

# **Brunel Pension Partnership Limited**

## **Pillar 3 Disclosure**

**January 2022**

**Using Financial Year 20/21 audited accounts**

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# 1 Overview

## 1.1 Introduction and scope

The Capital Requirements Directive of the European Union establishes a regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the FCA in its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies, and Investment Firms ("BIPRU"). Brunel Pension Partnership Limited ("Brunel") is regulated by the Financial Conduct Authority ("FCA"). It is subject to rules set out in the GENPRU and BIPRU sourcebooks of the FCA Handbook and must ensure it maintains adequate financial resources at all times.

The Capital Requirements Directive III (Directive 2010/76/EU), which the FCA has implemented through GENPRU and BIPRU, defines a framework consisting of:

- Pillar 1: the minimal capital requirements that must be held by firms at all times, calculated according to the FCA's rulebooks.
- Pillar 2: requires firms to determine whether additional capital should be held against risks not adequately covered under Pillar 1, this is achieved through the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by Brunel.
- Pillar 3: requires firms to disclose information regarding their risk management process and regulatory capital resources.

The provisions for the Pillar 3 disclosure are set out in BIPRU 11 and this document has been produced by Brunel in order to meet its disclosure obligations. This document has been prepared using financial information as at 30 September 2021.

## 1.2 Structure of Brunel

Brunel is a limited company formed by nine local authorities and the Environment Agency, which are administering authorities under the Local Government Pension Scheme ("LGPS"). These authorities are the shareholders and are also Brunel's only clients. Brunel is not permitted to offer services to other clients without shareholder approval. Clients are required to be part of a pool and invest the pension fund assets through the pool. Brunel was formed in July 2017 and achieved FCA regulated status in April 2018.

## 1.3 Materiality

The rules allow a BIPRU firm to omit one or more of the disclosures listed in the required disclosures, if the information provided by such disclosures is not regarded as material. A disclosure is deemed to be material if the omission or misstatement of that information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where a disclosure is immaterial, this has been noted.

Brunel has not omitted any information on the grounds of materiality.

## 1.4 Frequency

The rules provide that capital and risk disclosures required under Pillar 3 are produced at least annually. Brunel must also determine whether more frequent publication than is provided for is necessary in the light of any material changes.

## 1.5 Location and verification

These disclosures have been approved by the Brunel Pension Partnership Limited Board ("the Board") and are not subject to audit. They have been produced solely for the purposes of

satisfying the Pillar 3 regulatory requirements. The disclosures are made available on the Brunel website.

## **1.6 Brunel overview**

Brunel's main goal is to support its clients in their pooling obligations. With this strategic goal in mind, Brunel offers a series of risk and return focused portfolios (24) covering a comprehensive list of asset classes. The scope of the portfolios was developed in consultation with clients based on their current and anticipated future needs.

Brunel's clients are classified as professional investors under the MiFID II requirements; as such, they have demonstrated, and are expected to maintain, a degree of investment expertise. Brunel is authorised to provide services to professional clients only. Clients are responsible for deciding their strategic asset allocation, which is implemented through allocation to the portfolios that meet their investment requirements.

Portfolio management is outsourced to investment managers, selected via a rigorous due diligence process. In November 2018, Brunel launched an Authorised Contractual Scheme ("ACS") vehicle for the active equity investments.

Brunel offers a range of services to its clients, as set out in the services agreement. The core services pertain to Brunel's provision of the portfolios, the necessary development and management of investments, and the arrangement of transactions associated with investing within the portfolios. They incorporate manager selection, portfolio monitoring, the provision of the facilitation of asset servicing support; investment reporting and accounting information; the creation of, and adherence to, the Brunel responsible investment strategy.

## **2 Risk Management in Brunel**

### **2.1 Brunel governance**

The Company Board, the Remuneration Committee and Audit, Risk and Compliance Committee are the mechanism by which the senior management comes together to manage and oversee Brunel. The Board is made up of the independent Chair, four non-executives and three executives. One of the non-executives is appointed as a shareholder Non-Executive Director ("NED") to represent the shareholder interests on the Board. The shareholders approve the appointment.

