

# Brunel Pension Partnership

## Proposal for asset pooling in the LGPS



**Annex Number:** 06

**Document:** Reporting and Monitoring Framework

**Template Questions Addressed:**

**B2 Decision making procedures at all stages of investment and the rationale underpinning this. Confirm that manager selection and the implementation of the investment strategy will be carried out at the pool level.**

(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular for reporting back to Funds on the implementation and performance of their investment strategy.

# Reporting and Monitoring Framework

## Background

1. The purpose of this paper is to provide a response for the asset pooling template question B2c on how the supervisory body can hold the pool to account in terms of the reporting back to Funds on the implementation and performance of investment strategy.
2. This Product outlines the proposed Framework to enable the reporting and monitoring of these activities.

## Principles for reporting Framework under the Brunel Pension Partnership

3. Given the size of the pooled assets of c.£23bn and broad range of classes, the BPP sees pooling as an opportunity to meet best practice in the implementation and monitoring of investment performance.
4. To enable this, a robust framework for accountability must be established to ensure investment strategies are correctly implemented, reported to Participating Funds who have the ability to challenge and hold to account the BPP on its performance.
5. Achieving this will enable Participating Funds to optimise their preferred investment strategy. The framework also provides a basis for reporting to its stakeholders, developing a policy which supports transparency and disclosure of its activities.

## Key Principles for the Reporting Framework

6. The key principles for the reporting framework are:
  - i) Transparency to
    - (a) Participating Funds to enable them to make informed strategic investment decisions;
    - (b) scheme members about the investments made on their behalf;
    - (c) demonstrate effective stewardship of the assets
  - ii) Accountability that
    - (a) there are clear reporting lines from the operating entity delivering the investment management arrangements through to the Participating Funds;
    - (b) there is clarity for investment managers of their reporting and disclosure requirements (performance, KPIs);
    - (c) there is full compliance with the scheme and investment regulations;
    - (d) performance of both the investment managers and the Brunel Company is regularly assessed
  - iii) Aspire to increased reporting of all risks by

- (a) demonstrating that all investment and operational risks are identified and managed as are those of the service providers, namely Brunel Company;
  - (b) disclosing ESG and stewardship activity
- iv) Efficiency and value for money by
  - (a) delivering a standardised suite of reports agreed with by Participating Funds;
  - (b) generating data for benchmarking against agreed metrics;
  - (c) disclosing the costs of the pooling and investment management arrangements in line with the cost/savings model
- v) Long term investment horizon by
  - (a) focussing on long term performance targets
  - (b) focussing on long term financial risks

## Accountability Framework

7. There are a number of key bodies that form the accountability structure for the BPP. These include:

- (1) The Brunel Company**
- (2) The Brunel Company Board
- (3) The Brunel Client Group
- (4) The Brunel Oversight Board**
- (5) The Participating Funds (Pension Committees)**
- (6) Scheme Members
- (7) Other key stakeholders (Government, Auditors, Regulators, FCA)

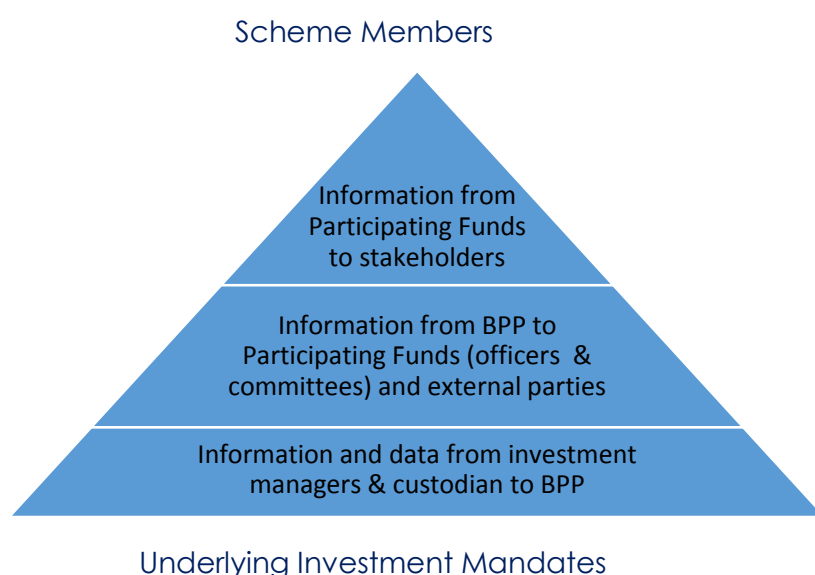
8. The key relationships between these groups are the ones highlighted in bold above.
9. Investment managers are a key factor to the success of the pooling arrangements and it is fundamental the correct ones in terms of capability and performance are chosen by the Brunel Company. The managers will provide performance and costs information to the Brunel Company. This will allow the Brunel Company to consolidate this information at each Portfolio level. This information will then be reported to the Brunel Company Board.
10. The delivery requirements of the Brunel Company will be outlined in the articles of association, its management contract and the Service Level Agreements that the Brunel Client Group (represented by officers of the Participating Funds) would have agreed. Its capability to deliver excellent fiduciary management services is the crucial factor in the delivery of investment performance within targets. Investment performance will be monitored by the Brunel Client Group.
11. The Brunel Oversight Board is comprised of a nominated representative from the Pension Committee of each Fund, based on the principle of one vote per representative. It's role is to ensure the Brunel Company is implementing and providing suitable Portfolios in line with the expected performance objectives whilst also achieving the cost / savings targets outlined in the proposal. It plays a key role in the Framework to ensure the accountability of the Brunel Company.

