

Brunel Pension Partnership

Proposal for asset pooling in the LGPS (Public Version)

July 2016

We are delighted to present the Brunel Pension Partnership proposal for asset pooling in the LGPS as requested by and provided to DCLG for 15 July 2016.

We have made minor redactions for this public version. The matters redacted are very limited, as we are committed to openness and transparency, and relate only to either people or commercially sensitive areas.

The redactions can be found on pages 17, 18, 19, 24, 26 and 27. In addition 3 annexes have been excluded from publication Annex 4 – Status Report, Annex 11 – Transition Report and Annex 12 – Infrastructure.

Name of pool	<p>Brunel Pension Partnership (BPP)</p> 
Participating authorities	<p>Avon</p>  <p>Buckinghamshire</p>  <p>Cornwall</p>  <p>Dorset</p>  <p>Devon</p>  <p>Environment Agency Pension Fund</p>  <p>Gloucestershire</p>  <p>Oxfordshire</p>  <p>Somerset</p>  <p>Wiltshire</p> 

	<p>The Brunel Pension Partnership builds on a history of effective collaboration between many of the Funds and brings together significant expertise.</p> <p>This is reflected in the many awards received by member Funds, including for 2015 and 2016:</p> <ul style="list-style-type: none"> • Best Pensions Governance – Financial News 2016 awards for excellence • Responsible Investor Reporting Awards Small/medium fund (below \$25 billion) (2016) • Ranked 1st on AODP Global Climate Index (2016) • Professional Pensions - Pensions Personality of the Year 2016 • Winner, 2015 aiCIO European Innovation Awards - Asset Allocation • Winner, 2015 UK & Ireland Awards – Best use of Hedge Funds • LGPS Fund of the Year at the Engaged Investor Trustee Awards 2015 • LGC Responsible Investment and collaboration award (2015) • Institutional Investor Europe award for Best Environment and Social Governance Programme (2015) • LAPF award for Responsible Investment (2015) • Professional Pensions Communications award for 2015 - Winner • Best ESG Programme at the Institutional Investors awards 2015 – Winner <p>And involvement in industry bodies by lead officers, including:</p> <ul style="list-style-type: none"> • Asset Owner Advisory Committee (membership - CIOs/ Heads from the World's largest asset owners) • Scheme Advisory Board (sub committees) • The Investment Innovation Benchmark (IIB) – Expert Panel member • United Nations Principles for Responsible Investment Advisory Committee, Policy Advisory Committee, Reporting and Assessment Advisory Committee (Chair) • Local Authority Pension Fund Forum (LAPFF) (Executive) • UK Responsible Investment Roundtable (Leadership team) • Hermes Client Advisory Board (Chair) • National Frameworks Founders Group • PLSA Local Authority committee • DCLG investment regulation review group • CIPFA Pensions Network advisory panel
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Criterion A: Asset pools that achieve the benefits of scale

1. The size of the pool once fully operational.

(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).

£23.2 billion

2. Assets which are proposed to be held outside the pool and the rationale for doing so.

(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).

The total amount to be kept outside the pool is currently £248m.
Only cash kept for operational purposes will be outside the pool and is approximately 1% of the total assets of the pooled funds.

(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.

Attached as ANNEX number
Not applicable

3. The type of pool including the legal structure.

(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

- Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.
- Outline of tax treatment and legal position, including legal and beneficial ownership of assets.
- The composition of the supervisory body.

The BPP model overview

- Each Fund will continue to set and keep under review its own asset allocation strategy.

- The Brunel Company, a FCA regulated entity, will implement the asset allocation strategies for the Funds. In order to do so, it will initially offer 22 risk and return focussed Portfolios covering a comprehensive list of asset classes. The number and nature of the Portfolios will be kept under review, and will evolve and change over time in light of the developing asset allocation strategies of the Funds.
- The Portfolios will be defined according to relevant asset classes (e.g. UK Equities Core Portfolio). Each Portfolio will act as a 'gateway' into one or more manager operated funds (the wrappers for such manager operated funds will include OEICs, unit trusts, ACSs). As 'gateway' vehicles, the Portfolios will not constitute 'investment funds' in their own right.
- The manager operated funds for each Portfolio will be selected and appointed by the Brunel Company on the basis of (i) the alignment of such manager operated funds' investment policies with the Portfolio's designated asset class, (ii) their performance capabilities, and (iii) their risk profiles.
- Taking into account Funds' asset allocation strategies, the Brunel Company will invest the Funds' assets through the relevant Portfolios into the underlying manager operated funds.
- If for a particular asset class a choice of suitable manager operated funds is not available, the Brunel Company will be able to arrange direct investments on behalf of the Funds who have made an allocation to that Portfolio. Such direct investments will again be made through the 'gateway' of a defined Portfolio, and will be implemented on a segregated basis by means of a separate IMA between the relevant Fund and an appointed external manager.
- In all cases, the day to day management of each Portfolio and its constituents, including the selection and appointment of manager operated funds or external managers, will be the sole responsibility of the Brunel Company.
- It is not at this stage anticipated that the Brunel Company will undertake internal management of assets (apart possibly for the continuation for a period of existing arrangements for the passive management of a relatively small amount of assets).
- The supervisory body, the Oversight Board, will be made up of representatives of the Pension Committees, plus an Independent Chair, and supported by s.151 Officers, Directors of Legal, Chief Finance Officers and Fund officers.
- Cost and performance efficiencies will be achieved by streamlined decision-making and investment choices, and economies of scale on manager fees and other costs.