Within Brunel, there are three layers of committees designed to manage transparency, accountability and compliance across the company's activities. They are the Board sub-committees, the Executive Committee ("ExCo") and operational committees.

The operational committees oversee the monitoring of daily activities. These committees will also prepare inputs into the Board level committees regarding escalated / critical items, recommended changes to appetite, policies, programmes, and relevant strategies. They also report to ExCo, which provides a company-wide oversight and is the initial escalation point for operational matters from the committees.

### **2.2 Three lines of defence model**

Brunel operates a "three lines of defence" model of risk management that supports the governance framework:

- First line – The Business (Investment, Operations and Relationship teams)
- Second line – Risk and Compliance function
- Third line – Internal Audit (outsourced, Deloitte)

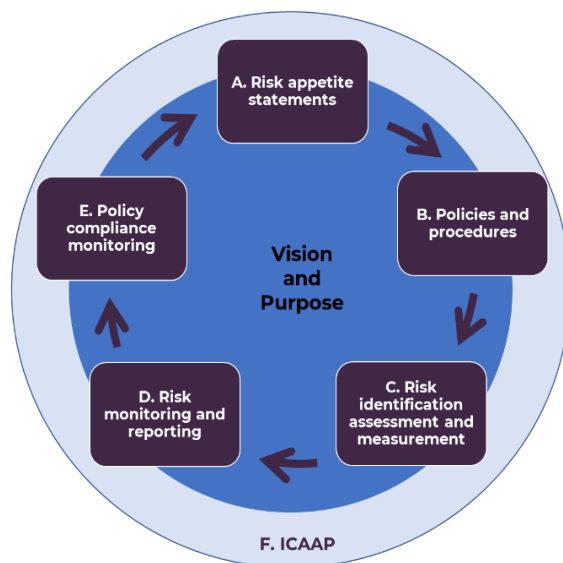
The first line owns and manages risks. It reports to operational and Board committees on the status of risks. The second line monitors and oversees risk management and compliance with policies. It reports assessments to the Risk and Compliance Committee ("BRCC"), Board level Audit, Risk and Compliance Committee ("ARC") and the Board. The third line provides a further independent assessment of the control environment, reporting to the CEO and ARC.

### **2.3 Risk management framework**

Brunel's risk management framework is built around the vision and purpose of the company. All risks are managed through a risk culture and set of processes that emphasise the importance of integrity, transparency, challenge and accountability.

Brunel's risk culture encompasses the awareness, attitude and behaviour of its employees to risk and the proactive management of risk within the organisation. In line with Brunel's long term, sustainable view of investing, the risk culture is one that seeks to provide a supportive, transparent, collaborative approach towards managing risk and one of continual improvement across all levels of the firm. The culture is reinforced through the tone set by leaders, the processes as described below, and training and support from the Risk and Compliance team.

The framework seeks to ensure the effective management of all organisational risks and encompasses 6 key components.



The effective functioning of the framework is considered part of Brunel's day to day operations and as such is the responsibility of every person in the business to deliver. The risk management framework is subject to regular review, which occurs at least annually, and is approved by the company Board. The ARC provides oversight and review.

## 2.4 Risk appetite

Risk appetite is a key component of Brunel's risk management framework and its approach to managing risk. The risk appetite of the firm is defined as the amount of risk that the Board will accept or will allow the firm to accept before incurring the costs of managing or preventing the risk. Brunel's risk appetite for each category of risk is discussed and agreed at least annually by the company Board and the ARC.

Periodic monitoring of existing risks is also achieved through the Key Risk Indicators ("KRI"), alongside their triggers and limit points. If triggers or limits are breached, remedial actions will be identified immediately by the risk owners and then reported to the BRCC for review. If the breach is significant, it is escalated to the Company Board, where the remedial actions will be agreed. These are also reported to the ARC.

