Pension Fund Committee

Dorset County Council

Date of Meeting	21 June 2018
Officer	Pension Fund Administrator
Subject of Report	**The Brunel Pension 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 Pension 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) approves the Fund's revised indicative asset allocations to the Brunel Portfolios.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place.
Appendices	Appendix 1 Brunel Portfolio Specifications Appendix 2 Brunel Responsible Investment Policy
Background Papers	Brunel Pension Partnership Full Business Case
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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. This report provides members with update on progress against implementing the FBC.

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 all operational staff have now been recruited.

2.2 Brunel Ltd received authorisation on 16 March 2018 from the Financial Conduct Authority (FCA) to act as a full scope investment firm. This is a major milestone for the project as it allows Brunel to provide advisory and discretionary investment management services to Dorset and the nine other client funds. FCA authorisation was also a specified requirement of central government for all investment pools. This means that one of the Key Measure of Success as set out below has been achieved, together with the removal of one of the identified Key Risks.

3. Portfolio Development and Implementation

3.1 Following receipt of FCA authorisation, Brunel Ltd has made good progress to develop the portfolios for Dorset and the nine other client funds to invest in. A schedule of final revised portfolio specifications is set in detail in Appendix 1.

3.2 The final specifications of the global equities portfolios include some exposure to UK equities. In order to meet the overall target allocation of 20% UK equities, 25% overseas equities some minor adjustments are necessary to the indicative allocations to Brunel portfolios agreed at the last meeting of the Committee. The Fund’s revised equity allocations are summarised in the table below.

Asset Class	Benchmark (BM)	UK % of BM	Approved Allocation	Revised Allocation
UK Equities:				
Passive	FTSE All Share	100.0%	13.00%	12.25%
Active	FTSE All Share	100.0%	7.00%	6.25%
Total UK Equities		**100.00%**	**20.00%**	**18.50%**
Global Equities:				
Passive Smart Beta Equities	MSCI World Index	6.70%	8.00%	8.50%
Core Global Equities	MSCI All Country World Index	5.80%	8.00%	8.50%
High Alpha Developed Equities	MSCI World Index	6.70%	4.00%	4.25%
Smaller Companies Equities	MSCI Smaller Companies World Index	7.60%	2.00%	2.25%
Emerging Markets Equities	MSCI Emerging Markets	0.00%	3.00%	3.00%
Total Global/Overseas Equities		**5.70%**	**25.00%**	**26.50%**
UK percentages of benchmark as at 30 April 2018				

Passive and Smart Beta Manager Selection

3.3 Following a tender process under the LGPS National Framework for Passive Services, Brunel has appointed Legal and General Investment Management (LGIM) as the fund manager for passive and Smart Beta equities. LGIM are one of the market leaders in passive equities, and are the largest incumbent passive equities manager across the ten client funds, which will help towards keeping transition costs to a minimum.

3.4 Officers are satisfied that there are clear savings and benefits for Dorset's internally managed passive UK equities portfolio to transition to the Brunel portfolio, and have therefore confirmed the Fund's commitment to this portfolio, with assets expected to transition 11 July 2018.

3.5 At the last meeting of the Committee it was reported that the preferred Global Equities passive allocation was still to be confirmed, subject to further details of the proposed Smart Beta Equities portfolio being confirmed by Brunel Ltd. Following receipt of those details from Brunel, officers and the Independent Adviser had further discussions with Brunel's Chief Investment Officer and concluded that the solution met the requirements of the Fund's preferred allocation to Smart Beta. We have therefore confirmed our commitment to this portfolio, with assets expected to transition from Allianz, the Fund's incumbent Smart Beta manager, July 2018.

Private Markets

3.6 Initially it was expected that Brunel portfolios would not be available in private markets for some time as public markets would be the priority. However, following the appointment by Brunel Ltd of Richard Fanshawe to lead on private markets, work is now progressing concurrently with public markets' activity. In total Dorset has allocated about £650m (22%) to private markets – property £350m (12%), infrastructure £150m (5%) and private equity £150m (5%). Officers will shortly be meeting with Brunel to discuss opportunities and options for transition planning for Dorset's specific circumstances, if we decide in due course that this is our preferred course of action.

