

**THE HIGHLAND COUNCIL
INVESTMENT SUB COMMITTEE**

Minutes of Meeting of the Investment Sub Committee held in Council Headquarters, Glenurquhart Road, Inverness on Friday, 21 February, 2014 at 11.05 a.m.

PRESENT

Mr C Macaulay
Mrs H Carmichael
Mr J Ford

Mr A MacKinnon
Mr K MacLeod
Mrs C Wilson

Non Members also present:

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
Mr D Haas, Acting Head of Community & Democratic Engagement
Mr D MacDonald, Principal Accounting Technician, Finance Service
Mr A MacInnes, Administrative Assistant, Chief Executive's Service

Also in attendance -

Mr K Ettles, AON Hewitt, Investment Consultant

Ms L Dewar, Baillie Gifford (item 7 only)
Ms C Erskine-Murray, Baillie Gifford (item 7 only)

Mr C Macaulay in the Chair

1. Apologies for Absence

An apology for absence was intimated on behalf of Mr R Laird.

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 14 November, 2013, were approved by the Pensions Committee at their meeting held on 21 February, 2014.

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/1/14 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 31 December, 2013.

The report provided details on the following matters:- Private Equity funding draw-down; Legal and General Investment Management Disinvestments; Transfer of Cash from Equities to Property; 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/2/14 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 December, 2013.

It was reported that the investment performance of the Combined Fund for the fourth quarter of 2013 was an underperformance of 0.3% to the benchmark return. Over the one, three and five year periods the Fund had 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 for the overall fund was good.

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

6. Inverness Common Good Fund and Associated Funds Investment Report

There had been circulated to Members only Report No INV/3/14 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 31 December, 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 strong, although performance over the past year had been below benchmark for the Inverness Common Good Fund and Inverness Burial Grounds Commutation Fund.

It was reported that reports were due to be submitted to the City of Inverness Area Committee regarding potential significant expenditure on Inverness Common Good Fund property which would influence future investment

strategy for that Funds investments. Officials would ensure that sales of equity investments in the Inverness Common Good Fund would be done in a managed way so that investments were sold at the best time and to ensure the best potential for the remaining investments. This process would be spread over a number of years, so that the investments in the fund could be given time to grow back.

The view was expressed that with the fund being significantly depleted there may not be the opportunity in future for Investments to grow as they had done previously. It was hoped that funding from third party sources could go towards meeting some of the total project costs.

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

7. Presentation

The Chairman welcomed Lynn Dewar and Clare Erskine-Murray from Baillie Gifford (BG) to the meeting and the Sub-Committee were given a presentation on the BGs relationship with the Council which started in 1991 and over these years there had been good long term performance. Details of the combined fund performance and valuation of the Fund along with an overview of the Fund's portfolio and economic outlook was provided. Baillie Gifford's Investment Philosophy and Investment approach together with recent transactions on the portfolio were highlighted.

Following a question and answer session, the Chairman thanked Ms L Dewar and Ms C Erskine-Murray for their very informative presentation.

8. Strategic Investment Strategy Review

Mr K Ettles, the Fund's Investment Advisor, AON Hewitt, gave a presentation setting out the context for reviewing the Fund's current Strategic Investment Allocation in conjunction with the 2014 actuarial valuation.

An overview of the strategic asset allocation that Pension Funds required to make decisions on was provided. Key objectives for the Sub-Committee to consider were to ensure that benefits were paid to members of the pension scheme; that the scheme becomes fully funded and an appropriate level of investment risk is taken along the way. The relationship between investment strategy and contributions was explained by aiming for higher investment returns, enabled you to set lower contribution rates, but it also meant a higher risk of not achieving the desired returns in future, and in which case you would need to set higher contribution rates to close the funding gap.

An analysis of the target returns that the Fund's assets needed to achieve to meet pension scheme liabilities as well as the Fund's current benchmark strategic asset allocation and expected returns was provided. Potential changes to the portfolio to achieve strong returns in future in light of changing market conditions were then explored.

In terms of next steps to be taken, it was advised that Aon Hewitt would model the expected impact on risk and return of the potential changes to the portfolio for further discussion with the Sub-Committee. In addition to any refinements

to the strategic asset mix, it was envisaged that consideration should be given to a further commitment to private equity over 2014 to increase the allocation closer to the target weight of 5%. Consideration would also be given to risk management, primarily inflation risk.

It was requested that a workshop for Members should be arranged to examine the strategic investment strategy in detail prior to any recommendations on the strategy being made to a future meeting of the Sub-Committee.

It was also requested that for comparative purposes details of the strategic asset mix of the best performing funds in the Local Government Pension Scheme be provided. Also the impact of any shift in assets on the amount of fees paid to Managers be provided.

The Chair on behalf of the Sub-Committee thanked Mr Ettles for his presentation.

Thereafter, it was **AGREED** that a Members workshop to consider the strategic investment strategy in detail be arranged prior to the next meeting of the Sub-Committee in May, 2014.

The meeting ended at 1.05 p.m.