asset Credit mandate to transfer. 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. 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.

- c) Exempt Appendix 5 provides an update on fee savings and transition costs following the Global Sustainable Equities transition.
- d) Avon's assets that have transitioned now total £3.26bn (at 31/12/20). In addition, Brunel invests £133.9m in Secured Income and £48.1m in Renewable Infrastructure on behalf of the Fund. The investment in Private Debt has yet to commence.

| Brunel portfolio | Value at 31/12/20 | Transitioning Mandates / Managers | Date transitioned |
|----------------------------------|--------------------------|--|--------------------------|
| Passive Equities | £665.9m | Low Carbon Global Equities - Blackrock | July 2018 |
| UK Equities | £0m | UK Equities - TT International | Nov 2018 |
| Emerging Market Equities (EM) | £280.8m | EM Equities – Genesis, Unigestion | Oct 2019 |
| Global High Alpha Equities (GHA) | £390.9m | Global Equities - Schroders | Nov 2019 |
| Risk Management Strategies | £878.0m | Blackrock LDI and EPS | Oct 2019 |
| Diversified Return Funds | £508.0m | Diversified Growth Funds – Pyrford, Ruffer (partial) | July 2020 |
| Sustainable Equities | £538.8m | 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 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.
- 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. £100k).

- 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 updated for the Global Sustainable Equities portfolio.
- c) Business case review: the OBC is reviewed against actual costs and savings annually. The 2020 review forecasts savings in excess for the OBC for the pool as a whole at over £600m by 2036 and breakeven in 2024 which is a year later than originally forecast. For Avon the predicted savings are ahead of the OBC at c. £80m and the breakeven remains at 2024. These figures will be fully reviewed prior to disclosure in the 2020/21 Annual Report.

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 March 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.

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| 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 | |