Brunel Pension Partnership

BOB

Brunel Oversight Board Meeting
Minutes

Purpose:	To review Brunel/Client progress agree next steps
Date and time:	Thursday 17th March 2022, 10:30 – 12.11
Location:	Microsoft teams

Pension Committee Representatives		
Paul Crossley	Avon	
Tim Butcher	Buckinghamshire	
Jayne Kirkham	Cornwall	
James Morrish	Devon	
John Beesley	Dorset	
Robert Gould	EAPF	Chair
Lynden Stowe	Gloucestershire	Apologies
Kevin Bulmer	Oxfordshire	Vice Chair
Sarah Payne	Somerset	
Richard Britton	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	
Graham Cook	EAPF	
Craig Martin	EAPF	
Matthew Trebilcock	Gloucestershire	PC representative
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Bijal Patel	Mercer	
Rob Edwards	Mercer	Minutes

Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Liz McKenzie	Brunel, Shareholder NED	
Patrick Newberry	Brunel, NED	
James Russell-Stracey	Brunel, CSO	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CEO	
David Vickers	Brunel, CIO	

Tim Dickson	Brunel, HoCRM	
David Anthony	Brunel, HoF	
Chris Crozier	Brunel CRM	
Bethan Jones	Brunel, CRA/EA	
Luke O'Donnell	Brunel, CRM	
Alex Munro	Brunel, HoComms	

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	
	RG welcomed everyone to the first hybrid meeting. MT passed on apologies from LS and noted he would act as proxy. The agenda was confirmed and it was noted that there were no new declarations of conflicts of interest.		
2	Review 27 January BOB minutes	Minutes	
	The minutes of the previous meeting were agreed.		
3	Brunel CEO Report	Paper	
	LC explained that DV would cover the Russian situation and performance later on in the agenda. LC noted the value of transitioned assets reached £31.3 billion at the end of December 2021 with an additional transition of £460m into the global sustainable fund in the current quarter. LC further noted that in January the first assets moved into the passive climate transition benchmark fund with an allocation of £470m. There were, albeit smaller in scale, positive increases in the private market portfolios and there had been a significant increase in funds being called by managers now. For example infrastructure is now over 60% deployed in cycle one and 37% deployed in cycle two, which is ahead of expectations. LC highlighted the climate stock take which Brunel are currently working through. This is a key priority for the year and involves reviewing the 2019 policy and a backward look to see what has and hasn't worked well. This will take Brunel until the end of 2022 to complete as there are numerous consultations that need to take place with clients and stakeholders. LC flagged that from the risk management perspective Brunel are planning to complete strategic review on where Brunel are		

	heading in the next five years. This will be covered later on the agenda. LC noted that financials are slightly under budget due to timing issues and Brunel will look to give a small amount of money back to clients at the end of 2022. LC covered cost savings and noted that there weren't many changes. JK had some questions around the stock take, in particular surrounding engagement with companies and how these companies have been responding to the engagement. DV explained that Brunel, the managers and Hermes engage with companies, which includes companies Brunel don't own. The stock take results will give further details on the amount and extent of engagement. The forward looking policy will show companies that can't change and those that won't change. From these results some decisions will be made about moving away from certain companies. DLG noted that there has been discussions due to the Russia and Ukraine crisis that the demand for oil and gas may set back ESG progression. DV explained that in the short term this may be the case, but in the longer term there will be conversations about energy resilience and it will force people to look at alternative energy sources. AB noted banks and their lack of transparency and their attitude to investments. He questioned whether this one of the bodies Brunel would be looking at as part of the climate strategy review. DV confirmed that as banks facilitate most companies, Brunel engages with them regularly and all portfolios have an underweight position in banks. Banks will be on the agenda for the climate strategy review.		
3a	Update from Scheme Advisory Board	Verbal	
	LC noted that there have been bills going through parliament and asked JB to provide an update from the Scheme Advisory Board (SAB). JB explained his engagement on LGPS with the department through the SAB. If Brunel, managers and members have any comments or feedback on the work the SAB is completing they should let him know.		

	JB confirmed the last SAB meeting was on 7th March and they are still working through a number of issues. Russia was a key topic and there was a consistent approach on LGPS funds with assets sold where they could, after that stranded assets remained, and the value of these assets is likely to be written down to £0. JB noted that the issue around new legislation is still in the early days, but before the next SAB meeting there should be clear definitions of the new legislation. Once the new legislation has come back from the Lords, a degree of planning will be required throughout the LGPS and Brunel should be prepared for this is and consider if any disinvestments will be required. JB noted that with regards to the levelling up white paper, the finer details are yet to follow. The LGPS has already progressed in some areas, for example, in 2016 LGPS had £1 billion in infrastructure and now it has £21 billion, so the LGPS is well above the 5% target. JB noted that in terms of the levelling up to the 5% ambition for local investment, this refers to investment in the UK. The 5% won't be binding, but what is required is that it will be necessary is to have a plan in place. So it is important that plans are in progress as soon as the information is available from the Government. JB added that there was a paper on Shariah compliant investments, and like any other narrow field of investment it needs to be considered in investment terms and the LGPS should base this on basic investment principles. DLG explained that the five LGPS pool chairs jointly wrote to the Government stating that the pools are very interested in local investment but need better access to investment opportunities. There has been little response so far. JB agreed that this is a good point and if this could be fed through to the SAB it will give it a platform on a national scale. DLG agreed to follow up with JB on this matter. JK noted that with regard to the 5% local investment, Cornwall have already started looking into this and are hoping to invest in renewable and affordable housing in Cornwall. She questioned whether this would meet the requirements and JB noted it sounds like they are on the right path. JK also wanted some more information about the amendment regarding the levelling up and JB noted as this is currently going through, more information is expected to follow in due course.	DLG

