



Business Planning

Brunel Oversight Board

27th January 2022


BRUNEL
Pension Partnership

Executive Summary

The proposed business plan and budget for 2022/23 includes:

- **An increase from the 2021/22 budget of £10.7 million to £11.4 million to meet inflation, cost pressures and further enhanced client services**
- **A reduction in the contingency from 5% to 3% of total budget**
- **Resulting in an overall increase in cost to clients, net of reduction in contingency, of 5.3%**

The additional resource will support growth in volumes, enhanced quarterly client reports and continue to allow leadership in responsible investment.

Brunel is committed to being great value for money. The proposed budget aims to provide sufficient resource to continue to deliver high performance, investment leadership, tax savings and security for the future.

Baseline changes, a reminder

In 2019/20, £2.6m additional budget was provided by Shareholders to fund the PM administrator, cost of additional regulation, new posts for BAU and portfolio launch / transition. These has been removed as agreed.

The table below shows the historical budget for Brunel. This shows since 19/20 increases we have had stable years, but now look for growth.

	18/19	19/20	20/21	21/22	Proposed 22/23
	£'000	£'000	£'000	£'000	£'000
Budget Plan	7,795	10,427	10,483	10,650	11,433
Contingency	390	521	524	533	343
Income	8,185	10,948	11,007	11,183	11,776
Year on Year Change (%)		33.8%	0.5%	1.6%	5.3%
Year on Year Change (£)		2,763	59	176	593

Budget Increase 2019/20	£'000
Development & Set up costs	(816)
Private Markets administrator	958
Regulatory costs	629
New Investment Posts	336
New Non Investment Posts	392
Portfolio Launch	632
Transitional Posts	268
Inflation	233
Total	2,632

Baseline Reductions	Total	20/21 £'000	21/22 £'000	22/23 £'000
Portfolio Launch	-511	-191	-240	-80
Transitional Posts	-214	-52	-162	
Costs Removed	-725	-243	-402	-80

As shown, budget increases for launches and transitions were removed, as agreed, but they have been offset by growth, each year this has been agreed with Clients and Shareholders. This has allowed Brunel to develop, in alignment with Client requirements.

Budget Build

Current Year Budget (2021-22)

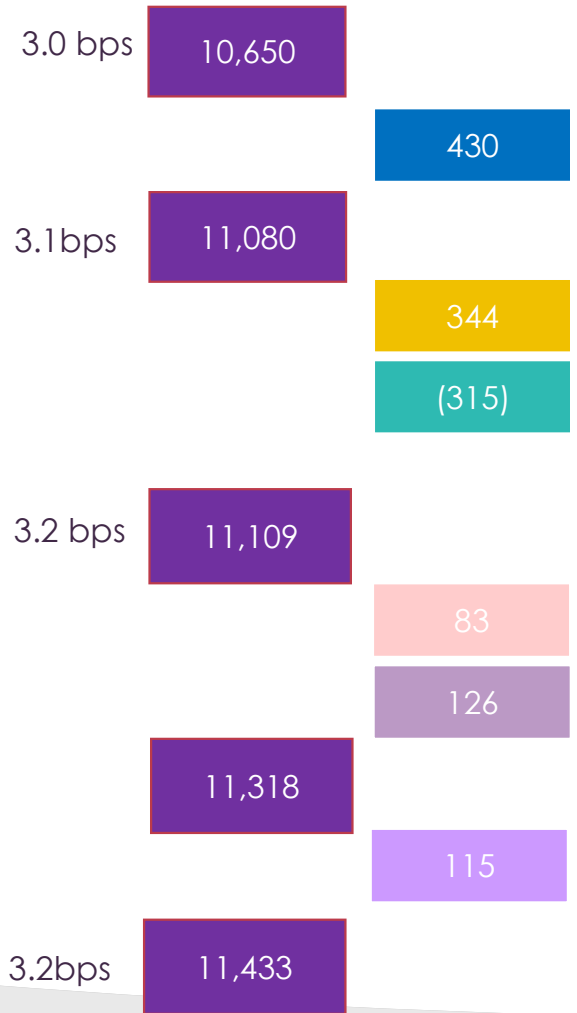
Revised Plan with inflation

Revised Plan with costs & Savings

Budget within Client Target (2022-23)

