

Pension Fund Committee

Dorset County Council



Date of Meeting	23 November 2017
Officer	Pension Fund Administrator
Subject of Report	The Brunel Pensions Partnership – project progress report
Executive Summary	At its meeting 7 January 2017, the Pension Fund Committee approved the Full Business Case (FBC) for the establishment of the Brunel Pensions Partnership. This report provides an update to the Committee on progress in implementing the FBC.
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: Extensive use of finance industry expertise has been drawn on during the development of the Full Business Case.
	Budget: Details of the expected costs of implementing the project are included in the report.
	Risk Assessment: Details of the expected risks of implementing the project are included in the report
	Other Implications: None.

Recommendation	That the Committee: (i) notes the progress establishing the Brunel Pension Partnership. (ii) confirms the Fund’s representation on the Brunel Oversight Board.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place.
Appendices	None.
Background Papers	Brunel Pensions Partnership Full Business Case
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1. Introduction

- 1.1 Following the Government's announcement in the July 2015 budget statement that they intended to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs, considerable work has been undertaken by the Fund, in conjunction with nine neighbouring funds, to set up the Brunel Pension Partnership.
- 1.2 Regular reports have been brought to this Committee at all stages of the process, with additional engagement events also being held to provide the opportunity for Committee members to provide input to the proposals. As required by Government an initial joint submission from the ten Brunel funds was approved by this Committee in February 2016 and a more detailed response in June 2016 which was submitted to the Government in July 2016.
- 1.3 At the additional meeting on 9 January 2017 the Committee resolved that the Brunel Pension Partnership investment pool be developed, funded and implemented in accordance with the Full Business Case (FBC), including the setting up of a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited (Brunel Ltd). This was then ratified by Council on 16 February 2017. The FBC had also been approved by the nine other nine participating administering authorities.
- 1.4 This report provides members with update on progress against implementing the FBC, in particular work that is now underway to form the company.

2. Establishment of Brunel Ltd

- 2.1 Brunel Ltd was formally created on 18 July 2017, with representatives from the administering authorities of each of the ten founding funds signing the shareholders agreement to establish the company. Each of the founding funds have made their first shareholder contribution of £300k towards the regulatory capital requirements of Brunel Ltd, with a second contribution of approximately £500k to be requested in December 2017.
- 2.2 The leadership team has been established in full and the recruitment of operational staff has progressed well, with most key posts now filled. In addition, the company has taken up occupation of its office space at 101 Victoria Street, Bristol, United Kingdom, BS1 6PU. The next major hurdle is for Brunel Ltd to achieve Financial Conduct Authority (FCA) approval, and the final forms were submitted early October 2017.
- 2.3 The Business Plan 2018-20 for Brunel Ltd will be reviewed by the Brunel Oversight Board at its next meeting 24 November 2017, prior to final agreement at the company's Annual General Meeting in January 2018. Each of the client funds has also been asked to confirm their arrangements for representation on the Oversight Board for the next 12 months.

3. Appointment of Administrator / Custodian

- 3.1 Each LGPS Fund employs a custodian bank (or banks) to safeguard its investment assets and process transactions. The Dorset Fund employs HSBC and Banque Pictet as their custodians for UK and overseas holdings respectively. Brunel Ltd will also need to appoint a custodian. However, the nature of the business they will be undertaking and the requirement for Financial Conduct Authority (FCA) regulation will mean that the role will be wider than the custodian's current role and will become a role defined by the FCA as an "administrator" rather than a custodian. In addition, the

ten underlying funds agreed that it would be beneficial for a common custodian to be appointed.

- 3.2 Following the result of a tender exercise, State Street Bank and Trust Company (SSBT) has been selected as the preferred provider, with contracts nearing completion. Transition to the new custodian is expected to take place in three tranches in November 2017, December 2017 and January 2018, with Dorset in the last of these three tranches.

