

Brunel Oversight Board Meeting Minutes

Purpose: To review Brunel/Client progress agree next steps

Date and time: Thursday 31 January 2019, 10:30 – 13:00

Location: Park Avenue Room, 1st Floor, Doubletree by Hilton, Redcliffe Way,
Bristol, BS1 6NJ

Dial-in details: Dial In: 0330 336 1949 | Participant Pin: 429632

| <i>Pension Committee Representatives</i> | | |
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| David Veale | Avon | |
| John Chilver | Buckinghamshire | |
| Derek Holley | Cornwall | |
| Ray Bloxham | Devon | |
| Peter Wharf | Dorset | Phone |
| Robert Gould | EAPF | |
| Ray Theodoulou | Gloucestershire | Chair |
| Kevin Bulmer | Oxfordshire | Vice-Chair |
| Mark Simmonds | Somerset | Phone |
| Tony Deane | Wiltshire | |
| <i>Member representative observers</i> | | |
| Andy Bowman | Scheme member rep. | Phone |
| Ian Brindley | Scheme member rep. | |
| <i>Fund Officers and Representatives</i> | | |
| Tony Bartlett | Avon | |
| Julie Edwards | Buckinghamshire | |
| Mark Gayler | Devon | |
| Dave Wilkes | Dorset | Phone |
| Marion Maloney | EAPF | |
| Mark Spilsbury | Gloucestershire | |
| Sean Collins | Oxfordshire | |
| Jenny Devine | Wiltshire | |
| Nick Buckland | JLT - Client Side Executive | |
| Sophie McClenaghan | JLT - Minutes | |
| <i>Brunel Pension Partnership Ltd</i> | | |
| Denise Le Gal | Brunel, Chair | |
| Steve Tyson | Brunel Shareholder NED | |
| Matthew Trebilcock | Brunel, CRD | |
| Dawn Turner | Brunel, CEO | |
| Mark Mansley | Brunel, CIO | |
| Joe Webster | Brunel, COO | |
| Laura Chappell | Brunel, CCRO | |
| Chris Crozier | Brunel, CRO | |
| Alice Spikings | Brunel, CRA | |

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| David Jenkins | Brunel, SIO | |
| David Anthony | Brunel, CFO | |
| Mike Clark | NED and Chair of ARC | |

| Item | Agenda | Paper provided | Owner |
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| 1 | Confirm agenda Requests for Urgent or items for Information only Any new declarations of conflicts of interest | Agenda C of Interests | Chair |
| | <u>Conflicts of interest</u> <ul style="list-style-type: none"> JLT to update the conflict register to remove JS & NB's conflicts. JLT declared a conflict on item 4 and offered to leave the room for this item. | | |
| 2 | Review 1 November BOB minutes | Minutes | Chair |
| | The November minutes were agreed and confirmed as final. | | |
| 3 | Quarterly Performance Report – Q3 2018 | Performance report | MT/CC |
| | <p>MT presented the Quarterly Performance Report which was included as an appendix to the paper. The Quarter 3 report ending 30 September 2018 is the first iteration of an oversight board report. The report ending December is due to be released later today. In future the quarterly performance report will become part of the standing Brunel Update item. The format is similar to committee reports that members will have seen already.</p> <p>Key points discussed:</p> <ul style="list-style-type: none"> Brunel is looking to avoid investment jargon (such as ex-post) in reports going forward. The titles of the pie diagram require a bit of formatting. The reference to November in the Responsible Investment section refers to November 2018. Brunel has already produced a Voting Policy which is available on the website. The Voting Policy sits within the broader Stewardship Policy. It is possible for a Fund to vote in a different direction to other funds should it be required, however, it may incur additional costs. It was asked if Brunel is challenging investment managers. Brunel has appointed Hermes, who has a strong track record of engaging and challenging investment managers. Brunel will also be doing some of this engagement directly. ST provided assurance that rigorous training session was held with Hermes. This report will be produced quarterly and delivered on Business Day 22 after each quarter end. The 30 April BOB meeting will be before the deadline for production of the Q1 report, so will table Q4 report. Will be a review of | | |