Full Budget (2022-23)

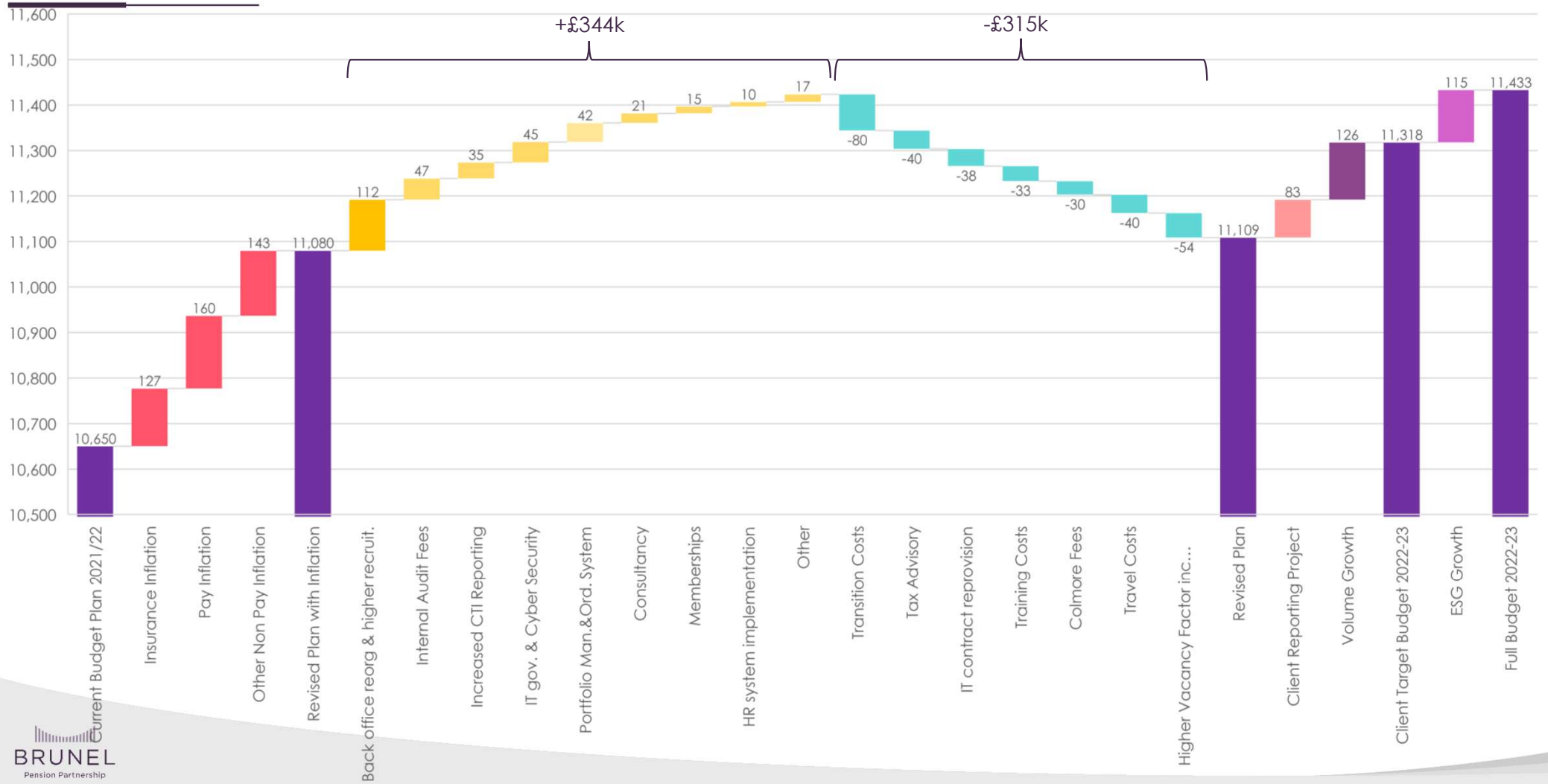
All figures in GBP 000's



- Inflation cost pressure, including Insurance premiums £127k, overall 4% in line with CPI forecast
- New areas of costs to add back in, for cost pressures, e.g. PM & Back Office reorg., Internal Audit fees, IT Governance, CTI Reporting, consultancy
- Cost Savings, including reductions in Transitions admin, training, & IT reprovision
- Client Reporting – this became a cost pressure when we sign the new Vendor in Jan 22
- Volume Growth
- ESG Growth

Budget Build

Draft Funding Plans 2022-23
£'000



Cost inflation details

Cost	%	£'000
1. Salary Costs Allocation*	3.00%	160
2. Insurance	40.00%	127
3. Bank Charges		19
		306
4. Other smaller line items		124
Total		430

* Allocation to support pay awards, promotions, development contracts based on outcomes from appraisals and will take into account a cost of living increase where appropriate.

Cost inflation expectations from the Bank of England are 4.1%, which drives the £430k increase. This slide shows how and where that translates into our cost base.

1. Pay inflation has been assumed at 3% in the Business Plans. This is an allocation to cover any pay awards provided. The labour market is tight and replacement costs are typically an upward trend. Noting that 3% pay inflation is below the expected 4% CPI forecast, so a net 1% real reduction in pay.
2. Insurance premiums have had the greatest impact on Brunel which is the result of the general tightening of the market and impact of Covid19.
3. Bank Charges includes a reduction of income from interest on own funds as rates have dropped.
4. Other areas of increasing cost inflation include travel, hotels, accommodation, utilities, professional subscriptions

Three initiatives, what they provide and the risks of not funding

Quarterly Reporting	Volume Growth	ESG Growth
Improve timeliness: investor insight, look and feel, fund factsheets, combined Listed & Private market assets	Supports core middle office PM volumes, which are already high and will grow as cycle 3 is invested	Supports future ESG client requirements (eg own TCFD reporting) and bolsters compliance capability