FCA authorised structure: Brunel Company

The Brunel Company will be a FCA regulated company and will provide investment services on a discretionary basis to the Brunel Funds. It will be a limited company to be jointly owned by the Participating Authorities.

We will obtain the FCA permission that is required to cover the activities that will be undertaken by the Brunel Company. The current working assumption is that the permission will be to manage/advise on/arrange investments i.e. for the Brunel Company to operate as a MiFID firm.

We are aware that the nature of the FCA permission required may evolve in light of experience and further investigation. If any activities are construed as constituting a CIS or AIF, the relevant further permission will be obtained. Our assumption is that operating as a CIS is the more likely of the two as the BPP model does not entail any capital raising for AIF purposes.

Legal and beneficial ownership

Where a particular Portfolio is constituted so that the Brunel Company invests Funds' assets in manager operated funds (e.g. OEICs, unit trusts, ACSs):

- The Funds will hold shares or units in the manager operated funds relating to that Portfolio.
- The custodian for the Portfolio will hold the legal ownership of such shares or units on behalf of the Funds.
- If the manager operated fund is constituted as an OEIC, the Funds will have a beneficial interest in the OEIC shares (but as an OEIC has its own legal personality, the Funds will have no direct legal or beneficial interest in the underlying assets held by the OEIC).
- If the manager operated fund is constituted as a unit trust or ACS, the Funds will have a beneficial interest in the units issued by the trust/ACS. The legal title to the unit trust's/ACS's underlying assets will be held by its trustee/depository, which will hold the beneficial title to those assets on behalf of the investors in proportion to their units. The Funds will have no legal interest in the underlying assets held by the unit trust or ACS. As regards the beneficial interest, while the Funds will have a beneficial interest in a proportionate share of the total amount of underlying assets held in the trust or ACS, they will not have a direct beneficial interest in any particular assets.
- It is apparent, therefore, that where a Portfolio is set up as a 'gateway' to one or more manager operated funds, the investing Funds will not have any legal interest in any of the underlying assets held by those manager operated funds, nor will they have a direct beneficial interest in such assets.

Where a particular Portfolio is constituted so that the Brunel Company arranges the direct investment of Funds' assets under separate IMAs with external managers:

- The Funds will hold the beneficial interest in the relevant assets, as would be the case for any segregated mandate.
- The custodian for the Portfolio will hold the legal ownership of such assets on behalf of the Funds.
- The Funds will have a beneficial interest in the specific assets bought by the external manager under the terms of the IMAs. Again, this is as would be the case for any segregated mandate.
- It is apparent, therefore, that where a Portfolio is set up as a 'gateway' to segregated mandates, the investing Funds will retain the direct beneficial interest in the relevant assets (but note that decisions on making investments will be taken by the appointed external manager).

Tax treatment of assets

A high level analysis of transfer taxes on *in specie* transfer to the new structure for one of the Funds (Devon) has been completed, to highlight issues and start quantifying impacts.

Transfer taxes during operation would arise on any changes in beneficial ownership of assets, to be moderated by extensive use of manager operated funds, including ACSs, in Portfolios.

Further analysis, particularly of overseas positions, will form part of the full business case and the transition plan to the new structure, including determining what investments will transition for each Fund and into what vehicle. Withholding and capital gains taxes are also being considered.

VAT considerations

VAT recovery under s.33 VAT 1994 Act will not be available for the proposed structure. The services provided by the Brunel Company to Funds should be all or mainly taxable. If the Brunel Company registers for VAT it should recover input tax on supplies it receives, subject to normal rules, and each Fund should be able to recover VAT charged to it by the Brunel Company, again subject to normal rules. Overall we do not anticipate any material difficulties or cost from a VAT perspective.

Composition of the supervisory body

An Oversight Board comprised of members of the participating Funds' Pension Committees, plus an Independent Chair will be set up. It will be established as a Joint Committee under s.101 and s.102 of the LGA 1972.

The Brunel Oversight Board will monitor and supervise the Brunel Company on:

- Choice of Portfolios available within the Brunel Pension Partnership to meet asset allocation strategies, but it will not have a role in the specific investment decisions
- Meeting prescribed service standards
- Cost efficiency against agreed budgets

Support on contract management will be provided by s.151 Officers for local authorities and the Director of Legal Services for the Environment Agency, Chief Finance Officers and Fund officers as required by Oversight Board.

A Shadow Oversight Board, with the same composition as the proposed Brunel Oversight Board, is already in place to oversee the proposal development and implementation stages.

The Environment Agency's participation in the Oversight Board will need to be different as it is not empowered by the Environment Act 1995 to establish a Joint Committee with Local Authorities.

An overview diagram is included in Annex 01.

The proposed pool structure as laid out in the proposal has been presented to all of the Pension Committees of the participating Funds, all of whom have approved the proposal submission as an outline business case, supporting progression to the full business case.

Development of the full business case will take place from July to October 2016. The full business case will provide further details on the proposed structure and processes, implementation plan, costs and savings.

A decision by the Pension Committees and, where required, Councils of the Participating Authorities or Boards will take place October to December 2016.

The Environment Agency's participation in the emerging Brunel structure will need to be different as it does not benefit from the same powers as local authorities to delegate functions to others outside of the Environment Agency and/or to participate in arrangements in companies like Brunel. The structure of participation will need to be clearly defined to inform the final decision to participate.

(b) Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.