4	Stakeholder Strategy	Paper	
	RG noted that the stakeholder strategy is on the agenda today to review the high level plan. This was raised at the strategy and governance meeting and there is consensus that this is the right time to undertake a review of the strategy as Brunel enters its next phase of growth. LC noted that in terms of logistics, Brunel are proposing to hold three separate workshops with Client Group, BOB and Shareholders. The type of questions that Brunel will be asking are: • Do you have a three to five year business plan and can you share these? • What are your goals and what will stop you from achieving these? • What do you want Brunel to do and what will stop Brunel on delivering on these requests? • What constraints are there on pooling and where do you see pooling heading? • Do we have agreements in place with regards to key themes? • What action should be taken if Clients aren't in agreement (i.e. elective services)? • What are the next steps for Brunel? The workshops start next month with Client Group with a view to complete the project by October 2022. SC noted the approach for planning was agreed by himself and LC. LC highlighted that this will be facilitated but not driven by Brunel. Brunel are keen to hear everyone's view before a bigger plan can be formulated. JK and IB expressed their support and noted the importance of undertaking this project.		
5	Client assurance framework	Paper	
	SJ provided an update on the reporting project. The operations sub-group reviewed the design mock ups and Brunel are taking away these comments and will integrate them into the pre final version, which will be reviewed at the end of April. Once this final feedback has been integrated, the final version will be brought to the 9th June BOB meeting for comments and feedback. Any comments will be integrated into the final report. SJ noted that before Brunel reach the final stage of the process there are two no go decisions in June. If the decision is a no go, the current provider StateStreet are on reserve to provide the existing reporting. SJ noted that with regards to the Russia and Ukraine crisis, there has been a high level of correspondence between Clients and Brunel. Brunel have been proactively working with managers to		

	assess financial and reputational risks. There have been discussions on the policies and procedures in place and consideration being given on whether it is necessary to set up a policy, should a similar situation occur again. SJ thanked Brunel for their work surrounding this crisis. SJ noted that in regards to appendix 5A: • Fiera high alpha developed equities fund has had the minor concern status removed following Brunel's annual review of the fund, as the short term risk have been reduced • Wellingtons emerging market fund has been on watch for several quarters due to staff turnover. Brunel reported back to clients that Wellington have significantly improved and if this trend continues Wellington will no longer be on watch • Genesis emerging market fund is not currently on watch but has had a period of poor performance. Brunel have informed Client Group that they are monitoring them closely and that there will be an evaluation of their stock selection skills. Following this Brunel will decide whether they will put them on watch • Newton global core equites fund are still on watch due to turnover of senior staff and analyst turnover. Performance is holding up, but since this report was published there has been further turnover SJ noted that Cornwall will be moving away from the global core equities fund and into the Brunel high alpha portfolio. Following this the global core equities fund will be removed. JK noted they are also considering investment to the global high alpha however have had members asking questions around investments in non-ethical countries.		
6	Investment Topic Update	Verbal	
	DV gave an overview of markets and noted that in Q4 2021 inflation created headwinds for growth companies, which resulted in some headwinds affecting Brunel's exposure to growth stocks. With what is happening in Russia, inflation is a huge concern, which can be seen in rise in prices in the commodity market. The rise in inflation in the short term is bad for growth stocks, but it is very good for oil and exportation of oil companies, as well as for any companies digging anything out of the ground. Our portfolios are underweight in these industries as Brunel have been looking into the future and more sustainable energy companies, but there is some negative performance of the funds held. The funds that are more cash orientated are up year to date, which is good as everything apart from commodities is down. The multi-asset credit fund is down by c.1% but is doing well compared to the wider market. The take from this is that the defensive funds that Clients have an allocation to are doing what they are supposed to and mitigate downside. The low volatility fund is also up in absolute terms and is strongly up in relative terms.		

IB asked why inflation expectation changes haven't been reflected in government bond prices, as index-linked gilts are down since the start of 2022.

DV explained that these gilts have inflation component and an interest rate component. These gilts have a long duration, so where interest rates are rising, the interest rate component will dominate the inflation component. The yield curve is also showing us that although inflation is coming so is recession, which is an interesting dynamic.

