CT/21/78
Investment and Pension Fund Committee
17 September 2021

BRUNEL: TRANSITION OF ASSETS

Report of the County Treasurer

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

Recommendation: that the Committee be asked to note the transition costs incurred in the recent transitions to Brunel.

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1. INTRODUCTION

1.1 This report is to update the Committee on the current position with the transition of assets to the Brunel Pension Partnership. This includes the costs associated with the recent transitions of the Wellington multi-sector credit fund investment to the Brunel multi-asset credit portfolio and the Lazard global bonds mandate to the Brunel Sterling Corporate Bonds Portfolio.

2. TRANSITION OF GLOBAL BONDS TO STERLING CORPORATE BONDS

2.1 The transition of the Lazard Global Bonds mandate to Brunel's Sterling Corporate Bonds portfolio took place during June and was completed by 2 July. The transition was undertaken by Blackrock's transition management team and was highly complex as it formed part of the wider fixed income asset transition programme which saw all Brunel clients participating in separate but coordinated multiple asset transitions. Careful coordination of partner funds, target managers, legacy managers, custodians and transfer agents was required to ensure the transition proceeded as planned.

2.2 The Devon Fund transitioned £303 million into the Sterling Corporate Bonds portfolio. Five other Brunel clients were involved in the transition with a total allocation of £2,192 million. Of that total £771 million was already managed by Brunel's appointed manager, Royal London Asset Management. A further £348 million was cross traded from existing portfolios, resulting in a saving on spread costs.

2.3 The total cost of the exercise came to £4.83 million, or 0.225% of the value of the assets being transitioned. A breakdown of the costs is shown in the following graph:
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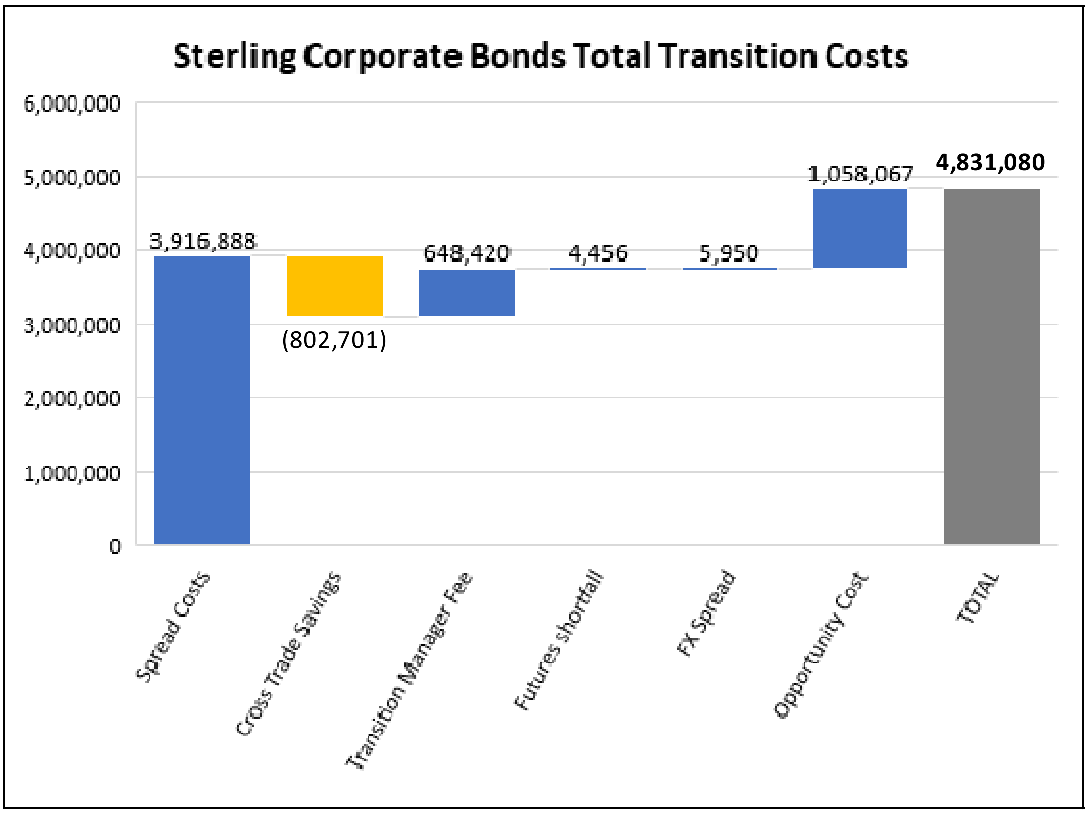


2.4 Devon's share of this equated to £675,000, which was lower than the estimated transition cost for global bonds in the original business case. It should be noted that the cost of the transition of Devon's allocation was higher than this, but the costs were shared out proportionately under the cost sharing agreement in place.