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| | <p>the BOB meeting dates, to ensure data is timely. It was requested that the Dec report is circulated via email outside of the meeting pack. Agreed.</p> <ul style="list-style-type: none"> • It was noted that the report is already large in size and Brunel were asked to condense if possible and avoid any repetition. Brunel agreed to review so only relevant detail is included. • Transition costs are not included in this report but will be included in a separate transition outcome paper. Transition details are currently included in the standing item, business update report (item 6). <p>It was queried whether the business plan is being scrutinised robustly given substantial changes in market conditions. It will be increasingly difficult to compare to pre-pooling conditions as the baseline has changed. Brunel is observing the market and in some areas Brunel is pushing managers to provide a LGPS share class such as in private markets. ST felt this should be taken away to look at how this can be covered. Fund officers to discuss at a CG meeting.</p> <p>DT believes that the Funds would not be able to obtain the fee discounts that the pool as a collective can achieve. Property was given as an example, as a collective pool the fund of fund manager (and costs) can be removed. Brunel will be demonstrating this in future papers.</p> <p>It was asked if Brunel compares the costs savings achieved with other pools. MM responded that to a limited extent Brunel speak with other pools, however he emphasised that the cheapest manager is not necessarily selected and other pools may have different managers and different fees so comparisons are often difficult. Across passive markets, the managers are operating a standardised cost structure. Brunel has been including 'most favoured nation' clauses to contracts meaning managers can't provide a lower fee to any other investor without giving Brunel the same rate. MM believes that investment performance is more important than fees.</p> <p>It was asked whether Brunel were scrutinising the custodian fee in the same level. JW noted that Statestreet was appointed via a 5 year contract (with 4 years remaining) via a formal OJEU process. The contract includes competitive rates.</p> | | <p>Brunel</p> <p>Brunel</p> <p>CG</p> |
| 4 | Future support/resource requirements for Clients | Presentation | SC |
| | <p>JLT left the room for this item, and therefore the detail of the conversation was not minuted.</p> <p>The Oversight Board accepted the proposal of the CG to appoint JLT for another 1 year, with the option to extend for 1 year.</p> | | |

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| 5 | Governance Review | Presentation | MT/DT |
| | <p>Brunel has been operational for a period of time so it is appropriate for both sides to review whether the governance arrangements are working effectively and in line with regulatory requirements. Brunel is reviewing the articles of association and the shareholders agreement. Brunel has received feedback about the number of reserve matters. Page 4-6 of the presentation demonstrate the areas included in the review. The review timeline is dependent on its outcome.</p> <p>It was asked how often a governance review of this scale should be undertaken. FCA status requires Brunel to review its governance every year, but this is not likely to include clients. LC expects that if this review is done properly then it will not need to be done for another few years.</p> <p>It was asked if there was anything in the draft MHCLG guidance that should be incorporated. Brunel will formally review this document with CG and will ensure the feedback is included as part of the review.</p> <p>It was commented that the Shareholder agreement was originally produced by working groups of Section 151 officers and legal officers, and would they be involved again? DT confirmed that she is the sponsor of this document and that consultation of these and all interested groups had been planned into the review. Kevin (Brunel's Legal Counsel) will be reaching out to the original legal sub group that prepared the document. Brunel is keen to complete the review by September but acknowledges this is ambitious. The cost of completing the review was included in the business plan so has already been built in to budgets.</p> <p>A query was raised on the internal audit committee. MC summarised the ARC team and the appointment of Deloitte as external auditor.</p> | | |
| 6 | Brunel Update Report | Update report | MT/CC |
| | <p>This is the usual standing item update report. The performance report will be included in this report going forward.</p> <ul style="list-style-type: none"> • Brunel remains on track with the account forecasts. • Colmore is being on-boarded to provide mid and back office functionality for the property portfolios. • Factset is being implemented for the investment team to monitor investment portfolios. • The report includes a summary of investment portfolio developments. • The MHCLG consultation is noted. Brunel and the CG are planning a combined response to this document. • The client portal was launched in December and some key performance indicators are summarised in the | | |

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| | <p>document.</p> <p>It was asked if Brunel produce any gender pay analysis. Although it is not a formal requirement for Brunel, it is included in the annual report which will be discussed at the AGM later today. There is a gender pay gap, but this is mostly because there are women in the lowest quartile and in a small firm (35 people) the data can be distorted by 1 or 2 people.</p> <p>A comment was made on Appendix 3, point 7.2 regarding infrastructure investments. MM believes that the Government has come to understand that it can't tell LGPS to invest in infrastructure. Brunel is looking at different UK infrastructure projects, but will not invest in bad projects, noting that many projects are struggling to get off the ground.</p> | | |
| 7 | Shareholder NED update | Paper | ST |
| | <p>ST spoke to his standing item report. ST has added in his activity since the last BOB meeting.</p> <p>ST acknowledged that the investment team is getting to the more complex portfolios. The Strategic Investment Committee (SIC) reviewed the LDI report and Global High Alpha (GHA) papers at the last meeting. ST noted that the quality of papers is very high, as good, if not better than seen in private sector. The benchmark targets are ambitious, ST commented that if 50% of the GHA benchmark return was achieved it would result in a top quartile Fund. ST highlighted the focus on RI at the SIC.</p> <p>ST asked that funds provide feedback to client team on performance reports. ST encouraged members to get in touch with him if any questions.</p> <p>It was asked about the equivalent Shareholder NED position at other pools. DT noted not all pools have a shareholder NED but Borders to Coast have now appointed a shareholder NED. DT will ask at the next cross pool meeting with CEOs in February.</p> | | <p>Funds/ members</p> <p>DT</p> |
| 8 | ARC Annual Report | ARC report | MC |
| | <p>MC gave an overview of the annual report prepared by the Audit Risk and Compliance (ARC) committee. This report concludes that the work conducted by the external auditors agrees that Brunel is a going concern. The audit was unqualified which is hopefully comforting to members and ARC believe adequate capital is maintained.</p> <p>The ARC is increasing its focus on operational risk as there is now a larger team of people, and more portfolios to manage.</p> | | |

