

Brunel Oversight Board Meeting Minutes

Purpose: To review Brunel/Client progress agree next steps
Date and time: Thursday 25 July 2019, 10:30 – 12:45
Location: Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU
Dial-in details: Dial In: 0330 336 1949 | Participant Pin: 429632

| Pension Committee Representatives | | |
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| Bruce Shearn | Avon | |
| John Chilver | Buckinghamshire | Apologies |
| Derek Holley | Cornwall | |
| Ray Bloxham | Devon | |
| John Beesley | Dorset | Phone |
| Robert Gould | EAPF | |
| Ray Theodoulou | Gloucestershire | Chair |
| Kevin Bulmer | Oxfordshire | Vice-Chair |
| Mark Simmonds (MSim) | Somerset | Absent |
| Tony Deane | Wiltshire | |

| Member representative observers | | |
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| Andy Bowman | Scheme member rep. | |
| Ian Brindley | Scheme member rep. | |

| Fund Officers and Representatives | | |
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| Tony Bartlett | Avon | |
| Julie Edwards | Buckinghamshire | |
| Sean Johns | Cornwall | Apologies |
| Mark Gayler | Devon | Apologies |
| Aidan Dunn | Dorset | Apologies |
| Craig Martin | EAPF | Apologies |
| Marion Maloney (MMA) | EAPF | |
| Mark Spilsbury | Gloucestershire | Apologies |
| Sean Collins | Oxfordshire | |
| Jenny Devine | Wiltshire | |
| Nick Buckland | Mercer - Client Side Executive | |
| Sophie McClenaghan | Mercer - Minutes | |

| Brunel Pension Partnership Ltd | | |
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| Denise Le Gal | Brunel, Chair | |
| Steve Tyson | Brunel Shareholder NED | |
| Mike Clark | NED and Chair of ARC | |
| Matthew Trebilcock | Brunel, CRD | Apologies |
| Dawn Turner | Brunel, CEO | |
| Mark Mansley (MM) | Brunel, CIO | |
| Joe Webster | Brunel, COO | |
| Laura Chappell | Brunel, CCRO | |
| Chris Crozier | Brunel, CRM | |
| Catherine Dix | Brunel, CRM | |
| Alice Spikings | Brunel, CRA | |
| David Anthony | Brunel, HoF & CS | |

| Item | Agenda | Paper provided | Timing |
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| 1 | Confirm agenda Requests for Urgent or items for Information Any new declarations of conflicts of interest | Agenda Verbal C of Interest | 10.30 – 10.35 5 mins |
| | Apologies were received from John Chilver and Matthew Trebilcock. The Board welcomed Bruce Shearn. <u>Conflicts of Interest</u> <ul style="list-style-type: none"> No new conflicts were raised. | | |
| 2 | Review 30 April BOB minutes | Minutes | 10.35 – 10.45 10 mins |
| | The April minutes were agreed and confirmed as final. | | |
| 3 | CEO appointment process DLG to clarify the recruitment process. | Paper | 10.45 – 11.00 15 mins |
| | DLG provided an update on the CEO recruitment process. The process will be similar to that used to appoint the recent NED but will also include RT (or a nominated deputy) and Brunel employees at an early stage. The Brunel Board is proposing to go to market early next week, with an application deadline of 9 September. The recruitment process will be as follows <ol style="list-style-type: none"> Initial application screen. Kevin Jones, DLG, Vicky Chessell will meet all suitable candidates to determine a longlist. The NEDs will be consulted before creating shortlist. The shortlist will include 4-6 candidates. | | |