## Reporting Structures

12. These are the four key reporting structures involved in the implementation and monitoring of investment strategies:
  - (1) reporting of investment managers performance into the Brunel Company;
  - (2) monitoring and reporting by the Brunel Company to Participating Funds on the Portfolios;
  - (3) reporting by the Brunel Company to the Brunel Oversight Board on investment and operational performance; and
  - (4) reporting by both the Brunel Company and Participating Funds to other stakeholders.
13. In addition the BPP will report to other external parties, including the regulator / FCA, while also participating in national benchmarking exercises. These however, are yet to be determined so will need to be reviewed as the proposal is developed.
14. Each Participating Fund will decide how they wish to report and disclose both investment performance and operational performance of the BPP to their members and other stakeholders.
15. The monitoring framework for each Portfolio by the Brunel Company will be established once the investment risk and return profile of each is agreed. The basis for this will be recommendations from the Brunel Company, following consultation with the Brunel Client Group, to the Oversight Board. The framework will be structured to ensure the monitoring is specific and appropriate to the underlying assets of the Portfolio as well as generic investment and contract risks.
16. Likewise, the scope and frequency of reporting on performance, investment and operational risks to the Participating Funds will reflect the underlying assets being managed and exposure to generic risks.
17. The Brunel Company will produce a standardised suite of reports on all aspects of the Portfolios. These will be designed in consultation with Participating Funds and include:
  - Measuring against relevant benchmarks and indices;
  - Highlighting impact of manager fees on performance;
  - Focus on responsible investment policy implementation
18. These reports will be used by Participating Funds for their own reporting to provide their Committees with regular reporting in line with their own internal requirements.
19. The information will be provided in a format that will require limited reformatting by the Participating Funds. This objective to standardise reporting in line with best practice will benefit in terms of lower production costs. Participating Funds with specific reporting requirements (e.g. LDI Strategies) will be able to tailor this reporting with the cost passed back to them.
20. Protocols concerning information to be disclosed publicly by either the Brunel Company or Participating Funds will be agreed as part of the framework. This will ensure

consistency of information disclosed by each Fund (e.g. holdings will be disclosed, investment costs, voting activity on the same basis).

21. The quality of this reporting will be kept under review by the Brunel Oversight Board to ensure it's in line with the agreed Service Level Agreements.
22. The volume of information to be monitored and then reported will diminish as it flows up the stakeholder chain (see diagram below) from the underlying investment mandates towards the scheme members. The information provided will ensure the relevant detail is provided to the appropriate stakeholder to fulfil its accountability, transparency, and risk monitoring requirements. The Brunel Company will undertake significant monitoring of the investment managers' performance and governance arrangements, reporting to the Participating Funds on each Portfolio. As currently is the case, the expectation is Participating Funds will provide more summarised reporting through to its stakeholders which the Brunel Company will also assist in providing.



23. The table below summarises the proposed reporting framework:

Reporting between	Principles	Purpose	Metrics (including but not limited to)	Frequency
Investment Managers to Brunel Company	<ul style="list-style-type: none"> <li>Transparency</li> <li>Reporting of all risks</li> <li>Accountability of managers (via IMAs)</li> <li>Long term horizon</li> </ul>	Data and information to inform on: <ol style="list-style-type: none"> <li>Performance of Portfolios</li> <li>Decisions regarding performance and allocations within Portfolios</li> </ol>	<ol style="list-style-type: none"> <li>Performance, attribution and risk metrics</li> <li>Turnover, transaction costs, fees paid on underlying funds, TER</li> <li>Voting activity</li> <li>ESG / RI activity</li> </ol>	Quarterly (1-6)