Attached as ANNEX number

Annex 01 – BPP high level structure diagram

Annex 02 - Timetable and reporting for stage 3 (full business case and BPP implementation) - section 1

4. How the pool will operate, the work to be carried out internally and services to be hired from outside.

Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.

(a) To operate in-house (for example if the pool will have internal investment management from inception):

1. Procurement of
 - a) investment management
 - b) other external services
2. Selection of fund managers. Brunel Company will undertake day to day management, monitoring and allocation within Portfolios
3. Accounting
 - a) Management
 - b) Investment
4. Project Management
5. Relationship Management
 - a) with clients
 - b) With managers and service providers
6. Reporting to clients; external parties e.g. regulator
7. Provision of information to clients
8. Communication to stakeholders
9. Cash management within BPP
10. Internal Management

11. Operational corporate services
<p>(b) To procure externally (for example audit services):</p> <ol style="list-style-type: none"> 1. Audit 2. Investment Management of individual mandates 3. Custody/ depository/ administrator 4. Specialist advisors e.g. Legal, compliance, tax, investment 5. Performance measurement 6. Stewardship services, e.g. proxy voting services 7. Specialist monitoring and reporting of risk/ exposure 8. Benchmarking of investment costs 9. Outsourced elements of operational corporate services
<p>(c) Please indicate the extent to which the service allocations listed above are indicative at this stage and subject to alteration either during or after the implementation of the pool.</p> <p>The list of services has been developed based on the experience across the group and we anticipate that it is 90% complete. As we progress to the full business case, we will review the services above to ensure that they are comprehensive/ detailed enough to appropriately assess the costs and resource requirements to ensure the BPP regulated company will be fit for purpose.</p>

<p>5. 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.</p>
<p>(a) Please provide assurance that the structure summarised in 3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats).</p>
<p>We are confident that the structure will be in place and operational by April 2018, subject to :</p> <ul style="list-style-type: none"> • Government support confirmed by October 2016 • Funds' approval of full business case by December 2016 • Implementation of draft investment regulations by October 2016 • FCA authorisation granted between October 2017 and March 2018 <p>Our confidence is based on the significant progress already made with the preparatory work:</p> <ul style="list-style-type: none"> • Pension Committees and s.151 Officers for local authorities and the Director of Legal Services for the Environment Agency /Chief Finance Officers fully engaged

<ul style="list-style-type: none"> • Relevant work streams in progress • Specialist project manager appointed • Professional advice available on key aspects • Very good co-operation between Funds and their officers, working towards common goal in collaborative manner 	
<p>(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.</p>	<p>Attached as ANNEX number</p> <p>Annex 02 – Timetable and reporting for stage 3 (full business case and BPP implementation)</p> <p>Annex 03 – Timetable and reporting for stage 4 (Asset transition)</p> <p>Annex 04 – Sample status report - <u>Not publically available</u></p>
<p>(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.)</p>	<p>Attached as ANNEX number</p> <p>Annex 03 – Timetable and reporting for stage 4(Asset transition) - section 3</p> <p>The costs of the transition will be shared across the Funds in line with the cost sharing principles:</p> <p>Annex 05 – Cost Sharing Principles</p>
<p>(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.</p>	
<p>Total value of assets estimated to be held in pool as at</p> <p>31.3.2021: £ 22.957b</p> <p>31.3.2024: £ 22.957b</p> <p>31.3.2027: £ 22.957b</p> <p>31.3.2030: £ 22.957b</p> <p>31.3.2033: £ 22.957b</p>	

Criterion B: Strong governance and decision making

1. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.
<p>a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.</p>
<p>BPP's principle is to take a collegiate approach to developing the structures and processes needed to manage the assets on behalf of the Participating Funds. The robust governance framework including an Oversight Board and Client Group already operating in shadow form ensures that all individual Funds' views can be expressed, taken into account and a consensus reached. Each participating Fund has an equal shareholding in the Brunel Company and so has equal shareholding rights. The Environment Agency's participation in the emerging Brunel structure will need to be different as it does not benefit from the same powers as local authorities to delegate functions to others outside of the Environment Agency and/or to participate in arrangements in companies like Brunel.</p>
<p>b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).</p>
<p>Bodies to be used to provide external scrutiny include:</p> <p>Regulatory scrutiny by:</p> <ul style="list-style-type: none"> • External auditors • SAB (Scheme Advisory Board) • TPR (The Pensions Regulator) • FCA (Financial Conduct Authority) • FRC (Financial Reporting Council) <p>Best practice scrutiny by:</p> <ul style="list-style-type: none"> • UNPRI (Principles for Responsible Investment) • Cultural assessors e.g. Investors In People, Customer Service Excellence - scrutiny of the cultural behaviours of BPP • Benchmarking organisations – benchmarking of fees, performance, carbon and environmental foot printing, exposure to ESG financial risks eg. Stranded assets <p>Scrutiny by the participating Funds:</p> <p>Brunel Oversight Board, comprised of a nominated representative from the Pension Committee of each Fund, based on the principle of one vote per representative, and a non-voting Independent Chair. They play a key role in ensuring the Brunel Company is accountable. They will monitor the Brunel Company on</p> <ul style="list-style-type: none"> • Choice of Portfolios to meet asset allocation strategies

- Delivery in line with contract (KPIs/ SLAs in client contract)
- Compliance with regulations and standards
- Cost efficiency against agreed budgets

Brunel Client Group, made up of officers from the Participating Funds will provide support on contract management, as required by the Oversight Board.

BPP will also be open to scrutiny by the media.

