

Date of Meeting: 12 March 2020

Director: Aidan Dunn, Executive Director Corporate Development

**Executive Summary:**

At its meeting on 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 to date in implementing the FBC.

To date, investments valued at approximately £1.3bn have transferred to the pool's management, representing just over 40% of the pension fund's total assets of £3.2bn. Fee savings in a full year from the assets transferred to date are estimated at approximately £2.0m, compared to Dorset's share of Brunel's annual running costs of £1.0m in 2019-20

Dawn Turner, Brunel's Chief Executive Officer (CEO), left the company at the end of September 2019 and has been replaced by Laura Chappell, formerly Brunel's Chief Compliance and Risk Officer.

**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 pension 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.

**Recommendation:**

That the Committee note the progress in implementing the Full Business Case for the establishment of the Brunel Pension Partnership.

**Reason for Recommendation:**

To ensure that the pension fund has the appropriate governance arrangements in place.

**Appendices:**

Appendix 1: Brunel Oversight Board 25 July 2019 – minutes

**Background Papers:**

Brunel Pension Partnership Full Business Case (December 2016)  
Investment Strategy Statement (March 2018)

**Officer Contact:**

Name: David Wilkes, Service Manager for Treasury and Investments  
Tel: 01305 224119  
Email: [investments@dorsetcouncil.gov.uk](mailto:investments@dorsetcouncil.gov.uk)

## **1. Background**

- 1.1 At its 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 and the FBC was also approved by the nine other participating administering authorities. This report provides the Committee with an 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 pension fund's internally managed passive UK equities portfolio transferred to the Brunel Passive UK Equities portfolio (value at the end of December 2019 approximately £405m).
- 2.2 In July 2018, the pension fund's global equities under the management of Allianz transferred to the Brunel Smart Beta Global Equities portfolio (value at the end of December 2019 approximately £305m).
- 2.3 In November 2018, the pension fund's investment in the AXA Framlington UK Select Opportunities Fund transferred to the Brunel UK Active Equities portfolio (value at the end of December 2019 approximately £180m).
- 2.4 In October 2019, the pension fund's investment in the JP Morgan Emerging Markets Diversified Equity Fund transferred to the Brunel Emerging Markets Equities portfolio (value at the end of December approximately £105m).
- 2.5 In November 2019, the pension fund invested £125m in the Brunel High Alpha Developed Markets Equities, funded by partial disinvestment from the Fund's assets under the management of its two global equities' managers, Investec and Wellington.
- 2.6 In January 2020, the pension fund's remaining assets of approximately £180m under the management of Investec transitioned to Brunel's Global Passive Equity portfolio.

### **Private Markets**

- 2.7 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 £60m to the Private Equity portfolio and £60m to the Secured Income portfolio were agreed.

- 2.8 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.
- 2.9 Private Equity, in particular, has proved challenging for the pension 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 pension fund's existing managers, HarbourVest and Aberdeen Standard.
- 2.10 Dorset's shares of commitments made by Brunel to Private Equity funds are £11.5m to the Capital Dynamics Global Secondary Fund and £14.3m to the Neuberger Berman Private Equity Impact Fund, and £7.0m to the Ardian Buyout Fund 7 leaving approximately £27m uncommitted. To date £2.6m has been drawdown against the Capital Dynamics fund, £0.9m against the Neuberger Berman fund and £0.5m against the Ardian fund.
- 2.11 Brunel has made commitments to three Secured Income funds - the Aberdeen Standard Long Lease Property Fund, the M&G Secured Property Income Fund and the Greencoats Renewable Income Fund. Dorset's share of these commitments is £50m in total, leaving £10m uncommitted. To date, £2.9m has been drawdown against Dorset's commitment to the Aberdeen Standard fund and £7.7m against the Greencoats Fund.

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

- 2.12 LDI is the pension fund's largest and most complex mandate with a target allocation of 14% (approximately £450m) managed by Insight Investment.
- 2.13 Due to the complexity and importance of this asset class, a number of meetings took place between Brunel and officers from the three clients who have allocations to LDI (including Dorset) and their advisers. Throughout the process it was made clear to potential providers that clients may decide not to transfer their existing investments to a new manager.
- 2.14 Insight were not 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.
- 2.15 Officers and the Independent Adviser will review the experience, costs and benefits of the first client transition very closely. Only if this indicates significant benefits to the pension 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 June 2020.

### **Other Portfolios**

- 2.16 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.

- 2.17 In total, investments valued at approximately £1.3bn have transferred to the pool's management, representing just over 40% of the pension fund's total assets of £3.2bn. Fee savings in a full year from the assets transferred to date are estimated at approximately £2.0m, 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
- 2.18 The development and transition plan for all un-finalised 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	Apr-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. Governance**

- 3.1 Minutes from the meeting of the Brunel Oversight Board on 25 July 2019 are attached as Appendix 1. The oversight board also met on 21 November 2019 but the draft minutes for that meeting have not yet been approved for publication. The oversight board is next due to meet on 19 March 2020.
- 3.2 Dawn Turner, Brunel's Chief Executive Officer (CEO) since the inception of the company, left at the end of September 2019 and has now been replaced on a permanent basis by Laura Chappell, formerly Brunel's Chief Compliance and Risk Officer.