

Brunel Oversight Board Meeting Minutes

Purpose: To review Brunel/Client progress agree next steps

Date and time: Thursday 19 March 2020, 10:30 – 12:00

Location: Conference Call

Dial-in details: CC: +442034438728/// ID: 879699995

Pension Committee Representatives		
Bruce Shearn	Avon	
John Chilver	Buckinghamshire	
Derek Holley	Cornwall	
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		
Liz Woodyard	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	
Mark Gayler	Devon	
Aidan Dunn	Dorset	
Craig Martin	EAPF	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Sam Yeandle	Mercer – Minutes	

Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Matthew Trebilcock	Brunel, CRD	
Mark Mansley (MM)	Brunel, CIO	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CEO	
David Anthony	Brunel, HoF & CS	

Item	Agenda	Paper provided	Action
1	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		
2	Review 21 November BOB minutes	Minutes	
	The previous minutes were accepted and signed (virtually).		
7	Client assurance framework (including investment update) Review and feedback of the Clients assurance framework.	Paper	
	<p><u>Client assurance traffic lights</u></p> <p>SC presented the paper and noted that there are two amber flags as at 31 December 2019, and highlighted the discussions that had taken place with the Client Group to give assurance.</p> <p>The first (as per the last meeting) is the RI metrics of the UK equity portfolio. Brunel had been working with Invesco to integrate climate change into their quantitative investment model.</p> <p>It was noted that post quarter end, changes were made to the portfolio to integrate this additional metric and lower the carbon exposure without fundamentally changing the wider investment thesis or portfolio construction approach. It was noted the timing was very fortuitous in hindsight given the steep decline in the oil price shortly after. The client group noted this was a very positive example of active engagement with investment managers leading to better outcomes for all parties.</p> <p>The second amber flag was in relation to the secure income portfolio, due to issues around deal flow. It was noted that 1 major deal (a long lease property investment in student housing) had</p>		

	<p>been delayed for several months, raising slight concerns about the overall speed of deployment.</p> <p><u>Market Update</u></p> <p>Given the extraordinary moves in markets YTD, a general update on portfolio performance was given by MM.</p> <p>He noted that the current coronavirus pandemic had led to a broad and material sell off in markets. Global equity markets were now in bear market territory having fallen roughly 30% from their peak and there was no clear visibility around when the volatility would end.</p> <p>All four listed equity portfolios had been hit hard, down around 25% in aggregate, with 2 of the active mandates outperforming and 2 underperforming. MM noted that there was no big surprises in the underlying manager performance (i.e. they generally performed in line with expectations). Brunel remain in close contact with the managers, particularly those who are using the sell-off to dynamically trade and add new positions to their portfolios.</p> <p>DH queried the weight to the US market within the equity portfolios and whether that was leading to a more concentrated risk exposure. MM commented that the bigger risk was at a sector level rather than a country level, given the impact will be felt materially differently across different sectors. For example the technology firms able to work largely remotely with lower fixed costs would feel the impact much less than more 'traditional' industries, energy, retail, manufacturing etc.</p> <p>In private markets, the initial impact was more muted but was still an important issue to watch. In Infrastructure, secondary opportunities were likely to become more favourable. In private debt Brunel were slightly more cautious of the investment outlook given rising default rates.</p> <p>The Chair noted that members would benefit from a general update on markets given the recent volatility. MM confirmed that Brunel would circulate a briefing note shortly.</p> <p>In terms of transition plans, MM confirmed that Brunel are relatively close to launching the sustainable equity, small cap equity and DRF portfolios, with FCA approval now being granted. Brunel noted that in response to the heightened volatility they are monitoring markets very carefully, but were currently planning to proceed in line with the existing transition plans providing dealing costs were not prohibitively expensive at the time of trading. However MM conceded that there was serious doubt whether they could continue as planned.</p>	<p>Brunel</p>
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4	Budget Update An update on the budget position.	Paper	
	<p>SC noted that Finance Sub Group had been working closely with Brunel on this report and the sub-group was content with the figures and could give assurance to the process.</p> <p>DA presented the Brunel's budget for 2019/20, which was £10.8m, approved as part of the 2019 Business Planning process including £0.4m carry forward from 2018/19. As at 31 January 2020, budgeted expenditure for the year was forecast to be £9.7m, currently a variance of £1.1m.</p> <p>Of this £1.1m, £0.16m represents funding that was agreed as part of the 2020 Business Planning cycle to be used in 2020/21. A further £0.50m represented timing adjustments that will now be spent in 2020/21. The remaining £0.48m represented a projected underspend against the budget. This current variance represents c.11% of the original budget.</p> <p>DH asked whether as an assurance, the average variance shown is typical of a comparative company. LC noted that the costs will be largely typical, and the level of variable is broadly to be expected given the company is still in its infancy. She would, however, expect the budget to move closer in line over time.</p> <p>RT queried whether coronavirus was likely to affect the costs. LC noted that it was still too early to understand the full extent of the impact; however, at the moment there was no impact (although clearly this could change). The 5% contingency built into the budget is for unseen circumstances such as this.</p>		
5	Brunel CEO Report To note – An update from the Brunel CEO on business activities	Paper	
	<p>LC updated the group on how coronavirus was affecting Brunel operationally. She noted that staff had been set up at home and have always had the option of mobile working. Availability will likely be an issue give childcare commitments and other disruptions; for Brunel and for the Client Group.</p> <p>There would potentially be an impact on the quarterly reporting and manager availability for new portfolio launches etc. If capacity was indeed restricted, Brunel's priorities would be on managing the existing portfolios, rather than continuing the launch schedule for new portfolios or undertaking other projects.</p> <p>LC continued to highlight that a number of areas were being put "on hold" to focus on the priority items. These included:</p>		

