

Brunel Oversight Board Meeting Minutes

Purpose: To review Brunel/Client progress agree next steps
 Date and time: Thursday 21 November 2019, 10:30 – 12:45
 Location: Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU
 Dial-in details: CC: 0203 481 5237 /// ID: 274 741 9758

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

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

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

Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	
Mike Clark	NED and Chair of ARC	
Patrick Newberry	NED	
Matthew Trebilcock	Brunel, CRD	
Mark Mansley (MM)	Brunel, CIO	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, Acting CEO and CCRO	
Catherine Dix	Brunel, CRM	
David Anthony	Brunel, HoF & CS	

Item	Agenda	Paper provided	Action
2	Election of Chair and Vice Chair Election of BOB Chair and Vice Chair.	Verbal	
	RT was re-elected as Chair, and KB was re-elected as Vice Chair, both unanimously and without challenge.		
3	Confirm agenda Requests for Urgent or items for Information Any new declarations of conflicts of interest	Agenda Verbal C of Interest policy	
	No conflicts were declared No urgent or items for Information were declared		
4	Review 25 July BOB minutes	Minutes	
	There were two versions of the July minutes, one confidential version and one public version. It was highlighted that a confidential version was put in the public domain via a committee meeting pack. CG will consider how the process can ensure that confidential information is not put into the public domain.		CG/ 10 Dec
5	CEO appointment process Update	Verbal	
	DLG provided an update on the CEO recruitment process. Brunel has interviewed 13 candidates. 4 candidates were shortlisted but Brunel did not feel that any were appropriate to offer the role so haven't put anyone forward for appointment. Salary was not discussed, but the shortlisted candidates were asked about salary expectations. Brunel will pause and reflect how they move forward. LC will remain as Acting CEO, for the time being and Brunel will discuss this with the FCA. DLG believes the proposed approach should be acceptable to the FCA.		

	<p>It was queried why the final candidates were not appointed. DLG confirmed that the ability was there but the candidates were not necessarily attuned with the philosophy of the organisation.</p> <p>RT was part of the final interviews process as a representative of the Shareholders and added that he was comfortable with the decision and supported the reasoning behind it.</p>		
6	<p>Climate Change Policy Update An update following the Client Group workshop and Investor Days</p>	<p>Presentation provided on the day</p>	
	<p>MM presented the climate change policy work at the investor days and received very good feedback, and MM summarised for BOB. MM's key takeaway from the investor days was how important it is for Brunel to accessibly communicate the work it is doing to stakeholders. It is encouraging to hear that that the emphasis on climate change is important to stakeholders.</p> <p>KB noted that Oxfordshire ran an ESG workshop with multiple external attendees. The workshop was very well received and allowed stakeholders to see all the work that Oxfordshire is doing around climate change.</p>		
7	<p>Client assurance framework Review and feedback of the Clients assurance framework including Property.</p>	<p>Paper + paper presented on the day</p>	
	<p><u>Property assurance framework</u> SJ noted that the CG has now incorporated a property assurance framework to the client assurance framework. This framework is described on slide 30 of the presentation. Clients will receive quarterly updates on their individual property transitions. In addition, there will be an aggregated summary. There is no formal touchpoint after the transition plan is signed off.</p> <p><u>Client assurance traffic lights</u> SJ presented a second paper that was displayed on the screen. This paper will be shared to members following the meeting. Once CG receive the detailed quarterly performance report, CG will share an overview assurance traffic light report which will flag any concerns to BOB members.</p> <p>The report shows one amber flag for the RI metrics of the UK equity portfolio. Brunel is working with the manager to integrate climate change into its investment model. CG will be kept update on the progress between quarterly reports.</p>		<p>Mercer/ 29 Nov</p>