Risks that cannot be easily tracked via KRIs, and that may occur through normal business activities, are the responsibility of the risk owners.

## 2.5 Policies and procedures

Risk owners are responsible for ensuring appropriate policies are in place and are aligned to the agreed risk appetite. The policies set the standards for activities and how they should be overseen and controlled and are reviewed at agreed periods to ensure they are up to date. Changes to policies are approved by the committee responsible for oversight of that policy.

Each directorate defines and maintains documented procedures that take account of any applicable policies. Policies are stored centrally, so accessible to all staff. Training and guidance is provided to ensure staff understand their roles and responsibilities with respect to the policies.

## 2.6 Risk identification, assessment and measurement

Risk identification is the process by which risks are identified, categorised and recorded on an ongoing basis. Risks are identified and rated based on the probability of them occurring and the impact to the business. The results are captured in Risk and Control Self-Assessment

("RCSA") documents. RCSAs help Brunel to organise and prioritise risk exposures and to identify control weaknesses. The RCSAs are performed for key processes across the business.

The risk owner, in conjunction with the directorate lead, is responsible for ensuring their RCSAs are reviewed and the residual risk level is aligned to the risk appetite. Risks not within appetite are reported to the BRCC in the first instance for review and then if not mitigated within the appropriate timescale, escalated to the Board and also reported to the ARC.

Risk owners are responsible for assessing the risks, supported by the second line. The risk assessment process involves

- rating the inherent risk
- identifying and evaluating the controls in place
- assessing the resulting residual risk
- Identifying any further mitigating actions required to reduce the residual risk if it is close to or outside of appetite

By conducting a periodic identification and assessment of risks, Brunel can develop an ongoing understanding of the firm's risk profile and the likelihood of any of these risks materialising. This allows Brunel to prioritise risks and required mitigation. The BRCC and the ARC review the firm's risk management activities on a periodic basis, as defined within the Corporate Governance framework.

## **2.7 Risk monitoring and reporting**

Periodic monitoring of existing risks is also achieved through the KRI, alongside their triggers and limit points. If triggers or limits are breached, remedial actions will be identified immediately by the risk owners and then reported to the BRCC for review. If the breach is significant, it is escalated to the Company Board, where the remedial actions will be presented. These are also reported to the ARC.

Risks that cannot be easily tracked via KRIs, and that may occur through normal business activities, are the responsibility of the risk owners in terms of identifying when they occur and ensuring they are appropriately escalated for assessment and review at the BRCC.

## **2.8 Policy compliance monitoring**

To ensure the business remains compliant with all relevant rules and regulations and to identify areas of material weakness and non-conformity within the firm, there is a monitoring and oversight framework. Heads of department are tasked with monitoring adherence to all relevant policies and procedures. Second and third line also review as part of their oversight monitoring activities.

## **2.9 ICAAP**

The ICAAP enables the firm to assess the level of capital that adequately supports all relevant current and future identified risks within the business. The risk exposure and ICAAP calculations are reviewed at least annually in line with the financial year and the updated ICAAP document is approved by the Board.

Outside of the scheduled review cycle, the impact of changes on the ICAAP calculation is considered as part of the ongoing risk management processes. When making important decisions, the Board will consider the impact on the risk landscape and so capital and liquidity requirements, of options and decisions.

From 1 January 2022, Brunel is subject to the new Investment Firm Prudential Regime ("IFPR"). The ICAAP that would be based on the reference date in 2022 will be replaced by the ICARA (Internal Capital and Risk Assessment) review and the next Pillar 3 disclosure (due in January 2023) will be replaced by an Annual Public Disclosure.

### 3 Capital resources

Brunel predominately holds Tier 1 capital, primarily consisting of share capital, share premium and reserves and therefore all capital resources are considered to be high quality in nature. Brunel does not hold any tier 2 or 3 capital resources.