Risk: doesn't meet current Client requirements	Risk: operational errors on capital calls.	Risk: we slip from RI leader to RI follower
Risk: weak reporting leads to more ad hoc client requests, which Brunel struggle to support	Risk: errors on corporate actions	Risk: increased turnover as we dilute our purpose
Risk: stakeholders don't see benefit of pooling	Risk: higher cost as we use 3 rd parties for operational due diligence	Risk: we are non-compliant and seen as an RI leader, reputational harm
Risk: staff feel de-motivated as stuck with an out-dated reporting solution	Risk: concentrated people risk, 1 person does this work.	Risk: we are less able to improve data which underpins RI and fiduciary decision making at pension committees
Risk: turnover of staff that work directly on client reporting	Risk: turnover of highly specialised staff, difficult to recruit and may increase cost	Risk: we are unable to support Client TCFD reporting, leading to greater Client spend with consultants
We will sign a new Vendor in Jan 22, at which point it becomes a cost pressure not an option		Risk: very slow progress on Climate Aligned benchmarks for active managers

Quarterly Client Reports

- State Street charge £6k per client per quarter for reports that are no longer fit for purpose.
- Going forward this will be £8k per Client per quarter for reports that are fit for the long term.

Service

To meet Client requirements for quarterly reports, ensuring our output supports clear understanding of portfolio performance against investment objectives.

To reduce the production timescales and allow for future reporting development.

Note: this is not an analytics tool, it will systematically report information, not perform calculations.

Activity

Complete procurement of new reporting tool, to appoint vendor in 2021. includes legal agreement, establishment of vendor oversight framework, SLAs. Much of this work will be complete before 1/4/22.

Implementation tool as soon as appointed, in order to have a parallel run in March 22

Design and agree new reports, define control process for production including full risk assessment, agree change management process. The majority of this work will be complete before 1/4/22.

Hire new Brunel resource to support reporting tool, to start search now.