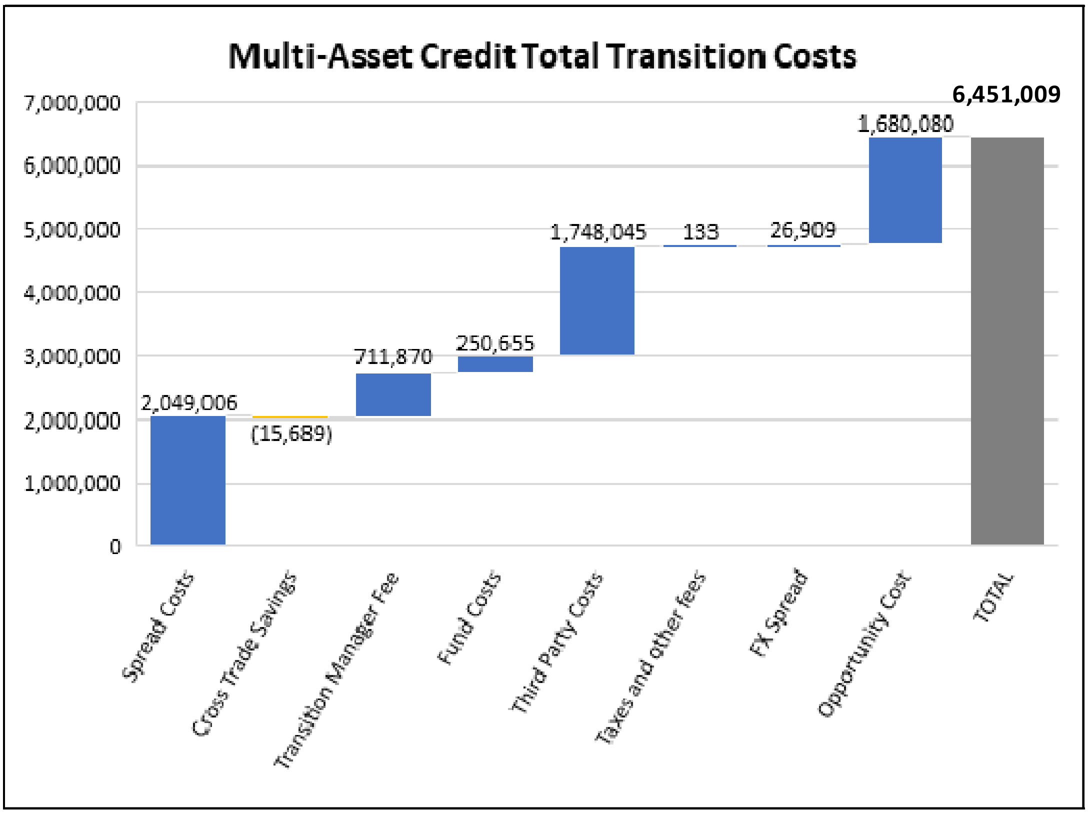
3. TRANSITION OF MULTI-ASSET CREDIT

3.1 The transition of the Wellington multi-sector credit fund investment to the Brunel Multi-Asset Credit portfolio was also undertaken in June, as part of the same transition exercise, and was completed by 7 July. In this case all ten of Brunel's client funds were transitioning assets into the portfolio. Devon's allocation was £348 million out of a total of £2.218 million being transitioned.

3.2 Brunel had selected three managers to manage the portfolio, and the investment was split between the three managers in the following proportions:

- CQS Brunel Multi Asset Cred Fund - 20%
- Neuberger Berman Brunel Multi Asset Credit Fund - 60%
- Oaktree Brunel Global Credit Fund – 20%

3.3 Devon's investment with Wellington was redeemed in cash, and across all the clients there was less opportunity for retention or cross trading of assets. The total cost of the transition came to £6.45 million, which equated to 0.29% of the assets being transitioned. A breakdown of the costs is set out in the following graph:



3.4 The largest element of the cost was the opportunity cost of £1.68 million resulting from the strong performance of the buy side assets compared with the sell side assets during the transition period. Devon's share of the costs came to £1.023 million. This is around £350,000 higher than the estimate included in the original business case agreed in 2016, largely due to the opportunity costs. The original business case also assumed that Brunel would use one or more of the incumbent managers of the client funds which would have saved on transition costs, but this did not happen.