Other Portfolios

3.7 Following the conclusion of the Passive and Smart Beta manager selection process, Brunel will be looking to undertake manager selection exercises for the seven active equities portfolios, firstly UK Equities and Low Volatility Global Equities, with the other equities portfolios to follow. Procurement for Liability Driven Investment (LDI) is also expected later this calendar year, with procurement exercises for Bonds, Diversified Growth Funds (DGFs), Multi Asset Credit (MAC) not scheduled until April 2019 onwards.

3.8 The expected timescales for the transition of assets to each of the Brunel portfolios are set out in the table below, together with Dorset's indicative allocation to each portfolio.

Portfolio	Portfolio under construction	Asset transition date	Dorset Allocation
Passive Equities	Yes	Jul-18	12.25%
Passive Bonds	Yes	TBC with clients	0.00%
Smart-Beta	Yes	Jul-18	8.50%
UK Equities	Yes	Nov-18	6.25%
Low Volatility Equities	Yes	Nov-18	0.00%
High Alpha Developed Equities	Yes	Feb-19	4.25%
Emerging Market Equities	Yes	Feb-19	3.00%
Core Global Equities	Yes	Apr-19	8.50%
Sustainable Equities	Yes	Apr-19	0.00%
Smaller Companies Equities	Yes	Apr-19	2.25%
Sterling Corporate Bonds	No	between April 2019 & April 2020	6.00%
Global Bonds	No	between April 2019 & April 2020	0.00%
Multi Asset Credit	No	between April 2019 & April 2020	5.00%
Diversified Growth Funds	No	between April 2019 & April 2020	8.00%
Hedge Funds	No	between April 2019 & April 2020	0.00%
LDI	Yes	Dec-18	14.00%
Property	Yes	Commencing Oct/Nov 2018	12.00%
Infrastructure	Yes	N/A	5.00%
Private Debt	Yes	N/A	0.00%
Private Equity	Yes	N/A	5.00%
Secured Income	Yes	N/A	0.00%

3.9 Final commitments will be sought by Brunel on a portfolio by portfolio basis, as and when appropriate. The expectation in the FBC is that most of the assets of the ten 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 are expected to include holdings in property, legacy holdings in private equity and infrastructure, and potentially LDI depending on the Brunel offering.

4. Tax Transparent Vehicle (TTV)

4.1 The FBC identified the mitigation of transfer and transactional taxes as a key deliverable for Brunel, and that the effective management of tax will have a significant impact on the level of savings delivered by the project.

4.2 Following engagement with PwC and the investment management community, Brunel has concluded that the most efficient solution is to provide a vehicle itself, through a third-party provider, that its investment managers will use to provide investment services to the pool. This should ensure that transfer and transactional taxes are mitigated as much as possible, and it will give Brunel control over the running costs of the vehicles. This solution should also mean that Brunel can select investment managers solely on investment ability, without needing to consider the manager's fund structure. Having one investment vehicle per portfolio, regardless of the number of underlying managers, should also help ensure that transition, rebalancing and ongoing fund management costs are fair, equitable and transparent for the client funds.

4.3 This approach is believed to be the FCA's preferred delivery model for asset managers, and will not require any changes or additions to the permissions Brunel has received from the FCA.

5. Responsible Investment (RI) Policy (Appendix 2)

5.1 Brunel Ltd published its Responsible Investment (RI) Policy 10 May 2018. Responsible Investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns to meet the primary aim of funds to maximise the value of investments made for the benefit of the many stakeholders, including current employee contributors, pensioners, council tax payers and employer bodies.

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 was 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. This Key Risk can now be removed.

7.6 **FCA application:** there was a risk that the 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. This Key Risk can now be removed.

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.

Richard Bates
Pension Fund Administrator
June 2018