This role will support implementation and then be able to oversight all third parties (inc data providers), control data flows, remediate breaks, work with clients and vendors on report life-cycle (requirements, design, testing, production, enhancements).

Cost

£83k, noting that Brunel have negotiated savings of £90k to substantially reduce the net cost of this service.

As a reminder this tool will: provide fund factsheets, make reporting more timely, give more investor insight achieve a more professional look and feel, combined Listed & Private market assets. This is a marginal cost per Client for a substantial benefit against agreed goals.

Quarterly Client Reports, cost analysis

A further breakdown of the costs are shown in the table below.

Activity	Cost	£'000	Service Area
Added 1 FTE for a Reporting Analyst to support the implementation and the on-going operation of the reporting tool, while increasing capacity to support wider client requirements.	Reporting Analyst	93	Client Relations
Operational vendor costs for the reporting tool	Vendor On-going Costs	35	Client Relations
Support through the implementation phase of the project. This cost will drop out in 2023/24	Consultancy Fees	30	Client Relations
Funding to develop the tool to meet Client requirements	Vendor further development	15	Client Relations
Reduction in reporting costs agreed with current custodian to offset costs	State Street Savings	-90	Investment Operations
		83	

The table below shows the costs from the Project Business Case. This shows that the net increase in cost is £53k after the initial implementation phase and the consultant rolls off the project:

Client Reporting Project	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
Vendor Costs	-88	-50	-50	-50
State Street set up	-5	0	0	0
Project Management	-176	-30	0	0
Reporting Analyst	0	-93	-93	-93
State Street Savings	0	90	90	90
Total Costs	-269	-83	-53	-53

Volume growth

Service

To support core services; scale has driven growth in activity beyond original expectations.

Activity

1. Middle office activity growth requires support to ensure all transactions are safe, this includes private market calls, ongoing due diligence of an expanding set of private investments, servicing the private markets corporate actions and reshaping the property portfolio (see supporting slide)
2. Restructured the HR and Finance team to support growing business support needs.

Cost

£126k covers cost of an additional staffing resource for back and middle office, increased staffing / HR costs, along with increased data views and benchmarking tools fees to support the growth in Private Markets.

AUM now £38bn with £29bn transitioned
as at Sept'21

Volume growth: Service & Activity

The table below highlights the activity that will be funded by the additional £126k request:

Activity	Cost	£'000	Service Area
Added 1 FTE next year in Inv ops at a senior level to allow support for heightened activity in Private markets as cycles build will also support new manager, resiliency and core processes across team.	Senior Investments Ops Officer	89	Investment Operations
Assume additional costs arising from new appointments. £10k provided to support HR associated costs and set up costs, £5k to support cost of additional IT Licences and equipment.	HR costs associated with recruitment	15	Finance & Corporate Services
Budget for additional data views including "GREFI" (International); MSCI license for Colmore access; PEI Media (Infra Investor, PDI).	Data Views / Licences	22	Private Markets
		126	

Volume growth: private market middle office

Service

The Brunel middle office ensure client transactions are safe, by supporting:

Cash management including capital calls, working with Colmore monitoring all cash flows, responsive to underlying capital calls, providing a layer of checking and notification to clients, controlling the end to end process, including State Street accounting record updates and ongoing reporting/reconciliation. The industry as a whole is manual making this a resource intensive higher risk process.

Property trades, to rationalise the legacy portfolio holdings in order to move all clients towards our model property portfolio, this will continue over a 3 year period. During (and following) this property trading will also reinvest income and keep clients allocations at target.

Corporate actions, in private markets for every investment ensuring that Brunel have considered and voted on every corporate action. This includes elections, resolutions, and any changes to LP or fund management arrangements.

Operational due diligence; for every investment in private (and listed markets) the manager is assessed, covering critical aspects such as how valuations are performed. All managers are RAG rated and revisited at a minimum, every 3 years (dependent on initial rag rating).

Activity

Volumes have grown rapidly, outsourcing is maximised and effective however, due to the nature of the LP arrangements (with Brunel acting under POA) not all activity can be outsourced, therefore, small increases within Brunel Investment Operations are needed to continue to support this path, ensuring we manage peak loads to the low levels of risk expected.

