

**THE HIGHLAND COUNCIL
INVESTMENT SUB COMMITTEE**

Minutes of Meeting of the Investment Sub Committee held in Council Headquarters, Glenurquhart Road, Inverness on Thursday, 14 November, 2013 at 11.00 a.m.

PRESENT

Mr C Macaulay
Mrs H Carmichael

Mr A MacKinnon
Mr K MacLeod

Non Members also present:

Mr D Fallows
Mr T MacLennan

Officials in attendance:-

Mr D Robertson, Head of Accounting and Budgeting, Finance Service
Mr B Porter, Finance Manager (Corporate Budgeting, Taxation & Treasury), Finance Service
Mrs M MacCallum, Treasury Officer, Finance Service
Mr A MacInnes, Administrative Assistant, Chief Executive's Service

Also in attendance -

Mr K Ettles, AON Hewitt, Investment Consultant

Mr G Waller and Ms S Brewer, Partners Group (item 8 only)
Mr R Frazer and Mr C Dulieu, Northern Trust (item 8 only)

Mr C Macaulay in the Chair

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mr J Ford and Mrs C Wilson.

2. Declaration of Interest

The Sub Committee **NOTED** that there were no declarations of interest expressed.

3. Minutes of Last Meeting

The Minutes of the last meeting of the Sub Committee held on 22 August, 2013, were approved by the Pensions Committee at their meeting held on 14 November, 2013.

4. Exclusion of the Public

The Sub-Committee **RESOLVED** that, under Section 50A(4) of the Local Government (Scotland) Act 1973, the public be excluded from the meeting for the following items on the grounds that they involved the likely disclosure of exempt information as defined in Paragraph 6 of Part I of Schedule 7A of the Act.

5. Investment Activity Update and Performance Report

a) Investment Activity Update Report

There was circulated to Members only Report No INV/12/13 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 30 September, 2013.

The report provided details on the following matters:- Pension Fund Statement of Accounts; Private Equity funding draw-down; Member training and Tax.

The Sub-Committee **NOTED** the information contained in the report.

b) Performance Report

There was circulated to Members only Report No. INV/13/13 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 30 September, 2013.

It was reported that the investment performance of the Combined Fund for the third quarter of 2013 and one, three and five year periods showed an outperformance to the benchmark return. The report also detailed a Market summary, Fund asset allocation, Strategic asset allocation and all the managers investment performances. Members welcomed that performance was above benchmark for the overall fund.

In particular it was advised that there had been an issue with the way in which the benchmark for Legal & General had been derived which when corrected had the effect of reducing their over performance slightly. The overall impact of this on the Fund was marginal. Officials were liaising with Legal and General to ensure that the issue was resolved.

The Sub-Committee **NOTED** the contents of the report.

6. Re-balancing the Fund

There had been circulated to Members only Report No. INV/14/13 by the Director of Finance which set out a briefing paper from the Fund's investment advisor AON Hewitt, and gave recommendations relating to re-balancing the Fund's current asset allocation to be closer in line with the Fund's Strategic Asset Allocation.

It was advised that with the significant growth in the Fund, particularly in relation to equities over the past 12 – 18 months, it was the case that the Fund's holdings were significantly adrift from the Strategic Asset Allocation in some areas. A briefing paper had been requested from AON Hewitt, setting

out the differences in asset allocations as at 30 September, and options for re-balancing the Fund closer to its Strategic Asset Allocation. As set out in the briefing paper this would involve dis-investment from equities, and investment into UK property of approximately £40m, approximately 3% of the Fund's assets. The report proposed no change to the current bond allocations, given the investment advisors view on the bond market relative to other asset classes.

In considering the recommendation it was felt that re-balancing the Fund closer to its Strategic Asset Allocation was the correct decision to make. The UK property market was strengthening and therefore a good time to invest further in it. However Members were of the view that a partial re-balancing of the fund was more prudent at the current time and that £24m be disinvested from equities and invested in UK property.

Thereafter, the Sub-Committee:

- (a) **AGREED** that £24m be disinvested from Baillie Gifford's portfolio and invested with Schroders in UK Property Funds to re-balance the Fund toward its Strategic Asset Allocation; and
- (b) **NOTED** that officers would take forward detailed discussions with AON Hewitt and Investment Managers to implement the re-balancing measures agreed.

7. Inverness Common Good Fund and Associated Funds Investment Report

There had been circulated to Members only Report No INV/15/13 by the Fund's Investment Advisor which highlighted the diversification of Inverness Common Good and associated Funds under the management of Adam & Company for the quarter ended 30 September, 2013. Adam & Company's investment performances, measured against their respective strategic benchmarks, were also provided. Overall, it was noted that the Funds performance over the longer term had been exceptionally strong, although performance over the past year had been below benchmark for the Inverness Common Good Fund and Inverness Burial Grounds Commutation Fund.

The Sub-Committee **NOTED** the terms of the report.

8. Presentations

Partners Group

The Chairman welcomed Mr G Waller, Managing Director and Ms S Brewer, Vice President from Partners Group to the meeting and the Sub-Committee were given a presentation on the background to Partners Group, an introduction to private equity – what it is and how it worked; opportunities for private equity investments in the current market and information on the private equity fund that the Highland Council Pension Fund was invested in; and future net asset values and cashflow development.

Following a question and answer session, the Chairman thanked Mr G Waller and Ms S Brewer for their very informative presentation.

At this point the meeting was adjourned for a lunch break and resumed again at 1.30p.m.

Northern Trust

The Chairman welcomed Mr R Frazer, Senior Vice President and Mr C Dulieu, Relationship Manager from Northern Trust to the meeting and the Sub-Committee were given a presentation on an overview of Northern Trust which provided asset servicing and asset management solutions for institutions and private clients around the globe; performance to date; information on custodians and their role; and the service provided by Northern Trust as custodian to The Highland Council Pension Fund.

Following a question and answer session, the Chairman thanked Mr R Frazer and Mr C Dulieu for their presentation.

The meeting ended at 2.10 p.m.