

PENSION FUND COMMITTEE – 1 DECEMBER 2017

BRUNEL PENSION PARTNERSHIP UPDATE

Report by the Director of Finance

Introduction

1. Following the signing of the Shareholder's Agreement and the establishment of the Brunel Company in July 2017, work has continued on a range of issues to develop the Brunel Pension Partnership. The Department for Communities and Local Government are monitoring the progress of each of the 8 pools, and reported that they were happy with our progress as set out in the most recent Autumn Review, raising no issues of concern.

Key Work Undertaken by the Brunel Company

2. In September, the Company submitted their application to the Financial Conduct Authority (FCA) to obtain authorisation to provide the investment services to the 10 Client Funds. This was a major exercise, in which the company was supported by Alpha, a specialist Financial Services provider. The FCA have raised a number of minor questions on the application to date and the company are hoping to receive their authorisation early in 2018
3. In the meantime, the company have continued to recruit to their established positions, have moved into their new offices in Bristol, have put in place the company infrastructure to enable it to function (ICT, HR etc) and again with the support of Alpha, are building their internal control environment which will govern their operating procedures going forward.

Key Activities jointly undertaken by the Company and the Clients

4. A major focus over the last few months has been the on-boarding of State Street as the new Administrator for the Partnership and Custodian for the assets of the 10 Funds. The transition of the custody arrangements from the incumbent custodians to State Street is being undertaken on a phased basis, and Oxfordshire was the first Fund to transition in mid-November. At the time of writing this report, all indications are that the transition has gone well, although this can only be confirmed once the initial month end reconciliations are completed and the first accounting and performance reports are received from State Street. The 4 Funds currently with BNY Mellon are due to transition during December, with the remaining Funds scheduled for the early part of 2018, subject to further discussions at individual Fund level.
5. Significant attention is now being focussed on the finalisation of the initial set of portfolios to be offered to the Funds. The initial set of portfolios developed

by the Clients as part of the business case has now been reviewed by the new Investment Team at Brunel and their Strategic Investment Committee. The process for signing off the new portfolios is due to be discussed by the Brunel Oversight Board on 24 November and envisages the full set of portfolios being presented to the Client Group at its meeting on 5 December 2017, and then the Brunel Oversight Board on 12 January 2018. Each Fund will then be asked to make an initial allocation to the new portfolios by the end of March 2018, to enable the Company to undertake the planning required for running the tender exercises for the new mandates and planning the asset transitions. This will therefore be a significant issue for the March meeting of this Committee.

Key Activities for 2018/19 – the Company Business Plan

6. The Brunel Oversight Board meeting on 24 November was also due to consider the draft business plan for the Company for the next two financial years. The Plan would then go on to the Company Board meeting on 14 December 2017, before going to the Annual General Meeting on 31 January 2018 to be agreed by the Shareholders.
7. The draft plan is consistent with the approved business case, and sets out the key tasks for the Company as managing the establishment of the new portfolios and managing the asset transitions in line with the cost and saving parameters set out in the business case. The budget provision set out in the business plan is also consistent with the approved business case, although there are variations between items and in respect of timings. These variations include a significant reduction in the estimated costs of the Administrator/Custodian over the life of the business case, though some higher costs during the transition period to the new portfolios due to the way a number of Funds have structured their current investments, and the earlier establishment of the Private Markets Team to meet the wishes of clients for an early opportunity to develop investment opportunities in Infrastructure and Private Debt.
8. Additional work is now required to establish the financial implications for the individual funds, so that these figures can be included in the budget reports presented to each of the Committees during the February/March cycle of meetings.

RECOMMENDATION

9. **The Committee is RECOMMENDED to:**
 - (a) **note the latest position in terms of the on-going development of the Brunel Pension Partnership; and**
 - (b) **delegate to the Director of Finance, as the nominated Shareholder Representative, the responsibility for the approval of the Brunel Business Plan at the Company AGM, following consultation with the Chairman, Deputy Chairman and Opposition Spokesperson of the Committee.**

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