As shown below, capital calls have increased ~x3 YoY. Due diligence will grow as we continue to invest and move to ongoing monitoring. Corporate actions are substantially up YoY and we are now very actively reshaping the property portfolios as well as reinvesting income.

	Capital Calls*	Property trades	Corporate actions	PM ODD
Average**				
2020	15	0	2	1
2021	43	3	5	1
2021 vs 2020	28	3	3	0
2021 vs 2020	190%	1700%	159%	20%
Max**				
2020	31	2	4	3
2021	88	10	14	6
2021 vs 2020	57	8	10	3
2021 vs 2020	184%	400%	250%	100%

* Client level

** Monthly figures not annual

ESG growth

Service

To support Clients expanding ESG requirements on a range of initiatives, including

1. To influence, then develop TCFD reports that can be adopted by our Clients.
2. To continue to support ad hoc ESG impact requests
3. To introduce a policy climate aligned benchmark for active managers

Activity

1. To engage with industry bodies to positively influence ESG regulations inc TCFD standards and their adoption by local authority pension funds. To engage with our Clients on the interpretation of TCFD regulations and how they will apply to Brunel and local authority pension funds.
2. Clients have requested 30 ad hoc ESG reports in the last year (3 per client on average). To give a flavour these covered fossil fuel breaks downs (7 reports for 5 clients), country level holdings, stock level requests. Given the importance is expected to continue to increase. Brunel are implementing a reporting tool to support these requests (which will require data feeds) and hiring into the Client team to bolster these interactions.
3. To engage and establish the inclusion of Climate Aligned benchmarks as policy on active funds and associated reports, to engage with managers in progress, engage with stakeholders on interpretation. Requires four meetings per client to get this done and landed with pension funds.

Cost

£115k to support resourcing in RI and Compliance Risk teams, with some additional costs for Membership, subscriptions and attendance at conferences (minimal). Or £12k per client as elective.

3. Cost to be established when approach is agreed.

ESG growth, cost analysis

ESG growth requires budget to support the following areas. Again the Senior RI team is set up to deliver the required services but support is required within their team a lower level while the monitoring of activity from a compliance perspective continues to increase:

Activity	Cost	£'000	Service Area
To provide additional capacity to the senior RI team to allow them to deliver their service and required level of engagement to support the Client's objectives.	RI Stewardship Officer	38	Core & RI
1 FTE to provide capacity and allow coverage to ensure increased level of horizon scanning and compliance monitoring as RI interacts increasingly with regulations for Brunel.	Compliance Analyst	61	Compliance & Risk
Increased budget to support engagement	Conferences / Membership / Subscriptions	16	Core & RI
		115	

Brunel Budget Proposals,

Brunel Budget 21/22 and 22/23	21/22 Budget			22/23 Budget							
	Original Budget	Approved Budget from 20/21	Updated Budget	Original Budget	Inflation	Cost Pressures	Savings	Volume Growth	Client Reporting	ESG Growth	Updated Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive	804		804	804	32	22	(3)				854
Non-Executive	277		277	277	11	0	(2)				286
Client Relations & Communication	568	20	588	568	24	(31)	(2)		173		731
Core and Responsible Investment	986	10	996	986	30		(5)			54	1,066
Listed Markets	1,323	150	1,473	1,323	38	42	(94)				1,309
Private Markets	1,595	44	1,639	1,595	56	38	(9)	22			1,702
Compliance and Risk	593		593	593	24	60	(2)			61	736
General Counsel	129	31	160	129							129
Investment Operations	2,118	75	2,193	2,118	25	(25)	(72)	89	(90)		2,046
Finance & Corporate Services	1,848	90	1,938	1,848	190	182	(125)	15			2,110
Operations Office	56	20	76	56	0	25	(1)				79
Central Costs	353		353	353		31					384
Total Costs	10,650	440	11,090	10,650	430	344	(315)	126	83	115	11,433
Contingency	532	22	554	319	13	10	(9)	4	2	3	343
Income	11,182	462	11,644	10,969	443	354	(324)	130	85	118	11,776

