Pension Fund Committee

Dorset County Council

Date of Meeting	27 February 2019
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 1 November 2018 - minutes
Background Papers	Brunel Pension Partnership Full Business Case
Report Originator and Contact	Name: David Wilkes Tel: 01305 224119 Email: d.wilkes@dorsetcc.gov.uk

1. Background

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

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.

3.3 Following the conclusion of the Passive and Smart Beta manager selection process, Brunel 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 The results of these two initial active equities concluded in September 2018, with transition to the new portfolios in November 2018. These are the first Brunel portfolios managed through the Authorised Contractual Scheme (ACS).

3.5 Dorset has a target allocation to UK core equities of 6.25% (approximately £175m) but no allocation to Low Volatility Global Equities. The Fund's current investment with AXA Framlington has now transferred to the Brunel portfolio.

3.6 This equates to approximately £800m of investments transferring to the pool's management, representing nearly 30% of the Fund's total assets of £2.8bn.

3.7 In October 2018, Brunel issued their "Manager Search Launch Paper" for their Emerging Markets Equity portfolio. This document sets out the detailed timeline for the establishment of the portfolio, with final transitions not expected until September 2019. Dorset has a target allocation of 3.0% (approximately £85m) to emerging markets equities, and it is anticipated that the Fund's current investment with JP Morgan will transfer to the Brunel portfolio.

3.8 In January 2019, Brunel issued their "Manager Search Launch Paper" for their High Alpha Equity portfolio. This document sets out the detailed timeline for the establishment of the portfolio, with final transitions not expected until November 2019. Dorset has a target allocation of 4.25% (approximately £120m) to emerging markets equities, and it is anticipated that this will be funded by partial disinvestment from the Fund's current investments under the management of Investec and Wellington.

Private Markets

3.7 Work by Brunel establishing private markets' portfolios is progressing concurrently with public markets' activity. Following the 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.

3.8 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.

3.9 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 Aberdeen Standard (formerly Standard Life Capital).

3.10 In October 2018, Brunel made commitments to two funds as part of the Secured Income portfolio - the Aberdeen Standard Long Lease Property Fund and the M&G Secured Property Income Fund. Dorset's share of these commitments is £22m to each fund, leaving £16m uncommitted. Both funds have lengthy investor queues prior to drawdown, therefore the first anticipated drawdowns were not expected until spring 2019 and autumn 2019 respectively. However, in January 2019, £2.9m was drawndown against Dorset's commitment to the Aberdeen Standard Long Lease Property Fund.

Liability Driven Investment (LDI)

3.11 Discussions have begun between Brunel and the three clients who have allocations to LDI and in January 2019, Brunel issued their "Manager Search Launch Paper" for their LDI portfolio.

Other Portfolios

3.12 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.

3.13 Fee savings in a full year from the assets that have transferred to date are estimated at approximately £1.2m, compared to the Fund's share of Brunel's annual running costs of £1.0m in 2019-20. As more assets transition to Brunel's management fee savings are expected to increase.

5. Transition Plan

5.1 The revised transition plan is summarised below.

Portfolios	Start Date	End Date	Fees Savings start
Passive Equity	01/01/2018	31/07/2018	August 2018
UK Active Equities	01/10/2018	19/11/2018	December 2018
Low Volatility Active Equities	01/10/2018	19/11/2018	December 2018
Emerging Market Active Equities	15/10/2018	02/09/2019	October 2019
High Alpha Developed Active	31/12/2018	25/11/2019	December 2019
Liability Driven Investments	03/12/2018	12/08/2019	September 2019
Passive Indexed Linked Gilts	03/12/2018	12/08/2019	September 2019
Diversified Growth Funds	11/03/2019	23/12/2019	January 2020
Global Core Active Equities	27/05/2019	13/04/2020	May 2020
Sustaibale Active Equities	02/09/2019	03/08/2020	September 2020
Smaller Companies Active Equities	07/10/2019	24/08/2020	September 2020
Curreny Hedging	18/02/2019	24/06/2019	July 2019
Bond Strategy	11/11/2019	09/12/2019	January 2020
Multi Asset Credit	16/12/2019	20/07/2020	August 2020
Sterling Corporate Bonds	24/02/2020	28/09/2020	October 2020
Global Bonds	01/06/2020	19/04/2021	May 2021
Indexed Linked Gilts	01/06/2020	01/06/2020	July 2020
Hedge Funds	17/08/2020	22/03/2021	April 2021
Equity Protection	21/09/2020	28/06/2021	July 2021
Tactical Asset Allocation	21/09/2020	26/07/2021	August 2021

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 working with Brunel to agree 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 shortly.

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
February 2019