As at 30 September 2021 Brunel holds a total of £8.4m of eligible capital resources to meet its capital requirements.

The table below outlines the details of Brunel's capital resources position as at 30 September 2021.

Table 1: Capital resources summary as at 30 September 2021

Capital resources	30 September 2021 (£)
<b>Tier 1 capital</b>	
Capital instruments and the related share premium accounts	
Of which: share capital	20
Of which: share premium	8,399,980
Of which: pension reimbursement asset reserve	7,676,000
Accumulated other comprehensive income (and other reserves)	(7,693,361)
<b>Tier 1 capital before regulatory adjustments</b>	<b>8,382,639</b>
Tier 1 capital: regulatory adjustments	-
<b>Total Tier 1 capital</b>	<b>8,382,639</b>
<b>Tier 2 capital</b>	
Total Tier 2 capital	-
<b>Total Tier 1 plus Tier 2 capital</b>	<b>8,382,639</b>
<b>Tier 3 capital</b>	
Total Tier 3 capital	-
<b>Total capital resources (sum of Tier 1, 2 and 3)</b>	<b>8,382,639</b>



## 4 Capital adequacy

Pillar 1 sets out the minimum capital requirement for a BIPRU firm. A BIPRU firm must maintain, at all times, capital resources equal to or greater than the base capital resources requirement required by GENPRU 2.1.41, which for Brunel is €50,000 (£42,995, assuming €1.16 to £ exchange rate as at 30 September 2021), and the variable capital requirement required by GENPRU 2.1.45, which is calculated as the higher of the firm's:

- Fixed Overhead Requirement ("FOR"); or
- the sum of its credit risk and market risk requirements

The table below shows a summary of Brunel's Pillar 1 capital requirements for the year ended 30 September 2021:

Table 2: Pillar 1 capital requirements summary as at 30 September 2021

Pillar 1 capital requirements	30 September 2021 (£)
<b>Base capital requirement</b>	42,955
<b>Variable capital requirements</b>	
Credit risk requirement	522,145
Market risk requirement	31,468
Fixed overhead requirement	2,824,862
<b>Pillar 1 capital requirement</b> (higher of base capital requirement, credit risk + market risk or FOR )	<b>2,824,862</b>

Brunel's capital requirement is driven by the FOR, which results in a Pillar 1 capital requirement of £2.8m as at 30 September 2021.

### 4.1 Pillar 1 assessment

#### 4.1.1 Credit risk capital requirement

Credit risk is the risk associated with the exposure to loss arising from a counterparty's failure to meet its contractual obligations. Therefore, there is a risk that Brunel may not recover some of the amounts owed to it or assets may not be recoverable in full.

Brunel calculates its credit risk requirement using the simplified approach as set out under BIPRU 3.5.

Table 3: Pillar 1 credit risk requirement calculator as at 30 September 2021.

Component	Assets	Exposure (£)	Risk weight	Risk weighted exposure (£)	Credit risk requirement at 8% (£)
Institutions	Cash and cash equivalents	10,630,689	20%	2,126,138	170,091

Regional / local government	Pension deficit Asset / Client Group Debtor positions	8,042,892	20%	1,608,578	128,686
Corporates	Other Trade debtors, Prepayments and Tax Asset	599,253	100%	599,253	47,940
Other	Property, plant & equipment, lease deposit	237,528	100%	237,528	175,427
<b>Total</b>					<b>522,144</b>

### 4.1.2 Market risk

Market risk is the risk that arises due to adverse changes in market prices and/or exchange rates reducing the value of client portfolios. This reduces the value of client portfolios and impacting revenues is treated as a business risk.

As at 30 September 2021 Brunel has a modest amount of market risk exposure arising from non-GBP cash at bank.