Contingency – Pricing Policy

Key messages:



- The partnership has discretion on contingency levels, but they are an SRM
- Reducing the contingency, amongst other things, could be an effective way to manage the total cost increase
- Brunel are aiming to also discuss this item at BOB

Overall Budget Proposal

	2021/22 £'000	2022/23 £'000	Change
Budget Plan	10,650	11,433	7.4 %
5% Uplift for Contingency	533		
3% Uplift for Contingency		343	
Client Invoiced	11,183	11,776	5.3%

The Budget proposal considers the reduction on the level of contingency from 5% to 3%. This maintains overall budget increase to Clients of ~5% year on year.

Recap – this is our Budget Build

All figures in GBP 000's

Current Year Budget (2021-22)

3.0 bps
10,650

Revised Plan with inflation

3.1bps
11,080

Revised Plan with costs & Savings

3.2 bps
11,109

Budget within Client Target (2022-23)

11,318

Full Budget (2022-23)

3.2bps
11,433

430

344

(315)

83

126

115

- Inflation cost pressure, including Insurance premiums £127k, overall 4% in line with CPI forecast
- New areas of costs to add back in, for cost pressures, e.g. PM & Back Office reorg., Internal Audit fees, IT Governance, CTI Reporting, consultancy
- Cost Savings, including reductions in Transitions admin, training, & IT reprovision
- Client Reporting – this became a cost pressure when we sign the new Vendor in Jan 22
- Volume Growth
- ESG Growth

Outer years ...

Our expectations for future years

1. Include cost inflation, to be assessed but we'd assume a 3% baseline for now ~£350k pa
2. Include triennial contribution increases, currently 4% which is £170k p.a from April 2023
3. Include some cost growth to support Private Markets, front and middle office, +2 heads in year 3 ~£200k
4. See some reduction for Quarterly Client reporting as 2022 includes £30k of implementation costs, not repeating

Baseline assumption is

1. Assume AUM and products are stable, but if these grow and become more complex this will drive further cost eg new PM investments, insurance, regulatory compliance.
2. As always, we will look to manage costs down and lower cost budgets where we can.

Other cost drivers are not clear yet but things that might drive additional growth:

- Increased service requirements from Clients
- New regulations
- Need to change a critical outsourced provider or insource, though we'd aim to keep the net cost increase tightly managed
- Competitive landscape, eg hiring and retaining talent

	Year 1 2022-23	Year 2 2023-24	Year 3 2024-25
Budget	11,433	11,923	12,473
Inflation		350	350
Reporting	-	30	-
Triennial		170	-
Private Markets			200
Total increase		490	550

Appendix

As shown on the following slides, Brunel is committed to delivering value for money and achieving our objectives

The plan proposal put forward is against a backdrop of having more assets to manage and achieving better than expected cost savings.

Hitting our objectives, creating value for Clients

2. Outperformance

- Performance £800m excess
- All portfolios launched
- Total AUM up £8bn vs the OBC for March 2021
- 120 sub-IM meetings annually
- Award winning portfolio construction (IPE)



1. Client Driven:

Client Satisfaction:

3.9 out of 5, up 0.4pts YoY

Staff Engagement:

93% (+7pts YoY)

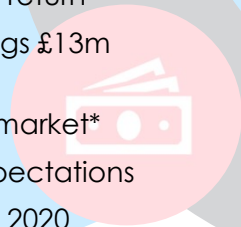
3. Additional Benefits

- Paris Aligned passive benchmarks live and funded
- High volume of Pension Committees supported by investment specialists
- CTI and client year end supported
- Leaders in RI, eg COP26, TCFD, IIGCC
- Accredited FRC stewardship standard



5. Fees & Costs

- We are now breaking even on the MHCLG return
- Based on assets transitioned, Net Fee savings £13m pa (£24m gross), vs pre-pooling
- Total IM Fees are 13bps cheaper than the market*
- Tax savings of £17m in 2021, exceeding expectations
- Within budget every year, £215k rebate for 2020



