# Pension Fund Committee

**Dorset County Council**

| | |
|---|---|
| Date of Meeting | 28 February 2018 |
| 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:<br><br>N/A |
| | Use of Evidence:<br><br>Extensive use of finance industry expertise has been drawn on during the development of the Full Business Case. |
| | Budget:<br><br>Details of the expected costs of implementing the project are included in the report. |
| | Risk Assessment:<br><br>Details of the expected risks of implementing the project are included in the report |
| | Other Implications:<br><br>None. |

| | |
|---|---|
| Recommendation | That the Committee:<br>(i) notes the progress establishing the Brunel Pension Partnership.<br>(ii) approves the Fund's indicative asset allocation to the proposed Brunel Portfolios. |
| Reason for Recommendation | To ensure that the Fund has the appropriate management arrangements in place. |
| Appendices | Appendix 1 Brunel Portfolio Specifications<br>Appendix 2 Brunel Portfolios - Dorset Indicative Allocations |
| Background Papers | Brunel Pensions Partnership Full Business Case |
| Report Originator and Contact | Name: David Wilkes<br>Tel: 01305 224119<br>Email: d.wilkes@dorsetcc.gov.uk |

## 1. Introduction

1.1 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 the County Council on 16 February 2017. The FBC was also approved by the nine other participating administering authorities.

1.2 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. The leadership team has been established in full and the recruitment of operational staff has progressed well, with all key posts now filled. Financial Conduct Authority (FCA) approval is expected March 2018.

2.3 The Business Plan 2018-20 for Brunel Ltd was reviewed by the Brunel Oversight Board at its meeting 24 November 2017, and approved by the shareholders at the company's Annual General Meeting 31 January 2018.

## 3. Appointment of Administrator / Custodian

3.1 Each LGPS Fund employs a custodian bank (or banks) to safeguard its investment assets and process transactions. Brunel Ltd will also need to appoint a custodian, however, the nature of the company's business means that the role will be wider than custody only and will become a role defined by the Financial Conduct Authority (FCA) as an "administrator". In addition, the ten client funds agreed that it would be beneficial for a common custodian to be appointed by all.

3.2 State Street Bank and Trust Company were selected as the preferred provider, with contracts agreed December 2017, with transition to the new custodian from the client funds taking place in four tranches between November 2017 and April 2018. Custody of Dorset's assets successfully transferred to State Street on 15 January 2018 from HSBC and Pictet, the outgoing custodians for UK and overseas holdings respectively.

## 4. Portfolio Development

4.1 The final portfolio specifications have been produced by Brunel Ltd following review by both the Client Group and the Oversight Board and are set in detail in Appendix 1. The ten client funds have each been asked to provide Brunel Ltd with their indicative allocations to these portfolios. The Fund's proposed allocations are summarised in the table below and are set out in more detail in Appendix 2.

| | | |
|---|---|---|
| UK Equities | | |
| Passive | 13.0% | |
| Active | 7.0% | |
| | | 20.0% |
| Global Equities | | |
| Passive Developed Equities* | 8.0% | |
| Passive Smart Beta Equities* | | |
| Low Volatility Global Equities | 0.0% | |
| Core Global Equities | 8.0% | |
| High Alpha Developed Equities | 4.0% | |
| Smaller Companies Equities | 2.0% | |
| | | 22.0% |
| Emerging Markets Equities | | 3.0% |
| **Total Listed Equities** | | **45.0%** |
| Sterling Corporate Bonds | | 6.0% |
| Multi Asset Credit | | 5.0% |
| Diversified Growth Fund | | 8.0% |
| Property | | 12.0% |
| Infrastructure | | 5.0% |
| Private Equity | | 5.0% |
| **Total Return Seeking Assets** | | **86.0%** |
| Liability Driven Investment (LDI) | | 14.0% |
| **Total Assets** | | **100.0%** |

**The preferred Global Equities passive allocation is still to be confirmed, subject to further details of the proposed Smart Beta Equities portfolio being confirmed by Brunel Ltd.*

4.2 The majority of the asset classes the Fund currently invests in ‘map’ directly to a Brunel portfolio, and for UK equities it is proposed that the Fund retains the current long standing mix of approximately two thirds passive, one third active. For Global Equities, there are a number of portfolios to choose from, which offers the opportunity to ‘fine tune’ the current mix of 40% to Smart Beta (through Allianz) and 60% to Core active (through Investec and Wellington).

4.3 This exercise does not commit the Fund to invest in the Brunel portfolios – firm commitments will be sought on a portfolio by portfolio basis as and when appropriate. The expectation in the FBC is that most of the assets of the client funds will in time transfer to Brunel portfolios but, initially at least, some assets will remain outside of the pool for reasons of liquidity and/or value for money. For Dorset such assets will include directly owned property, private equity and infrastructure holdings, LDI and potentially internally managed UK equities

## 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 were also held in November, open to members of each client fund's Pension Fund Committee and each client fund's Local Pension Board. The sessions covered:

- a reminder of the government criteria for pools and the savings/costs within the Business Plan,
- governance and reporting arrangements,
- company set up to date and plans for the next 12 months,
- an update on portfolio construction, and
- national issues, including cross pool working.

5.3 The slides from these sessions have been circulated to all Committee and Board members. As many of the Fund's committee and board members were unable to attend these events, an engagement session solely for Dorset has been arranged to immediately follow this meeting at 1pm on 28 February 2018. The session won't cover all of the original presentations in detail but will focus in particular on governance arrangements, and will 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 client funds.

**Richard Bates**
**Pension Fund Administrator**
February 2018