		3. Reporting to stakeholders  4. Compliance with regulations and investment guidelines	5. Breaches of investment guidelines,  6. Market environment & outlook  7. Level 2 reports  8. Internal control reports	As required Annual
<b>Brunel Company to Participating Funds</b>	<ul style="list-style-type: none"> <li>• Transparency</li> <li>• Accountability</li> <li>• Reporting of all risks</li> <li>• Efficiency</li> <li>• Long term horizon</li> </ul>	1. Provide funds with information for strategic decision making (at Portfolio level; provide full look through to assets held)  2. Standardised suite of reports for tailoring by Funds for different stakeholders (level of detail) for each Portfolio  3. Bespoke reports to be at additional cost to Funds	1. Portfolio performance and attribution (to be agreed for each Portfolio e.g. style, currency, size, active risk, liquidity) 2. Market commentary (for context) 3. Portfolio value, turnover, transactions /activity, allocation by local fund, cashflows, breaches 4. Transition costs / savings 5. Transaction costs and manager fees (rolling 12 month) 6. Longer term risk and return vs. Portfolio investment objectives 7. Top 10 holdings per Portfolio (and by investment manager) 8. ESG/RI activity 9. RAG rating	Quarterly
<b>Brunel Company to Brunel Oversight Board on investment &amp; operational performance</b>	<ul style="list-style-type: none"> <li>• Transparency</li> <li>• Accountability</li> <li>• Efficiency</li> <li>• Long term horizon</li> </ul>	1. To inform OB that Brunel Company is delivering in line with contract (KPIs / SLAs in client contract)  2. To ensure BPP compliance with regulations and standards	1. Risk Register 2. Delivery against KPIs / SLAs 3. Mandate changes and selection processes versus policy 4. Internal control reports 5. Management accounts outturn 6. Financial accounts 7. Benchmarking reports (investment and operational	Quarterly Quarterly  Quarterly  Annual Quarterly  Annual Annual

			costs against cost/savings model) 8. Annual Report on activities to clients	Annual
<b>Brunel Company &amp; Participating Funds to external parties</b>	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Transparency</li> <li>• Efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• In line with compliance requirements</li> <li>• To give transparency of costs, performance and governance</li> <li>• To demonstrate value for money</li> </ul>	<ol style="list-style-type: none"> <li>1. Regulatory returns</li> <li>2. Audit reports</li> <li>3. National returns (e.g. Scheme Advisory Board, Government)</li> <li>4. External benchmarking (e.g. investment costs, operational costs, investment performance)</li> </ol>	As required

## Implementation

### IT systems and Software service provision

24. To deliver the level of reporting required for a pool of assets c. £23bn will require an information database and reporting system that can generate and consolidate information at the pool level through to the Participating Funds. Software will be implemented to provide full transparency of assets held by each Participating Fund in each Portfolio.

25. The systems required for reporting and monitoring will be provided initially externally from the BPP's custodian, or a 3rd party interfacing with their systems, but with the potential for the Brunel Company to develop internally by interfacing with the investment managers associated systems and pooled funds where appropriate. This reporting and accounting requirements will be developed as part of the custodian appointment process.

26. The following services will be required for the Brunel Company:

- Investment performance monitoring initially externally measured through the custodian or via a specialist provider;
- Risk attribution/analytics software for analysis, monitoring and reporting at each Portfolio level;
- A proxy voting provider to monitor and report on voting activity in line with BPPs agreed policy;
- Investment accounting from either the custodian or internally in which case specialist software will be needed;
- Market information from an information vendor such as Bloomberg. This will provide a means of monitoring income flows, corporate actions etc. as well as providing market related information such as interest rates, currency and market pricing; and

- Responsible investing (RI) & sustainability measurement and monitoring systems from specialist provider to report on RI risks and exposures.

## **Website**

27. An important communication channel will be the BPP's website. This will allow Participating Funds to access all BPP information and relevant documentation but with limited public access. This enables transparency to the Participating Funds to understand the operation and decision making of the relevant bodies of the BPP assisting with the accountability process.
28. The website will also have a public area where all key information, public documents, annual reports; newsletter and performance summaries will be held. This can be linked to Participating Funds websites to allow all stakeholders access to this higher level summarised information. It will also contain email and contact details so stakeholders can contact BPP directly for further information.

## **Audit arrangements**

29. One of the key governance reporting will be the external audit and governance reporting to the Brunel Company Board and reviewed by the Brunel Oversight Board. Participating Funds will have access to this and be able to raise any issues through its representatives on the Board.
30. The external auditor's appointment including its term, will be in line with FCA requirements.
31. The FCA will also have its own compliance structure with outcomes reported back to the Board.
32. The Brunel Oversight Board can also request adhoc internal audits of the operation of the Brunel Company, specifically around governance processes that will not be considered material by external auditors, such as, compliance with internal procurement policy.

## **External reporting**

33. Cross pool performance measurement of both Portfolios and operational performance will provide the Oversight Board information to assess the relative performance of the Brunel Company and the underlying pooled assets. This will provide an indicative indication of the performance of the BPP.
34. This will also be complimented by industry benchmarking on costs, efficiency and added value of active management Portfolios.
35. However, performance of Portfolios against their investment objectives and delivery of investment strategies of each Participating Funds will be the most fundamental measurement of performance and the framework above allows the BPP and more specifically the Brunel Company to be held to account.