DV gave an overview on the Russia and Ukraine crisis. Many people thought it would be a quick process, which has clearly not happened. It appears that even the Russian central bank wasn't in the know about the invasion of Ukraine which has resulted in it having $600 billion of reserves not under its control. Brunel have said they will do four things:

- No more Russian investments
- Start unwinding where they hadn't already done so
- Engage with companies that Brunel owns that have Russian operations
- Engage with companies that Brunel doesn't own that have Russian operations

Largely speaking the only exposure Brunel had to Russia was investments in the emerging market funds. It has reminded that when dealing with emerging markets, the countries in these funds have governments and regimes that can be different from ours. Typically when investing in emerging markets you receive an extra return for the extra risk associated with them.

DV went on to note that the emerging market fund had 1% in Russia, there was no Russian exposure in the emerging market debt fund and in the multi-asset credit fund 0.006% exposure to Russia. The index providers kicked Russia out of the benchmark and marked all Russian investments down to zero. The ramifications are relatively small, the bigger ramifications are that markets have been affected and this has impacted other investments.

DV explained that whilst he can't predict what will happen but can set out what is priced into the market. Markets are reflecting what has happened in a reasonable way, inflation has come through which will stunt growth. Slowing of growth whilst inflation rises causes stagflation. The falls in the market do not make the market cheap, the market is fairly reflective. However they would not be reflective if the situation continues for a long period of time or gets worse, which is currently a small probability.

	It was asked if Russian investments are marked down to zero, how it is possible to divest from these and should the investments be held and sold at a later date. DV explained that currently divestment isn't an option. These assets will be held until a decision is made by the Russian government or the companies cease to be. Currently these investments are marked at zero. Government sanctions do not stop us from holding them. Some mangers sold some assets before the sanctions were imposed. Managers were asked to divest based on an investment decision, as we saw the potential for assets to be stranded. The difference between other investments in unethical countries, is that the investments are unlikely to go to zero. It now creates an interesting precedent going forward and Brunel will look into this further as part of the yearly governance review. DV explained that there was only one Russian stock listed in the UK which was a spin-off. This was done in January and had a no trade policy for three months. So there is a very small exposure, but can't be traded regardless of the crisis. DV noted that every quarter Brunel hold an investment risk committee where every fund and manager is discussed. Papers get written on every single fund, these reports go to Clients. There is also the monthly Brunel investment committee where managers are discussed and current topics. Brunel also have weekly and bi-weekly meetings, information of fund is available within a day. Brunel also has formal meetings with the managers where Brunel question the managers on their operations.		
7	Presentation of the Annual report and Financial Statement 2021-21	Paper	
	JW shared the presentation on screen and the following was noted: <u>Summary</u> • Brunel is a maturing business with a focus on providing Clients the required services • Climate aligned benchmarks launched and open for all • Recognised for Portfolio design excellence • Supporting DLUHC and helped streamline reporting <u>Non-financial disclosures</u> • Walking the talk • Portfolios are decarbonising • Climate stocktake – make sure policy is fit for purpose • Operations measuring and reducing emissions • Diversity and equality - hourly rate improved on a gender basis • Women well represented – board lead by example • CEO pay ratios much lower than industry norm		

<table>
<tr><td></td><td colspan="2"><u>Financial headlines</u>

Stable predictable results as move to mature phase
5% profit margin
Slightly less as paid back £200k

<u>Enhanced financial disclosure – balance sheet</u>

assets and liabilities moving by inflation and interest rates at different speeds
Pension Recharge Agreement (PRA) in right direction, no additional stress

<u>Enhanced financial disclosure – income statement</u>

19% pension employer cost
Plus £1.3m charges on net change in liability
Net impact isn’t material

<u>Enhanced financial disclosure – equity</u>

reclassified Reimbursement Asset Reserve (RAR) from Capital Contribution Reserve to Pension Reimbursement Reserve

JW further noted they look at people strategy, resource available to team bearing in mind sustainability and want to offer good value proposition.

LM explained they looked at pay awards done last year and there wasn’t any influence on bias.</td><td></td></tr>
<tr><td>8</td><td>Brunel SNED Update</td><td>Verbal</td><td></td></tr>
<tr><td></td><td colspan="2">LM gave a Shareholder NED update and noted the following:

to date visited 4 Clients and Committee Representatives and attended her first pension committee and thanked Oxfordshire for their hospitality
Important to continue to build relationships
Had positive discussions on how far Brunel has come and now post-transition right time to carry out a strategy review
Also had practical discussions such as managing protest groups, pros and cons of elective services
Also had discussions on ESG – how we bring the S and G up
Two more visits booked and two to schedule, should get round to everyone by summer
Third shareholder forum to be held today and will discuss the strategy review plan
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<tr><td>9</td><td colspan="2">AOB</td><td></td></tr>
<tr><td></td><td colspan="2">RG noted this was IB’s last meeting as he is retiring from the EA committee. The board thanked IB for his valuable contribution and wished him the best for the future.</td><td></td></tr>
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	It was noted that a replacement scheme member representation would need to be appointed and Mercer would be asked to undertake this project. The following BOB meeting dates for 2022 were noted as follows: • 9 June 2022 • 8 September 2022 • 15 December 2022 Meeting close: 12:11	