	<p>SJ also noted that there had been slight underperformance of the UK equity portfolio, however, there is currently a green flag for the following reasons:</p> <ol style="list-style-type: none"> 1. The portfolio is relatively new so the track record is very short 2. Brunel continue to have conviction that the portfolio will meet the objective in the longer term. Brunel is working with the manager that has underperformed. <p>The report doesn't currently include assurance for private markets. The PM team are working on an assurance framework. The draft will go back to CG for review. The PM team have a target of committing 100% of client allocated capital by 31 March 2020. As is stands the team have committed the following proportions and appear on track.</p> <ul style="list-style-type: none"> • Secured income 100% • Private Equity 68% • Infrastructure 38% <p>The traffic light assurance report will be a standard item at BOB going forward.</p>		
8	<p>Business Plan Report</p> <p>An update on the 2019 business plan progress and budget proposal for 2020/21.</p>	Paper	
	<p><u>Budget update</u></p> <p>DA spoke talked BOB through the presentation in the pack, beginning by reiterating the overall objectives of Brunel. Brunel began the business planning process in March. The plans have been through a challenge process with the Financial sub group and the CG.</p> <p>The indicative three year figures are in line with the original cost envelope. There is an overall cost increase to client of 2.8%, however this includes inflation.</p> <p>Additional cost pressures to Brunel have included people resource, transition analysts, CEO recruitment and additional training budget (in line with additional resource). In addition, there is more understanding from the investment team of what it takes to conduct due diligence.</p> <p>Brunel has also saved costs from lower than anticipated custodian costs, lower than anticipated PM asset allocations resulting in lower PM costs.</p> <p>The funding variance is the difference between Brunel's previous budget expectation and the updated expectation.</p>		

<p>It was queried whether the report is confidential or not. DA noted that some areas contain potentially commercially sensitive information though agreed that aggregate level detail would not be commercial. It was asked by BOB that confidential information is kept to what is actually confidential. Brunel agreed to provide a publicly distributable version.</p> <p>MS commented that FSG have scrutinised Brunel's analysis in some detail. The FSG worked closely with Brunel on the presentation of the budget. Clients should be aware that technically Brunel's budget goes down 1%, but costs are being passed on to clients, meaning the actual cost to clients has gone up by just under 3%. MS confirmed that FSG and CG were happy with the process and the robustness of the numbers presented.</p> <p><u>Regulation changes to regulatory capital requirements</u></p> <p>FCA guidelines on how regulatory capital is calculated are due to change in 2020. Brunel has calculated that the amount Brunel will be required to hold will increase to around £5m (previously £2.4m). Brunel will be required to raise capital from clients to meet these requirements. This will be discussed with CG when further information is released from the FCA. The request for additional regulatory capital will be split equally across all Funds.</p> <p>An update on the triennial actuarial valuation was requested. DA has received a draft update from the Wiltshire Fund, and Brunel's contribution rate has increased by 1.4% to 18.7%.</p> <p>RT commented that Brunel should be pushing back and lobbying to be exempt from the additional regulatory capital. Brunel confirmed it is engaging with the FCA on this issue plus a number of other issues. Brunel believe that the FCA is unlikely to provide an exemption.</p> <p>JW noted that the FCA's rationale for the regulatory change is:</p> <ol style="list-style-type: none"> 1. Harmonisation of regulations across Europe. It is unlikely Brexit will affect this regulation. 2. The calculation is moving to be based on the risk to customers, taking assets under management into account. <p>Brunel agreed to provide updates on the discussions with the FCA to BOB. LC noted that additional discussions/ lobbying with the FCA will take additional resource from the Brunel management team.</p> <p>DLG noted that SAB are working closely with the FCA. KB noted that this is the correct way to lobby as the SAB have direct access to the minister.</p> <p>JB offered, as a newly appointed member of SAB, to highlight the issues raised by the BOB but noted that this has already been raised by other members. JB will provide updates to BOB on this</p>	<p>Brunel/ 31 Dec</p>
--	-----------------------