The website will provide a portal for public communications and the ongoing involvement of members of BPP in industry and public events and bodies on behalf of the pool will contribute to the communication of the values, activities and performance of BPP.

The Environment Agency's participation in the Oversight Board will need to be different as it is not empowered by the Environment Act 1995 to establish a Joint Committee with Local Authorities.

2. The mechanisms by which authorities can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.

(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.

A **management contract** will be entered into between each Participating Fund and the Brunel Company. It will set out delivery requirements of the Brunel Company.

Service Level Agreements, will be entered into between the Participating Funds and Brunel Company. They will be negotiated by the Oversight Board, on the basis of recommendation by the Brunel Client Group (represented by officers of the Participating Funds), and will provide the specific parameters for the delivery requirements.

(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.

Attached as ANNEX number
A draft agreement is not available

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

We see pooling as an opportunity to meet best practice in the implementation and monitoring of investment performance. 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. 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.

The key principles for the reporting framework are

1. Transparency
2. Accountability
3. Increased reporting of all risks
4. Efficiency and value for money
5. Long term investment horizon

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)

The key relationships between these groups are the ones highlighted in bold above.

Investment managers are a key factor in 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. Investment managers will provide performance and costs information to the Brunel Company. This will allow the Brunel Company to consolidate the information at each Portfolio level. This information will then be reported to the Brunel Company Board.

The delivery requirements of the Brunel Company will be outlined in the articles of association, its management contract and the Service Level Agreements. Its capability to provide excellent investment management services is the crucial factor in the delivery of investment performance within targets. Investment performance will be monitored by the Brunel Client Group.

The Brunel Oversight Board'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.

We have defined 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) Communications by both the Brunel Company and Participating Funds to other stakeholders.

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. 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.

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

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.

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.

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.

Please refer to Annex 06 for the full paper on the monitoring and reporting framework.

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

(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

The Funds are responsible for all strategic decisions that affect the solvency of their fund and therefore will retain responsibility for all strategic investment decisions relating to their fund. This will include:

- strategic asset allocation
- level of cash held and managed locally to meet liabilities and other payments
- rebalancing between asset classes

Funds will inform Brunel Company of changes to investment strategies, allocations between Portfolios and cash requirements.

As an early activity in the next stage of the project (full business case) a comparative review of the governance and compliance documents of the Participating Funds will be undertaken to identify opportunities to build consistency and best practice in decision making at Fund level.

(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

Brunel Company is responsible for implementing the investment strategies for each Fund. It will establish a range of Portfolios to meet the strategic objectives of the Funds and have investment policies (appropriate to each Portfolio) to support the wider objectives of the Funds e.g. rebalancing policy, voting policy, responsible investing policy. This model will maximise savings through greater efficiency and lower fees.

Brunel Company will be responsible for the following decisions:

- defining the structure of each Portfolio, taking into account what is required to implement asset allocation strategies
- procurement, selection and termination of managers
- monitoring of managers' performance
- management of cash within the Portfolios
- allocation within Portfolios (between mandates)
- transition management and allocating transition costs in line with policy
- procurement of advisers and service providers

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

As the Funds are delegating responsibility for implementing their investment strategy to a third party there must be clear accountability for managing the contracts. Acting on behalf of the Funds, the role of the supervisory body (Brunel Oversight Board) is to ensure

the contractual arrangements provide efficient implementation of the Funds' investment strategies and add value for the Funds.

The key decisions taken by the supervisory body include:

- Specification of the contract with Brunel Company ensuring the investment strategies of the Participating Funds can be delivered to the required standard including the setting of KPIs, policy requirements and reporting standards
- Monitoring service delivery against agreed KPIs and actions to be taken if not delivering
- Whether Brunel Company is meeting its wider client and other stakeholder requirements and actions to be taken if not delivering
- Monitoring cost efficiency and service delivery against agreed budgets

The Environment Agency's participation in the Oversight Board will need to be different as it is not empowered by the Environment Act 1995 to establish a Joint Committee with Local Authorities.

4. The shared objectives for the pool and any policies that are to be agreed between participants.

(a) Please set out below the shared objectives for the pool.

Early on in the process BPP defined and agreed the approach to the collaboration in terms of cultural, practical and project outputs (Annex 07 – Likeminded criteria).

We have defined the investment principles (Annex 08) and cost-sharing principles (Annex 05), which have been accepted by the Shadow Oversight Board for onward communication to the Pension Committees and wider stakeholders.

Full business case to be developed in stage 3 of the project will define more detailed policies, building on the high level principles. It will include a cultural vision for the entity covering for example the approach to responsible investment and being a fair employer.

(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.

The Participating Funds entered into written Memorandum of Understanding in September 2015, with a commitment to joint working and cost sharing (Annex 09). An updated memorandum will be agreed when the entity is in place.

(c) If available please attach as an ANNEX any draft or agreed policies already in place.	Attached as ANNEX number Annex 07 – Likeminded criteria Annex 08 - Investment Principles Annex 05 - Cost Sharing Principles Annex 09 - Memorandum of Understanding
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5. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.

