# Brunel Pension Partnership

# Proposal for asset pooling in the LGPS

BRUNEL
Pension Partnership

## **Annex Number:** 05

## **Document:** Cost Sharing Principles

## Template Questions Addressed:

**A5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.**
c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)

**B4. The shared objectives for the pool and any policies that are to be agreed between participants.**
c) If available please attach as an ANNEX any draft or agreed policies already in place.

**C4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.**
c) Please explain how the implementation costs will be met by the participating authorities.

# Cost Sharing Principles

## 1.0 Purpose

The purpose of the paper is to set out a series of cost sharing principles under which the costs of the work associated with the establishment of the Brunel Pension Partnership will be allocated. The principles cover the four broad headings under which costs will be incurred.

## 2.0 Areas of Cost and Cost Sharing Principle

**Project Costs** – This covers the costs of external advisors etc associated with developing the Brunel Proposal and the costs of implementing the solution (excluding the costs of transitioning current assets). As set out in the Memorandum of Understanding signed by all Funds, all Project Costs are shared on an equal basis between Funds i.e. 10% per Fund.

**Transition Costs** – This covers the cost of transitioning the current assets held by each Fund into the new Portfolios operated by the Brunel Pension Partnership. The proposal is that these costs will be shared in proportion to the share each Fund will hold following the transition into the relevant Portfolio. This will be achieved through the application of a pricing policy for the Portfolio. A clear pricing policy will need to be developed for each Portfolio, which will assist all Funds to estimate the costs of the implementation of their investment strategy.

The application of the pricing policy will mean, for example, that Funds with exactly the same allocations to an asset class will incur the same costs when they transition into a new Portfolio i.e. their costs will be in accordance with their proportionate allocations (which are equal in this example). This will be the case even though the differences in their specific asset holdings pre-transition would cause their transition costs on an exact calculation basis to be different (quite possibly markedly so). Where, as is more likely, the Funds transitioning into a particular Portfolio will have different allocations to the relevant asset class, the pricing policy will reflect such proportions.

There are other factors to note. These include that, as Funds will be transitioning into several Portfolios, it is possible and/or likely that the transition costs that may be incurred on moving assets into a particular Portfolio will be balanced, to a greater or lesser degree, when transitioning assets into another Portfolio. On that basis, the total transition costs incurred across by Funds may be smoothed on an aggregated basis. Such factors will be in contemplation when developing the pricing policies referred to above.

It is understood that, provided the pricing policies are fair and not arbitrary, there are no legal restrictions in respect of the proposed proportionate sharing of the transition costs. Although as noted this will be different to what would apply if there were an exact attribution of transition costs, that outcome will be incidental to the wider benefits of pooling, which in turn will have underpinned the decision of each Fund to participate in the Brunel Pension Partnership on the agreed basis.

**Changes of Investment Strategy (Transaction Costs)** – The proposal is that following transition, if a Fund changes its investment strategy requiring a re-allocation of its assets across the Portfolios, then that Fund would bear the full costs of the transaction. If the costs of the Portfolio where investment was reduced rose as a result of a loss of scale, then such costs would fall to the remaining Funds through the application of the pricing policy for that Portfolio. Similarly, if the costs in the receiving Portfolio reduced as a result of increased scale, the benefits would be shared pro-rata to the new allocations in the Portfolio. Each Fund should aim to provide as much notice as possible to all remaining Funds in a Portfolio before withdrawal, to enable Funds to consider any implications arising.

**Costs on Leaving the Partnership** – On the assumption that the Government allow future moves between Pools, the proposal is that any Fund leaving the Partnership would be responsible for meeting all transaction costs. As a clear message to the Government that the 10 Funds are committed to the Brunel Pension Partnership, it is also proposed that any exiting Fund would incur an additional exit charge. Subject to any legal considerations, this exit charge would be based on a notional figure covering all operational and impact costs as a result of loss of scale, applied over an industry standard three years. The exit cost would be notional rather than actual costs to ensure that the charge for the first exiting fund was in line with that for any subsequent exiting funds.