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| | <ol style="list-style-type: none"> 5. Formal first panel consisting of DLG, PwC, NED (ST) and RT. 6. 30 minutes to write an answer to a question. 7. 2nd formal panel consisting of RT, MM, JW where the candidate will present their strategy response. <p>DLG has spoken with all shareholders and BOB representatives. The Board recognise that the current salary cap will restrict CEO recruitment for the skillset required. A change in the salary cap would be a Special Reserve Matter and therefore would require 100% shareholder approval.</p> <p>The Board is proposing an increase in the total compensation package cap, in addition the Board will introduce a DC scheme for the higher salary rather than eligibility to the LGPS.</p> <p>AB asked why increase is necessary given the local authority background of the business. DLG responded that Brunel was very lucky in recruiting DT. Although BPP has a local authority background, it is FCA regulated and the CEO is taking on significant risk. It was asked if this will result in increased salaries of the other executive positions. DLG assured the BOB that the existing executive's remuneration would not change but this change in cap would future proof the business should it be required to recruit for these roles in the future. IB noted that this is what happened in the private listed space, companies pushed up pay when trying to be top quartile payer. He noted the other Pools are not directly comparable to Brunel. ST noted that even if the higher cap was approved, Brunel would be a bottom payer when compared to each of the below benchmarks ;</p> <ol style="list-style-type: none"> 1. Pools 2. Asset management industry 3. Senior local government positions <p>It was noted that Brunel does not pay bonuses whereas other pools do. The benchmark exercise was undertaken by an external company, but for the pools publicly disclosed data was used.</p> <p>LC noted that City salaries reflect the risk and scale of a potential fine, i.e. the risk that there is a significant and material breach of FCA roles. JW added that another risk is that the new CEO doesn't have sufficient experience to lead the company.</p> <p>DH would prefer to test the water at a lower salary cap before an increase. He noted the short timeline but acknowledged that LC was a suitable interim appointment. DH was also concerned that tier 2 employees will look at the change in CEO pay and also expects a pay increase.</p> <p>KB noted that this salary increase was being recommended by the NEDs. He felt it was of utmost importance that the right person is in place as soon as possible. KB noted he would like to see that final candidate meets shareholders ahead of appointment, potentially a lunch, to provide the chance to raise any concerns. DLG agreed this would be possible.</p> | <p>Brunel</p> |
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| | <p>TD thanked DT for her work as CEO. At a recent Wiltshire committee meeting an increase in salary was discussed and the Committee independently concluded that the salary would need to be increased. A concern at PwC's involvement was highlighted. Wiltshire believes Brunel should not compromise and should appoint the right person.</p> <p>RB agreed with KB and TD. RB acknowledged Brunel is reaching a stage of asset management and business as usual so the appointment of CEO is all about the bottom line. The Funds don't want mediocrity; each Fund wants the bottom line to be as good as it can be.</p> <p>MC commented that if Brunel went to market at the current salary cap, the firm's reputation would be tarnished as this is an unrealistic budget.</p> <p>BS confirmed that Brunel needs to bring in the right people and therefore need to pay the market rate.</p> <p>RG noted that EA will need a full report to put the salary into context in order to get it approved. DLG confirmed this would be contained within the SRM.</p> <p>TD asked for assurance that underperformance from the CEO and Brunel as a whole will not be tolerated. MC as Chair of ARC gave that assurance.</p> <p>TB emphasised that the SRM will cover executive salary which currently includes 4 roles at Brunel. The SRM includes the CEO however the CEO's salary is not split out. TB asked that this is made clear in the SRM. TB also asked if the increase is funded from current budgets. DLG confirmed it is.</p> <p>JB was conscious of 1 change leading to lots of change over time. He felt the increase would lead to an imbalance between newly recruited and longer standing employees which will cause further issues in the future.</p> <p>After further discussion, the Oversight Board supported an increase in the total salary cap excluding pension.</p> <p>It was queried if the Board could guarantee no increases in line with the revised cap for 1 year for other executives. It was discussed and concluded that the Board could not be constrained in this way given the uncertainty of events over the next 12 months. It would be the role of the Board to manage salary within the agreed cap and budget. Any increase in budget would need to be referred back to shareholders as an SRM.</p> <p>The Brunel Board will go out to market tomorrow with the request for applications.</p> | | Brunel |
| 4 | Brunel Control Environment | Presentation on the day | 11.00 – |

