

BRUNEL UPDATE

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendations: **That the Committee notes the latest position with the Brunel Pension Partnership.**

1. Introduction

- 1.1. This report updates the Committee on progress with investment pooling, and the relationship with the Brunel Pension Partnership Ltd. The key issues over the last quarter have been the agreement of Brunel's Business Plan for 2019/20, and progress on launching portfolios. Brunel is also planning a governance review. This report was also taken to the Pension Board meeting on 11th February.

2. Brunel Business Plan

- 2.1 Under the terms of the shareholders agreement, the Brunel Pension Partnership is required to produce an annual business plan, which has to receive the unanimous support of the shareholders via a special reserved matters request. Following discussion by the Brunel Oversight Board, the business plan was issued to shareholders in November and was unanimously approved. The plan was considered and endorsed by the Investment and Pension Fund Committee before being signed off on behalf of Devon County Council by the County Treasurer.
- 2.2 The Business Plan for 2019/20 provides an update on the level of fee savings expected to be delivered compared with the original business case. The overall forecast savings up to 2036 across all the ten participating funds has increased by £250 million, largely as a result of increased Assets under Management, but also as a result of higher savings having been generated by the procurements undertaken so far.
- 2.3 However, Brunel had identified areas of pressure on resources that unless addressed meant that the company would not be able to meet the regulatory requirements of being an FCA regulated body and launch the planned portfolios within a reasonable timeframe. As a result, a significant increase in budget was agreed for 2019/20, to provide for increased staffing, consultancy support and IT system requirements. Brunel also requested greater flexibility to manage budgets across a three year period, to enable them to bring forward spending or delay spending across financial years if required. However this was opposed by three of the shareholder authorities, and therefore not agreed.

- 2.4 The total forecast cost to Devon for 2019/20 will be £1.198 million, compared with the original forecast of £739,000 contained in the original business case. However, this increase needs to be set against the savings that will be achieved by pooling, which would be put at risk if the additional resource was not put in place by Brunel. The business plan shows an updated position for each of the Brunel funds in comparison with the original business case, which shows an increase in savings for the Devon Fund over the 20 years to 2036 of £1.3 million, which is net of the increased resources set out above.

3. Transition of Assets

- 3.1 Brunel now has 6 portfolios launched and operational, including 5 passive equity portfolios. Devon's passive allocation transitioned to Brunel in July 2018, and is now managed by Brunel's appointed manager, Legal and General Investment Management.
- 3.2 In December, Brunel launched an active UK Equity fund, with assets being transitioned before Christmas. The UK Equity Portfolio has been split between three managers, Investec, Baillie Gifford and Aberdeen Standard Investments. Devon Fund does not have an allocation to UK Equities and was not therefore involved.
- 3.3 At the November meeting of the Investment and Pension Fund Committee it was agreed that an initial £100 million should be allocated to Brunel's Low Volatility Equities Portfolio. Brunel have appointed two managers, Quoniam and Robeco, to manage the Low Volatility portfolio, which was expected to launch early in 2019. It is now anticipated that the initial transitions to the portfolio will take place in mid-March.
- 3.4 The major procurement activity during the first half of 2019 will be to appoint managers to the active Emerging Markets and Global High Alpha Equities portfolios. The Emerging Markets procurement has already been commenced, with 145 expressions of interest received. The Global High Alpha procurement is due to launch shortly. It is anticipated that emerging markets assets will transition around September and the Global High Alpha Equities Portfolio will be available by December. Devon currently has allocations to both areas, currently being managed by Aberdeen Standard Investments.

4. Governance Review

- 4.1 Brunel formally began its operations on 18 July 2017 upon the execution of the current shareholders agreement and its annexes, including the services agreement. As Brunel is now progressing into normal operations and the governance arrangements have been operative for 18 months, a formal review of the governance arrangements relating to Brunel and its operations is being undertaken to ensure that all parties are operating effectively and with the appropriate levels of oversight and control.
- 4.2 The review will look at the following governance documents that refer to the operations and agreements between the parties that form the Brunel Pension Partnership:

- Articles of Association;
- Shareholders Agreement;
- Services Agreement.

The review will be based upon the feedback received from Clients and will aim to ensure that Brunel operates in a way that is compliant with its obligations under company law and its regulatory obligations as an FCA authorised, full scope MiFID firm.

- 4.3 It is intended that the review should be completed by the end of June, with revised documents agreed with the shareholders.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

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