

Brunel Oversight Board Meeting Minutes

Purpose: To review Brunel/Client progress agree next steps

Date and time: Thursday 25 June 2020, 10:30 – 12:00

Location: Conference Call

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

<i>Pension Committee Representatives</i>		
Shaun Stephenson-McGall	Avon	
Tim Butcher	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	

<i>Member representative observers</i>		
Andy Bowman	Scheme member rep.	
Ian Brindley	Scheme member rep.	

<i>Fund Officers and Representatives</i>		
Liz Woodyard	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	
Mark Gayler	Devon	
David Wilkes	Dorset	
Craig Martin	EAPF	
Paul Blacker	Gloucestershire	
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Daniel Wilson	Mercer – Minutes	

Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
James Russell-Stracey	Brunel, CSO	
Faith Ward	Brunel, CRIO	
Matthew Trebilcock	Brunel, CRD	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CEO	
David Anthony	Brunel, HoF & CS	
Richard Fanshawe	Brunel, HOPM	

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 urgent items or conflicts of interests were noted.		
2	Review of 19 March 2020 BOB minutes	Minutes	
	The minutes from the 19 th March were reviewed. Both actions on the minutes have been completed. No concerns were noted and they were signed virtually.		
3	Client Assurance Framework (including investment update)	Paper	
	<p>SJ, as Chair of the Operations Sub-group of the Client Group, presented the client assurance framework documents. He provided a reminder of the assurance framework; the client group reviews these reports on a quarterly basis and the condensed document is presented to BOB.</p> <p>SJ discussed Appendix 1 and explained that the group have added arrows to show how these scores have changed over the quarter. He highlighted the RI metrics on the UK equity portfolio on page one. He explained that this has improved as a result of work from Brunel with the manager to improve processes that factor in the level of carbon risk in the portfolio.</p> <p>MT explained that Brunel are actively working to improve reporting on private markets. This will be added in the future and these improvements may be seen next quarter.</p> <p>SSM queried the one UK active equity manager that is on watch and what this means. SJ explained that the performance remains on track meaning that the colour remains green. DS explained that the manager was Aberdeen standard, and that they are continuing to meet with the manager on a regular basis to address the concerns.</p> <p>RT queried to the time horizon for a return to better performance for AS (Aberdeen Standard). DS explained that it would be usual</p>		

	<p>to allow a whole market cycle but if the outcomes are not what Brunel expect then action can be taken. DS explained that AS are taking reasonable steps and processes that Brunel are comfortable at present.</p> <p>RT queried that the same stocks are appearing in multiple portfolios, and asked whether there is a system for measuring the exposure to a particular stock. DS explained that this is something that Brunel need to do in terms of exposure reporting. He explained that this is something, which is simple for Brunel and happens quite regularly, FW explained that this is part of the risk management approach.</p> <p><i>BOB noted the paper.</i></p> <p>Asset transition MT explained that the asset transition is sticking to schedule despite little transition activity since March.</p>	
4	Budget outturn	Paper
	<p>MG, as Chair of the Financial Sub-group (FSG) of the Client Group, provided an update to the Budget outturn report.</p> <p>He commented that the FSG have discussed the report and the under-spend of £1.662million with Brunel. The discussions resulted in a time adjustment of £0.521million as these are capped at 5% of the budget. The FSG and CG were content and supported the carry forward and the under-spend.</p> <p>TD commented that he did not support the decision for Brunel to retain hold of the under-spend to support the regulatory capital requirements but would like to know the reasoning behind this in the later part of the agenda.</p> <p>SSM queried to the impact of the 2020/21 budget and whether Brunel will be able to spend all the funding given the current situation. LC explained that given where Brunel are now, there has been underspend and overspend in different areas. She added that some transitions are going to be delayed as a result of markets and transitioning costs. The budget is broadly, where Brunel want it to be given the current situation and the market volatility.</p> <p>PB queried the robustness of the budget and the various fluctuations especially the under-spend in the admin and custodian section. MG explained that as FSG had gone through all of this and that the lower than expected custodian costs are as a result of looking after less assets than expected. MG added that FSG and CG are happy with this under-spend and LC added that there will be continual review by FSG despite the complexities as a result of COVID-19.</p>	