	<p>Stock lending, the governance review and review of currency hedging. It Was likely that the cycle 2 commitments window for the private market mandates would also be put back slightly. Portfolio transitions would be continually monitored to ensure suitable market conditions.</p> <p>TD asked whether any staff related cost cutting was being considered. LC noted that there was no current disruption to payroll or plans to decrease the Brunel headcount at this stage.</p>	
6	<p>Governance Update <i>To note – An update from the Strategy and Governance Sub-Group</i></p>	<p>Verbal update. Paper for noting.</p>
	<p>SC and LC presented the report jointly. SC noted that the Strategy & Governance Sub-Group were requested by BOB to review the governance arrangements following some concerns that they were not always effective/efficient for all partners, hence this report.</p> <p>LC noted that the work was not yet concluded, and so this was an interim version of the report. The following had been considered by the sub-group:</p> <ul style="list-style-type: none"> - Removing those operational matters from Reserve Matters. The Client Group will discuss this. - The percentage requirement for a matter to be adopted (currently 100%/80%) and a requirement for all Funds to not withhold their approval unreasonably (which means they need to provide an explanation for any rejection so the matter can be further reviewed any re-drafted or mitigation for any risk proposed) with a sanction for non-compliance or an ability to abstain, this too will be consulted upon. - The role of the Shareholder Non-Executive Director (SNED). It was recommended that the Chief Stakeholder Officer role would assume many of these duties in an executive capacity. Recruitment for the Chief Stakeholder Officer roles has now commenced. The recommendation of the Sub-group is to remove the role of the SNED and have escalation through ultimately to the Independent Chair of the Brunel Board. The role of SNED will now be under further consultation with Funds. <p>RT noted that the word sanction should be softened and queried what sanctions could be realistically applied when a fund acts 'unreasonably'.</p> <p>On the subject of the Chief Stakeholder Officer LC added that whilst the recruitment process continues, trying to recruit someone in this environment would prove difficult.</p> <p>RG reiterated the EAPF position that given the fundamental difference in roles between an Executive and a NED, they do not feel it is appropriate to remove the SNED role at this point. He</p>	

	referred to his email that had been circulated to all ahead of the meeting.		
7	Regulatory Capital	Paper for noting	
	<p>JW and LC introduced the paper and noted that it was purely for noting, no decision was required.</p> <p>JW explained that the purpose of the presentation was to outline the plan for raising capital in future, which may be required as a result of regulatory changes.</p> <p>To date, Shareholders have provided Brunel with £8.4m share capital, through two planned capital raises. That capital is intact and safely held on the Brunel balance sheet. However, more capital is expected to be required as Brunel's risk profile matures, and the regulator brings in new standards (expected in 2021 or 2022).</p> <p>The consequences of not having adequate regulatory capital are serious, potentially resulting in Brunel having to cease operations, or even having to be wound up completely.</p> <p>JW noted that the drivers of the increased capital change were the new regulations and the advice from experts that the company had engaged with (notably PWC) who had conducted stress testing on the capital position. JW also explained that the increase represents the natural evolution as the Brunel risk profile changes over time.</p> <p>The paper was provided to keep the BOB informed, but the matter is being worked through with the Client Group.</p>		Brunel/CG
8	<p>Any other Urgent or items for Information</p> <p>Future meeting dates</p> <ul style="list-style-type: none"> • Thursday 25 June • Thursday 3 September • Thursday 3 December 	None	
	The next meeting is highly likely to take place via conference call rather than in person.		
9	Meeting close		