<p>(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. <u>Please include details of where new costs are offset by reduced existing costs.</u></p>	<p>Brunel Company will run at costs of 1.5 –2.0 bps p.a. Estimated costs subject to the full business case being developed are:</p> <p>Implementation costs (before 1/4/2018)</p> <ul style="list-style-type: none"> Set up costs of £2.1m During implementation there will be no offsetting savings <p>Ongoing costs</p> <ul style="list-style-type: none"> Initially £3.5m rising to £3.9m by 2021/22 as capacity for direct management of alternatives is created which will generate opportunities for greater fee savings to meet ambition target Staff costs of £1.7m rising to £2.1m by 2021/22 Other corporate costs c. £1.8m <p>Ongoing savings</p> <ul style="list-style-type: none"> Estimated direct staff and investment expenses savings at Funds of £0.8 million p.a.
<p>Assumptions</p> <p>1. Implementation costs includes</p> <ul style="list-style-type: none"> Financial, tax & legal advice for business model creation Project management costs Staff recruitment [REDACTED] FCA authorisation and other costs <p>It does not include direct transition costs</p> <p>2. Staff Resources</p> <ul style="list-style-type: none"> Staffing costs including NI and pensions allow for 19 posts including: [REDACTED] [REDACTED] <p>3. Corporate costs include</p> <ul style="list-style-type: none"> Regional office location anticipated Outsourced corporate services (including legal, HR, and IT) where do not have expertise until reach size which justifies in-house resources 	

<ul style="list-style-type: none"> • Governance <ul style="list-style-type: none"> ◦ Non-executive director costs ◦ Other compliance, advisory and governance • Includes higher spending on risk analytics and reporting than currently undertaken by most Funds in BPP to support transparency and accountability agenda <p>4. Regulatory capital</p> <ul style="list-style-type: none"> • Up to a maximum of £1m <p>5. Savings</p> <div style="background-color: black; height: 40px; width: 100%;"></div> <ul style="list-style-type: none"> • The savings are the total across BPP and are not expected to be proportionate across each Fund. 	
<p>Comments</p> <p>BPP is ambitious in its expectations of the service to be delivered by Brunel Company, in terms of standard, professionalism and scope of service. The budget supports this ambition.</p>	
<p>(b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate.</p>	<p>Implementation resources</p> <ul style="list-style-type: none"> • Project manager • Staff to be drawn from the Participating Funds, as required for the project work streams. <div style="background-color: black; height: 20px; width: 100%;"></div> <div style="background-color: black; height: 20px; width: 100%;"></div> <div style="background-color: black; height: 20px; width: 100%;"></div> <p>Ongoing resources</p> <ul style="list-style-type: none"> • Staff of 19 once established • Senior team <div style="background-color: black; height: 15px; width: 150px; display: inline-block;"></div> <div style="background-color: black; height: 15px; width: 150px; display: inline-block;"></div> to provide robust decision making and accountability, mitigate key person risk and meet FCA requirements; <div style="background-color: black; height: 20px; width: 100%;"></div> <div style="background-color: black; height: 20px; width: 100%;"></div> <div style="background-color: black; height: 20px; width: 100%;"></div> <div style="background-color: black; height: 20px; width: 100%;"></div> <div style="background-color: black; height: 20px; width: 100%;"></div> <div style="background-color: black; height: 20px; width: 100%;"></div> <div style="background-color: black; height: 20px; width: 100%;"></div>

	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
<p>Assumptions</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	
<p>Comments</p> <p>Staff resource reflects BPP commitment to being a responsible investor and delivering a Client focussed service to improve decision making by Participating Funds.</p>	

<p>6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.</p>	
<p>(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.</p>	
<p>We completed the first stage of the ESG policy framework through embedding being a responsible, long term investor within the BPP investment principles (see Annex 08 – investment Principles) which were developed in consultation with all the Participating Funds.</p> <p>Further work on developing the BPP policy framework, including</p> <ul style="list-style-type: none"> • Voting policy • Compliance statement for the UK Stewardship code 	<p>Attached as ANNEX number</p>

<ul style="list-style-type: none"> • ESG guidelines (for example, selection and monitoring processes for manager and other service providers. <p>It will be developed by April 2018.</p> <p>We will continue to collaborate with other pools to develop best practice, though the Cross Pool Collaboration Group for Responsible Investment.</p> <p>If no please attach an ANNEX setting out how the pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.</p>	
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7. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.

- (a) Please confirm that the pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

BPP has already established a website which will allow public access to annual net performance information www.brunelpensionpartnership.org . This will complement an Annual Report which will be generated by BPP, approved by the Operational Board and audited by the appointed external auditors.

This annual report will contain aggregated net performance for BPP along with the performance of the individual Portfolios. Investment management fees and operational costs will also be reported on an aggregate basis.

Each Participating Fund already reports its annual investment performance as part of its Annual Reporting which is available on their respective websites.

To enable comparison of performance all investment reporting will take place on a net of fee basis against specified passive indices and the target benchmarks for each Portfolio. Where a specified passive index doesn't exist then a proxy benchmark would be used that reflects the risk and return profile of that Portfolio. Where more complex investments are used (e.g. LDI strategies) reporting will be constructed on a bespoke basis.

Please refer to Annex 10 for the full paper on the external reporting and benchmarking proposal.

<p>Confirmed YES</p> <p>If no please attach an ANNEX setting out how the pool will report publically on its performance.</p>	<p>Attached as ANNEX number</p>
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8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.

(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.

The basis of each of the Portfolio reports will include the following:

1. Portfolio net investment performance returns
2. Investment performance of Portfolio benchmark
3. Analysis of over / under performance of Fund against Portfolio benchmark and target on an annual, 3 year, 5 Year and since inception basis.
4. Risk metrics showing absolute and relative; and where appropriate active share
5. Underlying investment returns for each manager within the Portfolio
6. Investment fees (split between management and performance fees)
7. Investment costs (including transactions and TERs)
8. Investment operational management costs metrics showing FTE per £ invested and support / governance staff per FTE.
9. Investment fees and costs against cost/savings model
10. Responsible Investment implementation, ESG risk analysis and Stewardship (voting and engagement) activities.