4. Risk

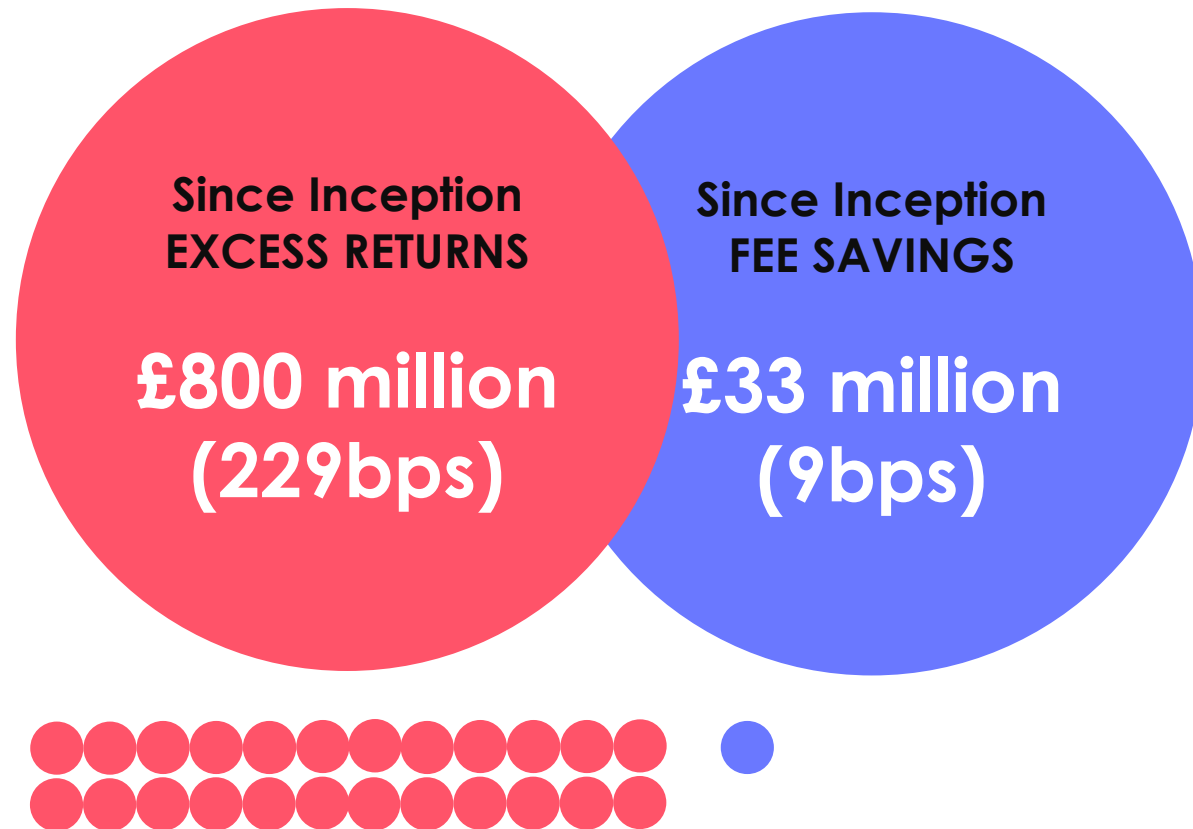
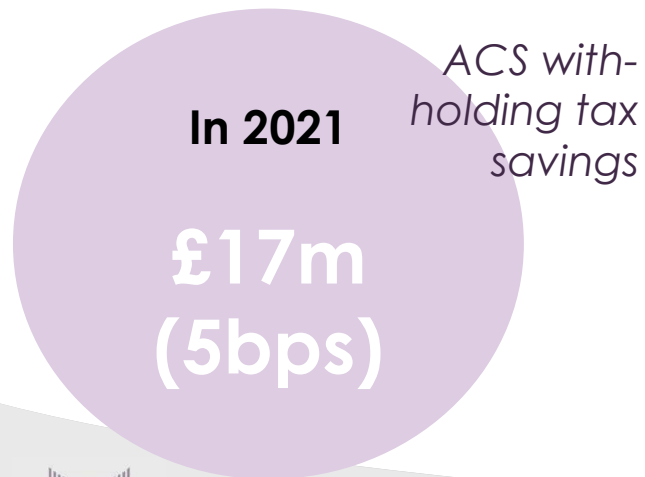
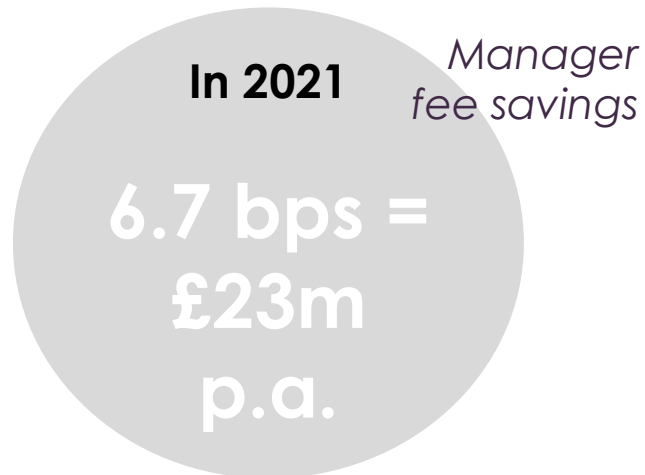
- No high risk audit findings
- Adequately capitalised
- Alignment to ESG principles, including good governance