4. FINAL POSITION ON TRANSITION COSTS

4.1 The transfer of the fixed interest assets represented the last major transition of Devon Fund assets across to the Brunel Pension Partnership. Brunel now manage just under 93% of the Devon Fund's assets. At the end of September, we will receive the final redemption proceeds from the RWC European Focus Fund, which will be subscribed to the Brunel Smaller Companies Equity Portfolio, and take the total Brunel managed assets to just over 93%. The RWC fund could not be included in the initial smaller companies transition due to the fund's redemption rules.

4.2 As the transition process is now complete, the total transition costs can now be reviewed against those included in the original business case for the set-up of Brunel. These are summarised in the following table:

Devon Transition Costs Summary

Brunel Portfolio	Devon Manager pre-pooling	Business Case Estimated Costs incl. tax £'000	Actual Costs £'000	Variance £'000
Assets Transitioned				
Passive Equities	UBS/SSgA	1,081	204	(877)
Global High Alpha Equities	Aberdeen	536	1,190	654
Global Smaller Co. Equities	Specialist Funds	410	1,338	928
Emerging Market Equities	Aberdeen	1,144	876	(268)
Diversified Growth Funds	Baillie Gifford/Barings	1,139	1,157	18
Property	La Salle (prev. Aviva)	549	-	(549)
Sterling Corporate Bonds	Lazard	1,001	675	(326)
Multi-Asset Credit	Wellington	672	1,023	351
		6,532	**6,463**	**(69)**

4.3 As can be seen from the table, the total transition costs were broadly in line with those set out in the original business case, but there were significant variances on individual asset classes. Predicting transition costs is extremely difficult, as they will be influenced by market conditions at the time of transition which cannot be known in advance. The costs will also have varied depending on whether the managers selected by Brunel were already managing the relevant assets for one or more of Brunel's clients, in which case the transition costs for those assets would be minimised. It is reassuring that, overall, the transition process has delivered a result consistent with the original business case

4.4 The remaining assets that are not managed by Brunel comprise investments in infrastructure and private debt funds. These assets will not transition, but for the most part they are funds that have a fixed lifespan at the end of which all capital will be returned. These are summarised in the following table, which includes the current valuation and the end date for each fund:

Devon Direct Investments not transitioned to Brunel

Investment	Current Value as at 30-Jun-21 £'000	Fund Close Date	Notes
Archmore (UBS) Infrastructure Fund	16,064	2024	Including agreed extension
First Sentier EDIF I	29,416	2024	
Hermes Infrastructure Fund	48,059	2029	Option to extend by 3 years
Aviva Infrastructure Income Fund	16,113	Open Ended	Potential further commitment
Aviva ReALM Ground Rents Fund	18,215	Open Ended	
Arcmont Senior Debt Fund I	58,422	2022	Option to extend by 2 years
Golub Capital Partners Fund 11	47,504	2027	Option to extend by 2 years
	233,793		

4.5 With the exception of the potential for a further commitment to Aviva, all new private markets investment opportunities will be accessed via Brunel, so as these funds move towards their end dates the percentage of Devon Fund assets managed by Brunel will gradually increase to nearer 100%.

4.6 The cash allocation will continue to be managed in house to meet cashflow requirements.

5. CONCLUSION

5.1 Following the completion of the two most recent transitions, the process followed was reviewed by Inalytics, who provide a service to independently scrutinise transitions. They concluded that the transition had been carried out efficiently, and there were no areas of concern regarding the methodology used and the values presented.

5.2 With the Brunel transitions now complete, and in line with the original business case, the risks recorded in the Pension Fund Risk Register around the transition of assets to Brunel have now been removed.

5.3 The Committee is asked to note the outcome of the recent transitions and the conclusion of the transition programme.

Mary Davis
County Treasurer

[Electoral Divisions: All]

LOCAL GOVERNMENT ACT 1972:
LIST OF BACKGROUND PAPERS: NIL

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