## 4.2 Other assessment items

### 4.2.1 Pillar 2

Brunel has adhered to the overall Pillar 2 rule per GENPRU 1.2.30, systems, strategies, processes and reviews. The ICAAP provides Brunel's Pillar 2 and risk assessment and determines the amount of capital required to cover those risks.

The Pillar 2 assessment involves a review of each Brunel risk, the controls in place and the Board's risk appetite. This determines the level of capital required to cover the risk at a 99.5% confidence level (1 in 200 probability) over a one-year, forward looking horizon. Stress testing is also included as part of the ICAAP process.

The ICAAP calculations are reviewed at least annually in line with the financial year, or when the business experiences a material change, and the updated ICAAP document is owned and approved by the Board.

Client assets are not carried on Brunel's balance sheet, however the risks that could impact client assets and Brunel's resulting exposure are considered in the operational risk assessment.

### 4.2.2 Interest rate risk in the non-trading book

Interest rate risk is the potential adverse impact on the Brunel's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the firm's assets and liabilities.

Brunel is only exposed to interest rate risk in the non-trading book on its accounts holding cash for working capital and capital adequacy, which is considered immaterial.

## 5 Remuneration disclosure

### 5.1 Remuneration policy and practices

This remuneration disclosure explains how Brunel has complied with the regulatory requirements under BIPRU 11.5.18.

Brunel has established a remuneration committee ("RemCo") to provide a forum responsible for implementing and reviewing the Policy. The role of the RemCo is to ensure that:

- the Policy is applied in making all remuneration decisions; and
- remuneration payable is consistent with the financial performance of Brunel.

The RemCo consists of at least three independent non-executives ("NEDs"), including the Shareholder NED. Other individuals, such as the Chief Executive Officer ("CEO") and the Chief Operating Officer ("COO") and advisers may be invited to attend for all or any part of any meeting, as and when considered appropriate by the RemCo.

To ensure the policies and processes are effective, Brunel engaged a third party HR service provider in December 2018. In line with Brunel's growth the internal HR function has been strengthened with additional resource and a Head of HR was appointed in May 2020. The HR function now leads the definition and implementation of the HR strategy, with external specialist support engaged when needed.

### 5.2 Information on the link between pay and performance

Brunel's remuneration policy does not allow for performance related pay or bonuses beyond small recognition awards. The RemCo approves any salary changes and reviews the remuneration policy annually. Changes to the policy require shareholder approval.

Staff are offered the Local Government Pension Scheme ("LGPS") scheme and Wiltshire Council is the Administering Authority for the Brunel scheme, which is a Career Averaged Revalued Earnings ("CARE") scheme. Brunel is responsible for meeting any deficit. In the event that Brunel were wound up, the shareholders are collectively responsible for taking on the scheme and covering any deficit.

### 5.3 Code staff criteria

Brunel ensures that it applies all of the necessary remuneration requirements that are required with consideration for the size, complexity and risk profile of the regulated entities in question.

Code Staff are identified in accordance with the BIPRU Remuneration Code (SYSC 19C.3.4R) of the FCA Handbook which establishes qualitative criteria to identify categories of staff whose professional activities have a material impact on the firm's risk profile. These categories broadly include the relevant Board of Directors, senior management, senior control function staff and other key risk takers.

Material Risk Takers ("MRTs") under the BIPRU regulation are board members and voting members of the governance committee, senior managers under SMCR and heads of functions, including control functions and only staff actively performing their role.

### 5.4 Code staff remuneration

Brunel has only one business line, which is the provision of the portfolios, the necessary development and management of investments, and the arrangement of transactions associated with investing within the portfolios to professional clients.

23 individuals have been identified as MRTs under the BIPRU regulation, 15 of which are classified as Senior Management.

Table 4: Code staff remuneration to 30 September 2021

<b>Code staff</b>	<b>Fixed remuneration (£)</b>	<b>Variable remuneration (£)</b>	<b>Total remuneration (£)</b>
Senior management	1,224,442	-	1,224,442
Other	702,291	-	702,291