Notes:

1. Fee saving achieved in the year ending March 2021, excluding transition costs, which are one off in nature vs the repeatable saving.
2. Tax savings based on £153m of dividends clients were paid within the ACS in the year to Sep 21, Brunel saved £17m vs statutory withholding tax
3. Excess returns is from the active listed market funds, built per day per fund since inception, as of 31/8/21, bps assume £35bn AUM
4. (*) CTI analysis by Caceis shows vs comparable size schemes and on the specific Brunel asset allocation

Savings & Performance Headlines



Notes:

1. Fee saving is the gross amount (pre Brunel cost base) as achieved, excluding transition costs, which are one off in nature vs the repeatable saving.
2. Tax savings based on £153m of dividends clients were paid within the ACS in the year to Sep 21, Brunel saved £17m vs statutory withholding tax
3. Excess returns is from the active listed market funds, built per day per fund since inception, as of 31/8/21, bps assume £35bn AUM

More assets & better savings than the OBC

Brunel has **both more assets** to manage and is making **better than expected savings**

Even allowing for this budget increase the rate of savings and the absolute amount exceeds the OBC by £5mn pa.

Our growth is in more complex areas, such as Private Markets or in leading RI, which allows more savings, but needs resourcing.

Brunel Budget		18/19	19/20	20/21	21/22	22/23
		£'000	£'000	£'000	£'000	£'000
Cost Budget Approved	£m	7.8	10.4	10.5	10.7	10.9
AUM	£bn	28	30	35	35	35
cost bps	bps	2.7	3.4	3.0	3.0	3.1
Gross Savings (MHCLG)	£m	-1.9	-8.1	-23.5	-32.5	-35.5
Net Savings (MHCLG)	£m	n/a	n/a	-12.5	-21.3	-24.0
bps net saving	bps	n/a	n/a	-3.5	-6.0	-6.8
OBC target net savings	bps					-5.2
Cost Proposed Budget	£m					11.4
AUM	£bn					35
cost bps	bps					3.2
Gross Savings (MHCLG)	£m					-35.5
Net Savings (MHCLG)	£m					-23.7
bps net saving	bps					-6.7
OBC target net savings	bps					-5.2

In 2022/23

- ✓ Assets are up £6bn from the OBC (£35bn vs £29bn expected).
- ✓ The saving rate is up 1.5bps from the OBC.
- ✓ This totals a £5m annual fee saving.
- ✓ This is inclusive of the proposed cost increase.

Note:

1. OBC excludes Pension Fund own cost savings, not within scope.
2. 22/23 conservatively estimates a further £3m on known '22 savings

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