



Keeping things clear

✓ **Brunel Pension Partnership head of operations, Darren Hay, discusses the pool's approach to cost transparency, its partnership with Caceis and why Cost Transparency Initiative (CTI) templates will need to evolve to meet varying needs**

What is Brunel's approach to cost transparency? Brunel Pension Partnership aims to deliver stronger investment returns over the long term, while protecting our clients' interests by contributing to a more sustainable and resilient financial system that supports sustainable economic growth and a thriving society. Brunel is a signatory to the UN-backed Principles for Responsible Investment and aligns its practices and processes to their 12 investment principles and definitions of responsible investment. Brunel is also a signatory of the Local Government Pension Scheme (LGPS) Code of Transparency.

Formed in 2017, Brunel is one of eight LGPS pools across the UK and brings together about £30 billion in investments for 10 funds. Three of its principal goals are to find cost-effective solutions and be transparent and accountable, which it seeks to achieve through driving greater transparency on costs.

The LGPS pools have adopted a forward-looking approach to their respective pension funds. Each underlying scheme has its own unique approach and investment strategy. In Brunel's case, the pool has to be quick to adopt the right technology, tools and information available to them to increase their transparency on costs. This full

transparency includes using the Cost Transparency Initiative (CTI) templates, to collate the full range of management fees, administrative fees and transaction costs, in order to paint a picture of their total cost of ownership. Pooling was built to enable better governance, which is the key pillar in Brunel's overall delivery to its clients.

Why did Brunel decide to partner with Caceis on cost transparency and what benefits has the partnership brought?

Brunel is currently only three years into its journey to increase cost transparency. 2019 was the first time we were able to capture a full view of cost transparency information. Our partnership with Caceis made our year-end much easier than when we had conducted the exercise internally.

In terms of outsourcing, Brunel prefers to use external fund managers who have the expertise and wider available resources to service Brunel. We have taken a similar approach by selecting Caceis as our cost transparency provider. As a result, Brunel has a better grasp of our costs and a solid platform to manage them in the future. Progress in this area has also enabled us to better explain costs to its pension scheme clients and members, while offering clients the added reassurance that comes with using an independent third party.

There was also a recognition that Caceis provides access to a wider data set and a broader view of the cost transparency landscape. For example, the Caceis partnership has already enabled

Brunel to look at fees and performance data for different asset classes.

More generally, Brunel's approach across the whole business is to work with creative partners in the market that can provide additional levels of governance, resource and expertise – so long as it makes sense from a skills and cost perspective.

Why does Brunel believe cost transparency is so important?

Everything Brunel does revolves around responsible investment in one shape or another. Brunel is very conscious that the affordability and sustainability of its clients' pension funds ultimately depend on the investment decisions it makes. The partnership aims to sustain a good pension scheme for members and employers alike through its investment work. We must ensure that member contributions are used wisely. At the same time, we recognise that superior investment skill and talent needs to be paid for, but only insofar as it serves client outcomes.

Local authorities, quite naturally, are sensitive to costs and to the value they get out of their service providers. Brunel, as a pool, is therefore required to demonstrate a positive, highly-proactive approach towards its cost transparency programme. It is also important for the pool to show that it understands the complexities involved in cost transparency in general. This involves addressing the topic through Brunel's broader responsible investing principles.

Brunel has identified three

component parts to integrating cost transparency into its decision-making: how it selects managers; how it monitors its assets; and how it manages the asset managers on an ongoing basis. All of this is wrapped up in our Responsible Investment Principles.

How does Brunel’s pooling structure make ensuring cost transparency different to traditional pension scheme structures?

During the cost transparency review process, Brunel grew to understand that our situation and set up was unique. Pooling, for example, is still relatively new and, even within that, Brunel realised it was different from other pools. It therefore found it difficult to take a dataset and compare it to its peers, which were operating quite differently. We realised that, while the cost transparency information we were getting was important in terms of building blocks, we also needed to use that information in the right way.

As a result of its advanced due diligence and its prioritisation of cost transparency, the external managers Brunel works with are now much

better placed and further up the curve in providing information. There is still room to improve with some managers, however, where the quality of data could be better. Managing this process is one of the key benefits of having Caceis as an outsourcing partner.

What are the benefits and shortcomings of the CTI templates?

At Brunel, we believe the CTI templates provide good building blocks for progress. However, we recognise that clients need to gain sight of any cost savings sooner rather than later. This means that Brunel needs to make quick use of the CTI data in further analysis. We also need to ensure our reporting is of maximum value to clients, as we look to identify and report on cost trends over the longer term.

The CTI template, however, does not cater to the specific details of Brunel’s pooling structure. As a pool, it also needs to factor in outsourced administration costs and the ongoing fees it charges its underlying clients. In trying to be as accurate and transparent as possible, Brunel has had to incorporate workarounds on the CTI template. It

therefore believes that, over time, the CTI will need to evolve.

How can cost transparency help find value for members?

Initial reviews show Brunel is already considerably below post-consolidation Dutch or Caceis averages on costs. This means the company is delivering a core part of the pooling agenda. It is, of course, still early days and Brunel will seek to share more detail in future years.

Aggregating all costs is also meaningful because Brunel can now see how the different mandates are delivering on value, relative to each other, and because some costs might not be immediately transparent, such as transaction costs.

Brunel also observed that there are many strands to the institutional market that need to be brought together in order to develop a consistent methodology and approach to costs. It therefore believes the industry will benefit from a more centralised, collaborative model with a set of principles. This will be important in driving more consistency across the industry and this is what pension schemes need and now expect.

In addition, we felt it was important to link cost transparency to our values. This included making long-term, sustainable investments, supported by robust and transparent processes.

Cost transparency is not just a means to lower costs – it’s also about finding value. Brunel’s focus on forging better futures aligns to its deep societal responsibility and the role that robust cost transparency can play in creating fair value for all members. This is because everything eventually flows down to the pension members – for LGPS, this means all local government workers. This ensures their pension liabilities are met and excess savings are released back into the local government budget.

Written by Jack Gray

