

Date of Meeting: 27 November 2019

Lead Officer: Aidan Dunn, Executive Director Corporate Development

**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.

To date, investments valued at approximately £960m have transferred to the pool's management, representing just over 30% of the Fund's total assets of £3.0bn. A further £125m is expected to transition in November 2019 to Brunel's High Alpha Global Equities portfolio, funded by partial disinvestment from the Fund's two global equities' managers, Investec and Wellington.

Dawn Turner, Brunel's Chief Executive Officer (CEO), has resigned from her position and left the company at the end of September 2019. Laura Chappell, Brunel's Chief Compliance and Risk Officer, will be Acting CEO until a new CEO is recruited.

The resignation of the CEO has prompted Brunel to review their remuneration policy. Under the shareholders' agreement, any changes to the remuneration policy are a 'Special Reserved Matter' (SRM) that require the approval of all ten shareholders. Proposed changes to the policy have been discussed by the oversight board at its recent meetings, and Brunel have issued an SRM requesting approval to raise the cap on remuneration for the chief executive.

**Equalities Impact Assessment:**

This report does not deal with any new strategies or policies that would trigger an impact assessment.

**Budget:**

Not applicable.

**Risk Assessment:**

Details of the expected risks of implementing the project are included in the report.

**Climate Implications:**

The Fund's Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks arising from environmental issues, including those associated with climate change.

**Other Implications:**

None.
<b>Recommendation:</b> That the Committee note the progress in implementing the Full Business Case for the establishment of the Brunel Pension Partnership.
<b>Reason for Recommendation:</b> To ensure that the Fund has the appropriate governance arrangements in place.
<b>Appendices:</b> Appendix 1: Brunel Portfolios Performance Report for quarter ending 30 September 2019 Appendix 2: Brunel Oversight Board 25 July 2019 – minutes
<b>Background Papers:</b> Brunel Pension Partnership Full Business Case (December 2016) Investment Strategy Statement (March 2018)
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## 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 Dorset 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.
- 1.2 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.

## 2. Portfolios Development and Implementation

### Listed Equities

- 2.1 In July 2018, the Fund's internally managed passive UK equities portfolio transferred to the Brunel Passive UK Equities portfolio (current value approximately £390m).
- 2.2 In July 2018, the Fund's global equities under the management of Allianz transferred to the Brunel Smart Beta Global Equities portfolio (current value approximately £300m).
- 2.3 In November 2018, the Fund's investment in the AXA Framlington UK Select Opportunities Fund transferred to the Brunel UK Active Equities portfolio (current value approximately £170m).
- 2.4 In October 2019, the Fund's investment in the JP Morgan Emerging Markets Diversified Equity Fund transferred to the Brunel Emerging Markets Equities portfolio (current value approximately £100m).
- 2.5 In total, investments valued at approximately £960m have transferred to the pool's management, representing just over 30% of the Fund's total assets of £3.0bn. Fee savings in a full year from the assets 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
- 2.6 In November 2019, the Fund will be investing £125m in the Brunel High Alpha Developed Markets Equities. This will be funded by partial disinvestment from the Fund's assets under the management of its two global equities' managers, Investec and Wellington, and will bring the value of assets transferred to Brunel to £1,085m.
- 2.7 In July 2019, Brunel issued a "Manager Search Launch Paper" for their Smaller Companies Equities portfolio, setting out the detailed timeline for the establishment of the portfolio, with final transitions expected May 2020. Dorset has a target allocation of 2.25% (approximately £75m) to smaller companies' equities, to be funded from disinvestment of assets under the management of existing managers or from cash balances.

### **Private Markets**

- 2.8 Work by Brunel establishing private markets' portfolios is progressing concurrently with public markets' activity. Following the meeting of the Committee in June 2018, commitments of 2.0% (approximately £60m) to the Private Equity portfolio and 2.0% to the Secured Income portfolio were agreed.
- 2.9 Commitments to the private markets' portfolios are expected to be made 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 'top-up' after the first year.
- 2.10 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.