	<p>PB also queried to how underspend would be used and whether it would be split as he was concerned about the whole £937,000 being transferred to the RC (regulatory capital). JW explained that the pooling regulations mean that they have to be FCA regulated. 7 of the 8 pools are FCA regulated. JW explained that there is a buffer and there is a lot of uncertainty to what is needed especially with changes coming into place in 2021, this amount is only small compared to other pooled funds.</p> <p><i>BOB noted the paper.</i></p> <p>The following were agreed after discussions later on the agenda <i>BOB:</i></p> <p><i>Agreed the variance on the budget.</i></p> <p><i>Agreed the timing adjustment.</i></p> <p><i>Agreed the support to the regulatory capital.</i></p>	
5	Brunel CEO Report	Paper
	<p>LC presented the paper and highlighted the progress Brunel was making with regard to the 5 key objectives that had been set, and explained that despite the current markets they are still on track.</p> <p>LC explained that Brunel have made light of the challenges they have faced as a result of the COVID-19 situation. She explained that the team is working really well and very productively and working as business as usual despite working from home.</p> <p>SSM asked for clarity on section 3 of the report on RI and stewardship. He questioned to the 867 engagements with companies during 2019. LC explained that this only relates to the engagement from Hermes. An engagement plan was set for the investments with the highest exposure; this means it had a strong capitalisation bias and takes investment risk and likeliness into account. FW explained that this does not take into account all the companies that Brunel owns as there are too many. On the Brunel website there are updates to the 867 engagements.</p> <p>JB provided appreciation for the work that Brunel have done. He queried whether there were any opportunities to work more closely with the SAB (Scheme advisory Board). They are trying to reduce the tax on the US real assets. JW explained that the pool's COO's meet often and that there will be lots of opportunities arising in the future.</p> <p>RT asked what progress was being made with the CIO replacement. LC explained that the job-advert is live on the website and so far, the candidates are promising. The advert will be open for 4 weeks and conversations with candidates will begin before the formal process starts. The responses will be reviewed at the beginning of the following week.</p> <p><i>BOB noted the paper.</i></p>	

6	Regulatory Capital	Paper	
	<p>MG provided an update to the Regulatory Capital Recharge Agreement. He explained that Brunel must needs to have some regulatory capital as a result of being FCA regulated and that this is calculation includes the pension deficit.</p> <p>It was explained that an increase in pension liabilities would mean that an increase in regulatory capital needed. Brunel are proposing a pension recharge agreement which would be shared between the 10 funds, this would effectively take the liability off the Brunel balance sheet and remove the need for increased regulatory capital. The agreement is currently being reviewed by each funds legal teams but this has been agreed unanimously in principle by the Client Group.</p> <p>TD explained that he believed that the size of regulatory capital was never needed before pooling, and that this was an additional un-planned cost of pooling. He queried whether the FCA are correct in asking this. JW explained that the FCA rules needed to be followed and what was being presented was a solution to this. MG noted that the value of Brunel goes onto the fund's net asset statements, and that if Brunel holds more regulatory capital then the value of Brunel goes up meaning that net assets will not change. The net effect on each of the underlying shareholders was zero.</p> <p>TB questioned whether the shareholders are liable to pay Brunel's pension deficit. JW explained that if they had more head count this would likely increase the liability and therefore increase the contribution rate from the shareholders. MG explained that it is the funds obligation but is individual to each fund. The admissions agreement outlines these risks.</p> <p>RB feels that this is a very prudent measure, and a sensible solution. He is happy with the proposal put forward. This was supported by JB who agreed that the solution is reasonable and neat. He thanked MG and the FSG for producing this suggestion.</p> <p>JB explained that there is a need to keep a sense of proportionality in these discussions and a need to pick which battles, if any, to fight with the FCA.</p> <p>The regulatory capital could increase to £5m as the value of funds increases under Brunel's management. RT queried to whether there is a document which outlines this and must be agreed. JW confirmed there was and this would be shared.</p> <p>RT stated that it was his understanding that new joiners to Brunel would not receive the same "gold plated" LGPS benefits as the current employees. DLG explained that this is not correct and that the LGPS is offered to all Brunel employees. It had been agreed previously that this would be reviewed after three years, and this review was currently ongoing. The LGPS was offered to attract</p>		Brunel

	<p>and retain talent and has proven a useful tool to Brunel. RT agreed that this is an attractive scheme to offer but explained that this is an extremely expensive scheme and this is an added liability to the authorities.</p> <p>RT explained that he believe that you can negotiate with the FCA around regulatory capital. He explained that local authorities are going to have a tough time over the next few years and that these additional costs were not welcome. RT asked that negotiations should be opened with the FCA.</p> <p>LC explained that the FCA do not negotiate around these matters and that Brunel were discussing with SAB, however she felt that a sense of proportion had to be taken when considering the issue. LC explained that the other LGPS pools were very well capitalised unlike Brunel and these other pools would not share these concerns, and Brunel would be a lone voice if discussions arose with the FCA. JB repeated the points he made earlier around proportionality and taking a battle to the FCA, he explained that this topic and issue is not shared with the other pools and would be a difficult fight.</p> <p><i>BOB noted the paper.</i></p> <p><i>BOB supported:</i></p> <p><i>The pension re-charge agreements to be taken to each funds legal teams for endorsement.</i></p> <p><i>Note: It was agreed to support the pension re-charge agreement in principle, on the basis that the documents will need to be signed by each shareholder individually.</i></p>	
7	Any other urgent or items for information	
	No other urgent items were noted.	
8	Meeting Close	
	Meeting close: 12.00	