4. Portfolio Development

- 4.1 Following the results of the triennial actuarial valuation most of the client funds have undertaken a review of their strategic asset allocation. As these reviews have now concluded, the client group has begun to review with Mark Mansley, Chief Investment Officer, Brunel Ltd, the investment portfolios required compared to those identified in the FBC.
- 4.2 Brunel Ltd has now produced the first draft portfolio specifications for consideration by the client group, primarily covering listed equities. Once these specifications are agreed, Brunel Ltd will then begin to develop detailed plans to make those portfolios available for client funds to invest in.
- 4.3 The indicative timetable is as follows, with the approach to private markets (including property, infrastructure and private equity) still to be determined:

Start Date	Portfolio
Dec 2017 / Q1 2018	<ul style="list-style-type: none"> • Passive Equities
Q2 2018	<ul style="list-style-type: none"> • Emerging Market Equities • Sustainable Equities • UK Equities
Q3 2018	<ul style="list-style-type: none"> • Smaller Companies Equities • Core Global Equities • Low Volatility Equities
Q4 2018	<ul style="list-style-type: none"> • Global High Alpha Equities • Diversified Growth Funds (DGF)
Q1 2019	<ul style="list-style-type: none"> • Sterling Corporate Bonds • Multi Asset Credit (MAC)
Q2 2019	<ul style="list-style-type: none"> • Global Bonds • Hedge Funds

5. Engagement Events

- 5.1 An engagement day was held by Brunel Ltd in November for the existing investment managers of each client fund. The main topics covered were the investment principles and approach of Brunel (including responsible investing), the likely investable portfolios, the manager selection process and a re-emphasis of the need to make cost savings.
- 5.2 A number of shareholder engagement events are also scheduled for November, open to members of each client fund's Pension Fund Committee (or equivalent) and each client fund's Local Pension Board. The sessions will cover (1) a reminder of the government criteria for pools and the savings/costs within the Business Plan, (2) governance and reporting arrangements, (3) company set up to date and plans for the next 12 months, (4) an update on portfolio construction and (5) national issues including cross pool working.

- 5.3 Officers have also provisionally arranged a training session for Dorset’s Committee and Local Pension Board members to coincide with the next meeting of the Committee on 28 February 2018, to be attended by representatives from Brunel Ltd.

6. Key Measures of Success

- 6.1 Brunel Ltd has identified the following measures by which successful implementation of the project will be judged:
- Delivering within budget
 - Obtaining FCA approval
 - Establishment of first portfolios in 2018
 - Application of the investment principles
 - Control of transition costs
 - Selection of fund managers that indicate investment cost and fee savings with maintained or enhanced performance
 - Compliance and risk management, and
 - Feedback from clients and reputation

7. Key Risks

- 7.1 Brunel Ltd has identified the following key risks to successful implementation:
- 7.2 **Transition costs:** there is a risk that the transition costs are significantly higher than the level assumed within the business case. Mitigation: implement robust strategic transition management, controls and practical flexibility.
- 7.3 **Investment cost and fee savings:** there is a risk that the fee savings, whilst maintaining performance, are not achieved. Mitigation: wide research and stimulation of the market, investment team have strong negotiation skills and intelligent consideration of balance between performance and fees.
- 7.4 **Operational costs and resources:** there is a risk that the required on-going operational costs are significantly higher than the business case and or the people requirements are not met. Mitigation: robust remuneration policy and clear communication of the benefits of working for Brunel Ltd, quality procurement procedures and experienced financial management resource within Brunel Ltd. Responsive governance arrangements to enable solutions to key operational issues to be agreed in a timely manner.
- 7.5 **Operational delivery:** there is a risk that the development of Brunel Ltd is delayed and service cannot start 1 April 2018. Mitigation: approving and signing legal documentation by July 2017, employ excellent project management processes, resource Brunel Ltd in line with recruitment plan and leverage appropriate external resources to fill gaps.
- 7.6 **FCA application:** there is a risk that Brunel Ltd application is rejected or is delayed significantly. Mitigation: use of expert advisers to support the application both in terms of detailing operations and ensuring that Brunel Ltd resources can carry out functions and controls.
- 7.7 **Assets under management:** there is a risk that clients delay the transition of assets into the pool limiting economies of scales and diminishing the value of the pool structure. Mitigation: clear pooling and investment principles within shareholders and service agreements. Excellent communications from Brunel Ltd to clients.

8. Conclusion

- 8.1 The pooling project continues to make good progress, and is currently on track to meet the target date of April 2018 for the company to begin transitioning assets from the participating funds.

Richard Bates
Pension Fund Administrator
November 2017