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| | <p>It was highlighted that in the risk register, personnel is still flagged as red. During the course of the year, operations became more complex, increasing the risk around people and what they are doing, resulting in a red flag. All high level risks are a standing item at ARC meetings and ARC challenge Brunel to plan to fix these flags. Over the next 6 months, ARC expects this red flag to reduce, but it takes time for the action plan to be implemented and have effect. Recruitment was agreed in December and is under way.</p> <p>A delay in the roll out of management accounts is also flagged as red. The internal audit will be looking at this area. Systems have caused issues but these have been resolved by DA and his team and ARC will review at the next meeting.</p> | | |
| 9 | Annual Report & Financial Statements | Financial Statements | JW/DA |
| | <p>JW summarised the key points of the annual report.</p> <ul style="list-style-type: none"> • Brunel includes additional disclosures that it is not required to include. • The biggest strategic decisions were to establish the tax efficient vehicle – ACS, and to accelerate the Private Markets portfolios, supported in a shareholder reserve matter. • Brunel achieved FCA regulation. • 9 clients have been on-boarded to Statestreet as custodian. • Brunel is no longer eligible for small company exemptions. • Page 45 shows the P&L statement. • Internal control environment ICE launched during the year which includes CG portal. • Equity section shows that the second tranche of funding was received. • Original savings assumed were £550m and current estimated savings are expected to exceed this assumption by £70m. <p>It was queried where the cash balance of £5.5m is being held. The cash is currently invested in a deposit account but Brunel are looking at investing £0.5-1.0m in an interest bearing account. The cash was deposited in Dec 18. Brunel requires regulatory capital of £1.5m is held in a liquid account. The investment process has been slowed as Brunel has MIFIID status and the finance team is light on resource. It was noted that the team has a treasury policy.</p> | | |
| 10 | Stakeholder Engagement | | MT |
| | <p>MT spoke to the paper which summarises the minimum service that clients should expect from Brunel and how it will be provided. MT asked that all communications are initiated through the client relationship team. This team will ensure</p> | | |

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| | <p>the correct people within Brunel respond to the communication.</p> <p>DH thanked MT for attendance at recent committee meetings in Cornwall. He continued to ask about Brunel's relationship with local pension boards as Cornwall recently had training from the pension's regulator who emphasised the importance of engagement with Local Pension Boards. This was also highlighted as important in the MHCLG. DT responded that Brunel has included fund member representatives on the Oversight Board. IB is on the EAPF Pension Committee and the Board. AB is on the Devon Board and often attends Pension Committee meetings as an observer. DT is not anticipating direct engagement with members. AB and IB circulate the notes/outcomes of meetings to the scheme member representatives from each of the underlying Funds.</p> <p>Not all of the other pools have scheme member representatives on the equivalent of their oversight boards. The Scheme Advisory Board has asked pools to clarify why they don't have member representation. Only 2 pools currently have representatives. Statutory guidance is currently to comply or explain. The Scheme Advisory Board will be completing a survey on the effectiveness of the boards shortly.</p> <p>DLG noted that Brunel would like to be represented at all pension committee meetings to enable them to understand the requirements and develop the relationship further. This however cannot be mandated. DLG confirmed they would find capacity to attend and this was built into the business plan. MT noted this may be the client relations team or someone from another team.</p> <p>The Chair asked whether the Brunel team was spreading itself too thin by attending the significant number of conferences and industry events highlighted in the papers. DT confirmed event attendance is something that is scrutinised. Brunel looked for conferences and events that are in line with the firms RI policy and other initiatives. Attendance is divided across the team to ensure training and development needs are met.</p> | |
| 11 | <p>Any other Urgent or items for Information only.</p> <ul style="list-style-type: none"> • SRM 10 – Business Plan outcome <p>Future meeting dates</p> <ul style="list-style-type: none"> • 30th April • 25th July • 26th September • 5th November | Chair/ MT |
| | SRM 10 - Business Plan outcome included 3 items: | |

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| | <p>1. Alteration to budget - approved</p> <p>2. Phasing of budget - declined by 3 funds. Brunel is working with CG to amend the wording which will be brought back to the April BOB meeting. This is an important matter to Brunel due to cyclical cycle of the business.</p> <p>3. Budget for 19/20 - approved</p> <p><u>Future meeting dates</u> Brunel to look at aligning BOB meeting dates and quarterly report deadlines BD22 after quarter end.</p> | <p>Brunel/ CG</p> <p>Brunel</p> |
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Produced: JLT on 11/02/2019