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| | Presentation from Laura Chappell on Brunel's Control Environment and regulatory oversight. | | 11.20 20 mins |
| | <p>LC spoke to a presentation and provided a view of what requirements the FCA place on Brunel as a regulated business. LC summarised the types of processes Brunel have in place to ensure FCA compliance.</p> <p>Brunel is open and transparent with the FCA and its underlying clients. Within the FCA handbook customers are assumed to be individual therefore Brunel is asking for more clarity on the pooling of customers.</p> <p>Brunel can only provide services to professional clients, not retail investors, and therefore will be required to annually review Funds' knowledge for Brunel to continue to classify each Fund as a professional investor.</p> <p>Brunel has Directors insurance (professional indemnity) though this does not cover illegality and potentially would not cover an FCA breach.</p> <p>SM to share the slides presented by LC.</p> | | SM |
| 5 | <p>Client assurance framework</p> <p>Review and feedback of the Clients assurance framework including Manager Access Policy.</p> | Paper | 11.20 – 11.45 25 mins |
| | Due to time, SC asked for questions. RB noted there was no inclusion on climate change in the Oversight paper and requested this is included. SC agreed this could be included. | | CG |
| 6 | <p>ARC update</p> <p><i>To note</i> - A semi-annual update from Mike Clark, NED and Chair of the Audit and Risk Committee (ARC) including the outcomes of the recent internal audit.</p> | Paper | 11.45 – 12.00 15 mins |
| | Due to time, MC asked for questions. No questions were received. | | |
| 7 | <p>Brunel Business Report</p> <p><i>To note</i> - A standing item update from Brunel on its business activities.</p> | Paper Brunel | 12.00 – 12.15 15 mins |
| | Brunel has revised its disinvestment query response letter given questions that have come in. The letter has been shared with CG and Brunel will share with the oversight board, | | Brunel |

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| | <p>DH raised some queries</p> <ul style="list-style-type: none"> • P5: will the split of the UK and International property funds reduce fee savings? MM confirmed that Brunel do not expect there to be a material impact on savings. • P5: has the Wiltshire AMC/TER issue now been resolved? MM confirmed that it has and all funds are now represented on the same basis. The only changes to the business case going will be to reflect actual transitions. • P14: has budget ownership now be delegated to budget holders? Yes ownership has now shifted to Directorate held. • P26: DH asked Brunel to expand on the on boarding risk of the property portfolios and why on boarding is taking so long. MM confirmed Brunel is asking funds to get data loaded so Brunel can begin management and realise the fee savings. • P28: client allocations to DGF has fallen, will this result in fall in fee savings? Brunel does not expect the fee saving impact to be material. DH asked why has the appetite declined. MM noted that some clients have made strategic decisions away from DGF and some clients have felt that the Brunel product does not fit their specific need. <p>RT then provided some questions</p> <ul style="list-style-type: none"> • RT asked for more clarity on the timing adjustments on P16. Shareholders approved budget for additional investment support, but some of the work shifted into the next year. RT noted the high use of consultants and asked if there is a policy on the use of them. Brunel set a budget and determines how long the resource will be required. If short term, then consultants will be brought in to provide specialist roles in the short term. • RT asked if the budget is being managed in line with expectations. JW noted that during the development phase, there are a lot of moving parts but Brunel is pleased that so far the process has been within tolerance of expectations. • Transition costs remain a large risk but Brunel are doing everything it can to minimise transition costs. As more transitions are completed, the risk reduces. Transitions are due to take place till 2021 but by mid 2020, two significant transitions will have been completed (Emerging Markets and Global High Alpha) which will account for a significant proportion of the transition costs. Emerging Markets is likely to be the most expensive transition in basis point terms. • RT asked if ESG will impact investment returns. MM responded that Brunel has done a lot of work to integrate RI and believe that reducing ESG risk will not affect returns and should have a positive impact. The Brunel Climate change policy will be provided in the autumn. • The ESG table on the Oversight board report shows a combination of ESG rating and size. The score is how good a company is and the net attribution (i.e. the rating scaled by the position size) determines the order of the table. CC noted the June quarterly report is due out in August. | |
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| 8 | Shareholder NED update <i>To note - A standing item update on the activities and perspective on the Partnership and its activities.</i> | Paper ST | 12.15 – 12.30 15 mins |
| | <p>Due to time, ST asked for questions.</p> <p>It was asked how Brunel judges investment managers on future investment performance. MM explained that Brunel aim to look at forward looking indicators i.e. how do managers generate ideas, how managers learn from mistakes, how do managers integrate risk, culture etc.</p> <p>TD expressed concerns around PwC's involvement and questioned whether the statement that the culture DT created is preserved should be included. DLG noted that the continuation of culture is important to existing employees for continuity. DLG confirmed the firm and its culture will continue to evolve.</p> | | |
| 9 | Any other Urgent or items for Information Future meeting dates <ul style="list-style-type: none"> • 26th September • 5th November to 21st November | Chair | 12.30 – 12.45 15 mins |
| | <p>The 5th November meeting has now been moved to 21st November.</p> <p>RT thanked DT in advance for all the work she has done at Brunel.</p> | | |
| 10 | Meeting close | Chair | 13.00 |