Pension Fund Committee

Dorset County Council

Date of Meeting	17 September 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 notes the progress establishing the Brunel Pension Partnership.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place.
Appendices	Appendix 1: Brunel Oversight Board 18 July 2018 – draft minutes
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 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. Brunel Ltd received authorisation on 16 March 2018 from the Financial Conduct Authority (FCA) to act as a full scope investment firm, allowing it to provide advisory and discretionary investment management services to Dorset and the nine other client funds.

3. Portfolio Development and Implementation

Passive and Smart Beta Equities

3.1 Following a tender process under the LGPS National Framework for Passive Services, Brunel 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 were the largest incumbent passive equities manager across the ten client funds, which has helped towards keeping transition costs to a minimum.

3.2 Dorset's internally managed passive UK equities portfolio successfully transitioned to the Brunel portfolio 11 July 2018 and Dorset's global equities under the management of Allianz successfully transitioned to the Brunel Smart Beta portfolio 18 July 2018. This equates to approximately £700m of investments transferring to the pool's management, representing nearly a quarter of the Fund's total assets of £2.9bn.

Active Equities

3.3 Following the conclusion of the Passive and Smart Beta manager selection process, Brunel has turned its attention to the seven active equities portfolios, firstly UK Equities and Low Volatility Global Equities, with the other equities portfolios to follow.

3.4 Brunel anticipate the results of these two initial active equities searches to conclude in September 2018, with transition to the new portfolios expected in November 2018. Dorset has a target allocation to UK core equities of 6.25% (approximately £190m) but no allocation to Low Volatility Global Equities. It is anticipated that the Fund's current investment with AXA Framlington will transfer in full to the Brunel portfolio.

Private Markets

3.5 Work by Brunel establishing private markets' portfolios is progressing concurrently with public markets' activity. Following the last meeting of the Committee in June, commitments of 2.0% (approximately £60m) to the Private Equity portfolio and 2.0% to the Secured Income portfolio were agreed.

3.6 Commitments to the private markets' portfolios are expected to be deployed by Brunel to underlying investments over a two year period ending March 2020, with an opportunity to 'top-up' initial commitments in April 2019. Thereafter, from April 2020, commitments to further two year investment cycles will be sought by Brunel, again with the opportunity to increase the commitment after the first year.

3.7 Private Equity, in particular, has proved challenging for the Fund to reach target allocation. Therefore, officers will need to regularly review and update the required levels of commitments to Brunel, alongside the legacy investments with the Fund's existing managers, HarbourVest and Standard Life Capital.

Other Portfolios

3.8 Procurement for Liability Driven Investment (LDI) was 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.

3.9 The table below sets out the current target dates for each portfolio, together with Dorset's indicative allocation to each portfolio. Please note however that the transition timetable is currently under review taking into account Brunel's experience to date and the priorities of the Client funds.

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%

3.10 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) / Authorised Contractual Scheme (ACS)

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. It was concluded that the most efficient solution is for Brunel to provide a vehicle itself, through a third-party provider, which will be used by investment managers to provide investment services to the client funds.

4.2 Brunel has appointed FundRock Management Company as its ACS Operator. Brunel will act as a Sponsor and Investment Manager of the ACS with FundRock responsible for meeting regulation requirements and contractual arrangements. A prospectus will be submitted to the FCA for approval in September 2018, with approval expected October/November 2018. This should allow sufficient time for transition of client fund assets in November/December 2018 to the UK Equities and Low Volatility Global Equities Brunel portfolios.

5. Governance Update

5.1 The last meeting of the Brunel Oversight Board was held 18 July 2018, and a copy of the draft minutes from that meeting are attached at Appendix 1. The next meeting of the Oversight Board will be held at Brunel's offices on 27 September 2018.

5.2 The Oversight Board supported proposals from Brunel to amend the existing remuneration policy and to procure an external Private Markets administrator. Subsequently Brunel have sought approval of two Reserved Matters from shareholders. As both were Special Reserved Matters they required 100% acceptance of shareholders to be approved.

5.3 <u>Changes to remuneration policy</u>.
This Special Reserved matter was raised under Schedule 5, part 1, item 12 of the shareholders agreement: "Amending the Remuneration Policy or adopting any new or replacement policy, and / or remuneration of new and / or existing Directors and / or employees of the Company outside or in excess of the Remuneration Policy."

This Reserve Matter had four separate items within it. Each item was voted on as separate items by shareholders and was to be approved item by item. The outcome is detailed below:

i. Maximum Chair and Non-Executive Director (NED) payments - APPROVED
ii. Recognition Awards - NOT APPROVED
iii. Salary caps linked to CPI - NOT APPROVED
iv. External review, once every two years - APPROVED

In relation to the items ii) and iii) that were not approved, the existing policy that was previously approved by all 10 shareholders remains in force on these particular items.

5.4 Procurement of an external Private Markets administrator.
This Special Reserved matter was raised under Schedule 5, part 1, item 4 of the shareholders agreement: "The adoption or amendment of the Business Plan or Operating model." - APPROVED

6. Engagement Events November 2018

6.1 A number of engagement events have been scheduled for November, open to all members of each client fund's Pension Fund Committee and Local Pension Board.

- 10am–1pm Monday 5 November, Unipart House, Oxford
- 10am–1pm Tuesday 6 November, Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU
- 10am–1pm Wednesday 7 November, Sandy Park Conference Centre, Sandy Park Way, Exeter, EX2 7NN

6.2 There will be a common agenda, still to be finalised, for all three events.

7. Key Measures of Success

7.1 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.

7.2 The Client Group are in the process of developing a suite of Key Performance Indicators to monitor performance in delivery of these key measures of success. It is anticipated that this work will be concluded prior to the next meeting of the Committee in November 2018.

8. Key Risks

8.1 Brunel Ltd identified a number of key risks to successful implementation, with the following risks still outstanding:

8.2 **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.

8.3 **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.

8.4 **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.

8.5 **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
September 2018