Net investment performance is a good measure of performance although as important is the governance requirements of the Participating Funds and BPP.

The governance of a Participating Fund's investments should be improved in the knowledge that performance and cost information will exist and be shared with them in respect to the whole pool. This will allow easier comparisons for a Fund reviewing costs relative to performance with both its peers and the industry.

The governance of BPP will be monitored against other metrics which aren't investment related. Regular reviews and monitoring of operational and oversight costs will be reported to the Oversight Board, which includes representatives from each Participating Fund.

Therefore regular reviews would be undertaken to monitor different aspects of the BPPs performance. This will include areas such as:

- Budgets
- Costs / transaction fees
- Transition analysis
- Review of custodian risks
- Financial impact of Responsible Investment and other market related risks
- Review of performance of BPP Company executives and non-executives
- Overall cost of BPP as a percentage of assets under management
- Review of audit and compliance assessments
- Review of advisers performance
- Review of Oversight Board members attendance and training records
- Review of performance of BPP in relation to industry standards and benchmarking clubs.

Please refer to Annex 10 for the full paper on the external reporting and benchmarking proposal.

Work In Progress

Criterion C: Reduced costs and excellent value for money

1. A fully transparent assessment of investment costs and fees as at 31 March 2013.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.	£ 47.908m
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2013 on a fully transparent basis.	£ 84.915m
<p>(c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.</p> <p>The investment costs taken from the Annual Reports include different levels of disclosure between Funds, whereas the basis for the fully transparent costs will be more consistent.</p> <p>For the fully transparent basis we have used the services of CEM Benchmarking to produce an investment cost analysis for BPP.</p> <p>It is comprised of asset management fees and costs plus oversight, custodial and other costs.</p> <p>It excludes transaction costs, private asset performance fees and non-investment pension costs such as actuarial costs and benefit administration. Defaults have been used for fees paid to underlying funds in fund of fund arrangements.</p>	

2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.	£ 95.292m
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.	£ 111.384m
<p>(c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.</p> <p>The assumptions stated in 1(c) above apply.</p>	

In addition the increased investment costs included within the Annual Reports for the year to 31.03.2015, as compared to the year to 31.03.2013, is largely a result of a much higher level of disclosure of costs rather than a real increase in costs.

3. A detailed estimate of savings over the next 15 years.

- (a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.

Total value of savings (per annum) estimated to be achieved by each of the authorities in the pool as at

31.3.2021: £24.9m over the three years (i.e. an average of £8.3m per annum)

31.3.2024: £47.1m over the three years (i.e. an average of £15.7m per annum)

31.3.2027: £48.1m over the three years (i.e. an average of £16m per annum)

31.3.2030: £48.1m over the three years (i.e. an average of £16m per annum)

31.3.2033: £48.1m over the three years (i.e. an average of £16m per annum)

- (b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).

The savings figures above are based on the savings on external manager fees through pooling. [REDACTED]

They take no account of the potential to move to more internal management of investments or the potential to improve performance.

4. 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.

(a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

Set up and Operational Costs (£millions)

Item	2016 - 18	2018/19	2019/20	2020/21	2021/22	2022/23
Set up costs	2.139	-	-	-	-	-
Salaries		1.736	1.835	1.975	2.095	2.095
Corporate Costs		0.600	0.600	0.600	0.600	0.600
Accommodation		0.075	0.075	0.075	0.075	0.075
Corporate Services bought in		0.525	0.525	0.525	0.525	0.525
Compliance and oversight costs		0.535	0.535	0.535	0.535	0.535
Investment Costs		0.565	0.565	0.565	0.565	0.565
Total costs	2.139	3.436	3.535	3.675	3.795	3.795
Savings		-0.800	-0.800	-0.800	-0.800	-0.800
Net costs	2.139	2.636	2.735	2.875	2.995	2.995