- 2.11 Brunel has made commitments to two Private Equity funds - the Capital Dynamics Global Secondary Fund and the Neuberger Berman Private Equity Impact Fund. Dorset's share of those commitments is £11.5m to the Capital Dynamics Global Secondary Fund and £14.3m to the Neuberger Berman Private Equity Impact Fund, leaving £34.2m uncommitted. To date £2.5m has been drawdown against the Capital Dynamics fund and £0.7m against the Neuberger Berman fund.
- 2.12 Brunel has made commitments to two Secured Income funds - 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. To date, £2.9m has been drawdown against Dorset's commitment to the Aberdeen Standard fund, with a call for a further £8m expected shortly.

#### **Liability Driven Investment (LDI)**

- 2.13 LDI is the Fund's largest and most complex mandate with a target allocation of 14% (approximately £400M) managed by Insight Investment.
- 2.14 Due to the complexity and importance of this asset class, a number of meetings have taken place between Brunel and officers from the three clients who have allocations to LDI (including Dorset) and their advisers. Throughout the process it has been made clear to potential providers that clients may decide not to transfer their existing investments to a new manager.
- 2.15 The portfolio development, manager selection and due diligence process has now concluded, and Insight has not been selected as Brunel's preferred provider for LDI. Because of the bespoke nature of LDI, any transitions will take place client by client rather than all at once, at a time convenient to each client.
- 2.16 Officers and the Independent Adviser will be watching the experience, costs and benefits of the first client transition very closely. Only if this indicates significant benefits to the Fund will a transfer from Insight be recommended. If such benefits are clear, it is very unlikely that a transition would take place before the conclusion of the planned review of the strategic asset allocation in 2020.

#### **Diversified Growth Funds (DGFs)**

- 2.17 Dorset's target allocation to DGFs is 8% (approximately £240M) and its incumbent manager is Barings. The Brunel Portfolio is expected to be finalised in December 2019, with transition from the incumbent expected January/February 2020.

#### **Other Portfolios**

- 2.18 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.

- 2.19 The development and transition plan for all unfinalised portfolios (excluding private markets) is summarised below.

<b>Portfolio</b>	<b>Dorset Allocation</b>	<b>Start Date</b>	<b>Transition Date</b>
Smaller Companies Active Equities	2.25%	Jul-19	May-20
Sustainable Active Equities	0.00%	Sep-19	Aug-20
Global Core Active Equities	8.50%	Oct-19	Sep-20
Diversified Growth Funds	8.00%	Mar-19	Jan-20
Multi Asset Credit	5.00%	Dec-19	Jul-20
Sterling Corporate Bonds	6.00%	Feb-20	Sep-20
Global Corporate Bonds	0.00%	Jun-20	Apr-21
Hedge Funds	0.00%	Aug-20	Mar-21
Equity Protection	0.00%	Sep-20	Jun-21
Tactical Asset Allocation	0.00%	Sep-20	Jul-21

### **3. Portfolios Performance**

- 3.1 Brunel now produce a quarterly review of the performance of the investments held by the Fund in Brunel portfolios (see Appendix 1). As well as financial performance metrics, the report also includes responsible investment indicators for each portfolio.

### **4. Governance**

- 4.1 Minutes from the meeting of the Brunel Oversight Board on 25 July 2019 are attached as Appendix 2. The oversight board also met on 26 September 2019 but the draft minutes for that meeting have not yet been approved for publication. The oversight board is next due to meet 21 November 2019.
- 4.2 Dawn Turner, Brunel's Chief Executive Officer (CEO), has resigned from her position and left the company at the end of September. Laura Chappell, Brunel's Chief Compliance and Risk Officer, has agreed to take on the role of Acting CEO to bridge the gap until a new CEO is recruited.
- 4.3 The resignation of the CEO has prompted Brunel to review their remuneration policy. Under the shareholders' agreement, any changes to the remuneration policy are a 'Special Reserved Matter' (SRM) that require the approval of all ten shareholders. Proposed changes to the policy have been discussed by the oversight board at its recent meetings, and Brunel have issued an SRM requesting approval to raise the cap on remuneration for the chief executive.