	<p>and any other matters of relevance. JB noted proportionality should be applied and battles with the FCA should be selected carefully.</p> <p>JW noted that Brunel will work with CG to see if better balance sheet recognition can be achieved for the regulatory capital.</p> <p><u>Business case review</u></p> <p>The Business case review confirms that Brunel remain on target to deliver the expected savings and the expected breakeven year remains 2023.</p> <p>Brunel would like to launch the Business Plan including the proposed budgets as an SRM following this meeting, should BOB support the proposals in the paper. BOB supported the proposals and the issuance of the SRM.</p>	
9	<p>Investment Update</p> <p>To note – A standing item update from Brunel</p>	<p>Verbal update. Paper for noting.</p>
	<p>MM noted the CIO report included in the meeting pack.</p> <ul style="list-style-type: none"> • The Emerging Market portfolio is now live. A report will be provided shortly analysing the transition. • The GHA transition will commence shortly. This is the largest and hence the most market sensitive transition to date. • Brunel is looking for Private Market client commitments for the second cycle of funds by 31 March 2020. <p>DLG thanked the investment team, noting it had gone the extra mile and produced some excellent work. This thanks was seconded by BOB.</p>	
10	<p>Brunel Business Report</p> <p>To note - A standing item update from Brunel on its business activities.</p>	<p>Verbal update. Paper for noting.</p>
	<p>LC took the paper as read. LC felt the investor days were very successful and were well received from committee members. LC noted that the asset transition is now around 50% complete. The focus going forward will be on responsible investment, delivering next set of transitions, and portfolio performance.</p> <p>IB asked how confident Brunel is in achieving the 25pbs of investment outperformance when historic research shows that 80% of active managers underperform the benchmark after fees over a 10-year period. MM responded that the research is mostly based on retail funds which have higher fees. Brunel has taken the following steps to ensure outperformance</p> <ul style="list-style-type: none"> • Selection of high conviction investment managers 	

	<ul style="list-style-type: none"> • Review and removal of potential biases during the manager selection process • low weighting to performance within the manager selection process • diversification benefits from investing in a portfolio of multiple managers. <p>MSim asked about Brunel's process when managers underperform. MM responded that Brunel's main focus is ensuring managers are investing in line with its stated process and that the investment team's structure remains robust. Brunel is conscious of buying at the top and selling at the bottom.</p> <p>SJ noted that in terms of reporting, an underperformance should come through in the quarterly monitoring report and will feed into the client assurance traffic light report.</p> <p>JB acknowledged and thanked the Brunel for the amount of work completed, particularly given the additional challenges faced along the way. LC also thanked the CG for its support.</p>		
11	<p>Shareholder NED update</p> <p>To note - A standing item update on the activities and perspective on the Partnership and its activities.</p>	Paper	
	<p>ST summarised his view of the Shareholder NED role which he is required by law to do as:</p> <ol style="list-style-type: none"> 1. represent shareholders; and 2. act in the best overall interests of shareholders. <p>As part of the governance review, the definition of the shareholder NED role will be reviewed.</p> <p>ST noted that the amount of time that both executive directors and non-executive directors have spent on the SRM relating to the recruitment of a CEO has been disproportionately high. Also as part of the governance review, ST believes it is a good idea for clients to review the requirements that cause such a high frequency of RMs and SRMs. ST understands client resistance to removing the unanimous consensus requirement for a SRM but believes it should be considered by clients.</p> <p>ST Chairs the Remuneration Committee, and he noted that he is pleased with the recent staff benchmarking exercise that has been completed for Brunel's staff.</p>		
12	Feedback from September BOB meeting	Verbal update. Paper for noting.	

	Feedback from Brunel on the points raised at the September meeting.		
	<p>NB confirmed that in the closed session, BOB members were given an overview of the recent strategy and governance group call. The BOB members supported the outcomes and next steps discussed at the meeting. The strategy and governance group will meet again in early December.</p> <p>DLG commented that she felt that communications had improved since recent discussions.</p>		
13	<p>Any other Urgent or items for Information</p> <p>Future meeting dates</p> <ul style="list-style-type: none"> • Thursday 30 January • Thursday 19 March 	None	
	BOB was due to further consider the business plan in the January meeting but as this was supported by BOB today, the meeting will no longer be required. The next meeting will take place on 19 March.		All/ 19 Mar
14	Meeting close		