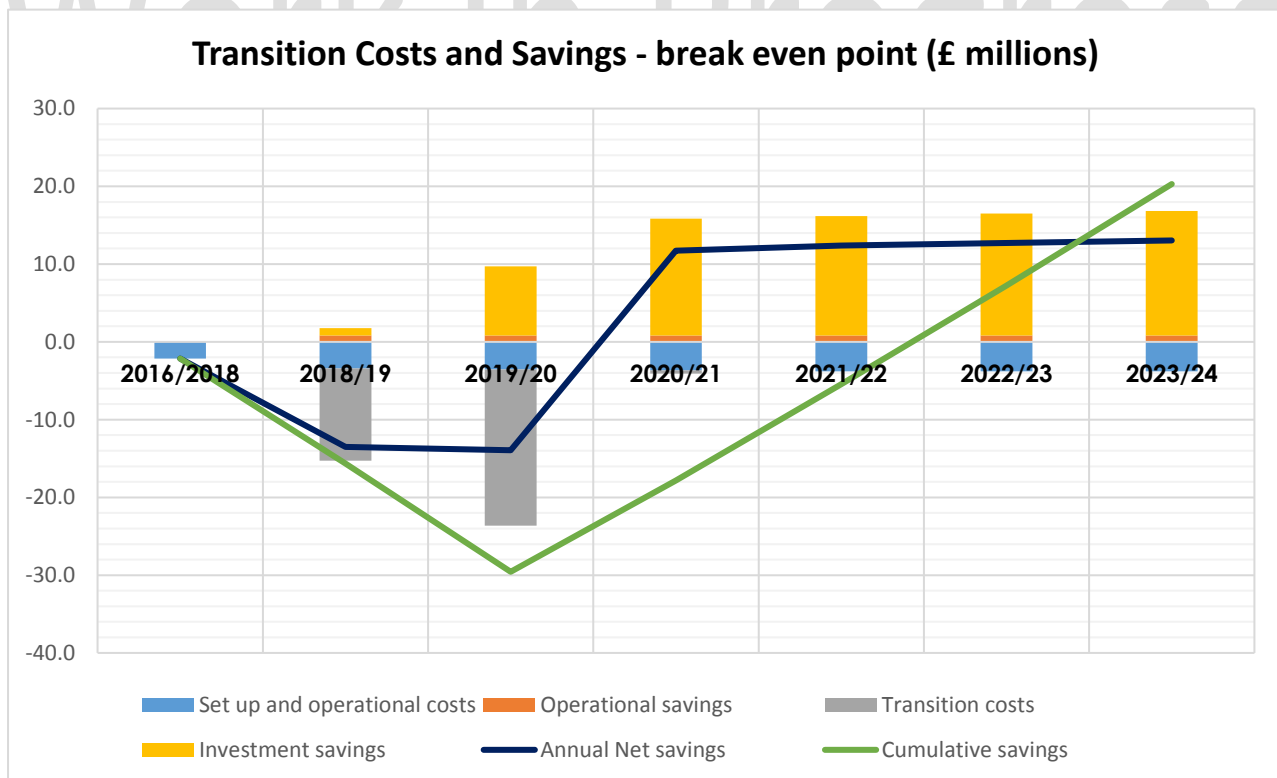
Transition costs (£millions)

Asset type	2016 - 18	2018/19	2019/20	2020/21	2021/22	2022/23
Passive (Equities, fixed interest)	0.000	3.080	0.000	0.000	0.000	0.000
Active Equities	0.000	8.750	8.750	0.000	0.000	0.000
Active Fixed Interest	0.000	0.000	5.250	0.000	0.000	0.000
Alternatives	0.000	0.000	6.100	0.000	0.000	0.000
Other	0.000	0.000	0.000	0.420	0.000	0.000
Total Costs	0.000	11.830	20.100	0.420	0.000	0.000

Breakdown of set up costs (£millions)

Item	Cost £ millions
Stage 1 (to February submission)	
Financial advice, business case development	0.125
Stage 2 (to July submission)	
Financial advice, business case development	0.175
Legal Advice	0.104
Project Management, governance	0.049
IT	0.012
Stage 3 (full business case and implementation)	
Financial advice, business model creation	0.400
Legal advice	0.400
Project Management, governance	0.074
[REDACTED]	0.300
FCA authorisation of Brunel Company / Brunel ACS Operator	0.300
Tax considerations of asset transfer	0.200
Total	2.139

BPP is estimated to break even in 2022:



- Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).

Set up cost assumptions

- Does not include the time spent by Fund officers (approximately 200 days since 11 April 2016. Assuming the current work rate, the total days required for stage 3 would be approximately 1900 days)

Operational cost assumptions

- Staffing costs including NI and pensions allow for 19 posts including:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- Regional office location anticipated
- Outsourced corporate services (including legal, HR, and IT) where do not have expertise until reach size which justifies in-house resources
- Governance
 - Non-executive director costs
 - Other compliance, advisory and governance
- Includes higher spending on risk analytics and reporting than currently undertaken by most Funds in BPP to support transparency and accountability agenda

Transition cost assumptions

We have asked two transition managers, Russell Investments and Blackrock, to complete an analysis for us. Russell's figures suggested transition costs of between £21m and £68m, with a base case of £32m. The figures produced by Blackrock indicated a similar range of between £26m and £74m. Russell's base case of transition costs totalling £32m has been used in the analysis, and the summary of the transition cost assumptions used by Russell Investments is attached as Annex 11 – **not publically available**

(b)Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.	Attached as ANNEX number Annex 11 – Transition Cost Assumptions from RI - <u>not publically available</u>
<p>(c) Please explain how the implementation costs will be met by the participating authorities.</p> <p>The approach to cost sharing is set up in the cost sharing principles, detailed in Annex 05. The set up costs, as set out in the Memorandum of Understanding signed by all Funds, are shared on an equal basis between Funds i.e. 10% per Fund.</p>	

The transition costs will be shared proportionately, in relation to the share each Fund held in the Portfolio incurring the costs. This would be achieved through the application pricing policy for the Portfolio. A clear pricing policy will need to be developed for each Portfolio, which will enable all Funds to establish the costs of the implementation of their investment strategy.

5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.

- (a) Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.

The proposed implementation and set up costs and savings of the BPP forms part of the business case submission. The proposed implementation plan includes the budget which will be monitored and reviewed by the Oversight Board.

In respect of the transfer of assets from Participating Funds to the BPP, transitions costs are extremely challenging to forecast as they depend on many market variables at the date of transfer. A proposed transition plan and timeframes has been developed for the purpose of the business case. This plan outlines both the proposed transition costs and net savings achievable from the implementation of pooling arrangements based on current markets.

This plan will be continually reviewed and updated based on the latest information. This may require further analysis from the transition manager to amend the forecast in line with the latest market data.

As each transition takes place a full pre and post transition plan will be provided showing in detail the forecast and actual costs and the respective impact on performance during this period. This information will then be incorporated into the cost / saving model.

These plans will be regularly submitted to the Oversight Board for update and review. This information will also be available to Participating Funds in respect of their investments which can be shared with their Pension Committees.

Please refer to Annex 10 for the full paper on the external reporting and benchmarking proposal.

- (b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance.

The BPP website will allow public access to annual net performance information. This will complement an Annual Report which will be generated by BPP, approved by the Oversight Board and audited by the appointed external auditors.

This annual report will contain aggregated net performance for BPP along with the performance of the individual Portfolios. Investment management fees and operational costs will also be reported on an aggregate basis.

Each Participating Fund already reports its annual investment performance as part of its Annual Reporting which is available on their respective websites.

The intention is that as part of the pool, BPP will provide investment performance and cost data to the Participating Funds for inclusion in their individual annual reports and current investment reporting structures.

The provision of the performance data for investment reporting will be developed through the use, at least initially of a specialist external provider. All Participating Funds currently use different providers and an opportunity exists to rationalise this to a single entity and standardise the reporting across all Funds providing a consistent and comparable approach.

BPP will potentially have the resources and expertise in-house to develop its own reporting capabilities to enable it undertake more flexible reporting that can be bespoke to the BPP fitting in with its own specific needs in-line with best practice.

Regular Investment performance will be reported to the Participating Funds on delivery of asset allocation strategies and performance against benchmarks. This will effectively be the performance of each Portfolio the Fund is invested in along with the specific benchmark and performance target attributed to that investment. Similar to the current quarterly investment reporting currently received from investment managers this will also include attribution data, holdings details, and a narrative on performance.

Each Participating Fund will still be responsible for measuring and monitoring results of their individual investment strategy, as they may have set their own performance objectives for their overall investment strategy and potentially for each Portfolio invested in.

Participating Fund's will report their investment performance to their Pensions Committee meetings. The reporting framework and suite used will be produced and agreed by BPP in consultation with the Participating Funds.

Please refer to Annex 10 for the full paper on the external reporting and benchmarking proposal.

(c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above.

The actual savings against the forecasts will be reported along with the implementation and transition costs, as described in 5(a)

Please refer to Annex 10 for the full paper on the external reporting and benchmarking proposal.

Criterion D: An improved capacity to invest in infrastructure

1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or “funds of funds”	
(a) Please state the pool’s committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	2.4%
(b) Please state the pool’s target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	3.3%
<p>Note that funds have been increasing their allocation to infrastructure and further increases have occurred since this date.</p> <p>The % allocation above covers the formal allocation to infrastructure as an asset class. However, Funds have significant investments in infrastructure outside these allocations. Such exposures may be categorised in areas such as real estate, private equity, private debt, bonds and equity because of their financial characteristics, but are supporting infrastructure in the broader sense (for example, a Fund has a significant private equity investment that is funding infrastructure development and construction). Across BPP our additional estimated exposure is 1%. No agreed methodology exists for assessing the broader exposure to infrastructure but BPP will work with others to develop such metrics.</p>	
Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.	

2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or “fund of funds” arrangements.	
<p>(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.</p> <p>Yes</p>	
(b) Please confirm that the pool is committed to continuing to work with all the other Pools	

(through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.	Confirmed Yes / No Yes Details attached as ANNEX number Annex 12 – Infrastructure - <u>Not</u> publically available
(c) [If different to above] Please attach an ANNEX setting out how the pool might develop the capability and capacity in this asset class, through developing its own resources and / or accessing shared resources of other Pools and include a timescale for implementation of the initiative.	Attached as ANNEX number Annex 12 – Infrastructure - <u>Not</u> publically available

3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.	
(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.	The allocation to infrastructure will be decided by the Participating Funds as part of their investment strategy but BPP is developing resources and capability on the basis of serving an ambition of: 5-10 %
<p>Please describe the conditions in which this allocation could be realised.</p> <ul style="list-style-type: none"> • Absence of political interference or direction in investment decision making • Availability of suitable opportunities with appropriate risk / return characteristics • No increase in regulatory and financial risk in investments • Acceptable levels of development and construction risk • Availability of competent, high quality resources (in terms of people and managers) at reasonable price • Compatibility with Participating Funds investment needs, actuarial valuations, funding strategies, and cash flows. • May include broader infrastructure assets with appropriate methodology • We will seek to include broader infrastructure assets with appropriate methodology, which will further increase our infrastructure allocation. 	

Annexes

Annex Number	Question references	Annex Document Title
1	A3b	BPP proposal Annex 01 - BPP high level structure diagram
2	A3b, A5b	BPP proposal Annex 02 - Timetable and reporting for stage 3 (full business case, BPP implementation)
3	A5b/c	BPP proposal Annex 03 - Timetable and reporting for stage 4 (asset transition)
4	A5b	BPP proposal Annex 04 - Sample status report - <u>Not publically available</u>
5	A5c, B4c, C4c	BPP proposal Annex 05 - Cost sharing Principles
6	B2c	BPP proposal Annex 06 - Reporting and monitoring framework
7	B4c	BPP proposal Annex 07 - Likeminded criteria
8	B4c, B6a	BPP proposal Annex 08 - Investment Principles
9	B4c	BPP proposal Annex 09 - Memorandum of Understanding
10	B7a, B8a, C5a/b/c	BPP proposal Annex 10 - External reporting and benchmarking
11	C4b	BPP proposal Annex 11 - Transition cost assumptions from RI – <u>Not publically available</u>
12	D2b/c	BPP proposal Annex 12 – Infrastructure - <u>Not publically available</u>