

THE HIGHLAND COUNCIL
INVESTMENT SUB COMMITTEE

Minutes of Meeting of the Investment
Sub Committee held in Council
Headquarters, Glenurquhart Road,
Inverness on Tuesday, 27 May, 2014
at 10.00 a.m.

PRESENT

Mr C Macaulay
Mrs H Carmichael
Mr J Ford

Mr R Laird
Mr K MacLeod

Non Members also present:

Mr T MacLennan

Mr N Donald, item 5 only
Mr F Parr, item 5 only
Mr G Ross, item 5 only

Officials in attendance:-

Mr D Robertson, Head of Accounting and Budgeting, Finance Service
Mr B Porter, Finance Manager (Corporate Budgeting, Taxation & Treasury), Finance
Service
Ms C Stachan, Accountant, Finance Service
Mr A MacInnes, Administrative Assistant, Corporate Development Service

Also in attendance -

Mr K Ettles, AON Hewitt, Investment Consultant

Mr M Ivory, Adam & Company (item 5 only)
Ms S Boyd, Adam & Company (item 5 only)

Mr C Macaulay in the Chair

1. Apologies for Absence

An apology for absence was intimated on behalf of Mr A MacKinnon.

2. Declarations of Interest

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

3. Minutes of Last Meeting

There were circulated the Minutes of the last meeting of the Sub Committee

held on 21 February, 2014, the terms of which were **APPROVED**.

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. Presentation – Adam and Company

Mr M Ivory and Ms S Boyd from Adam and Company were in attendance and gave a presentation on the economic and market background, portfolio review, investment mandate and performance of the Inverness Common Good and Associated Funds Investment Performance.

Members welcomed Adam and Company's strong long term investment performance for the Inverness Common Good and Associated Funds.

Following a question and answer session, the Chairman thanked Mr Ivory and Ms Boyd for their very informative presentation.

6. Inverness Common Good and Associated Funds Investment Report

There had been circulated to Members only Report No INV/4/14 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 March, 2014. 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.

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

7. Inverness Common Good Fund Dis-Investment Strategy

There had been circulated to Members only Report No. INV/5/14 by the Director of Finance setting out options and a recommendation in relation to a disinvestment strategy for the Common Good Fund, to support the Inverness Town House capital project.

The Investment Advisor's report recommended an increase in benchmark weighting to Bonds (rather than equities) as the most appropriate strategy to preserve the capital value of the Fund to support future cashflows for the capital project, while still aiming to secure a level of return on the investments until such time as they were sold. Specifically a change in Fund benchmark to 60% in Bonds was recommended, which at current market values was equivalent to the current net cost of the capital works.

It was recognised that the Fund was still exploring further funding options for the capital works, to reduce the scale of direct funding the Common Good

Fund would have to provide, and therefore it was appropriate that officers were given sufficient flexibility to vary the benchmark weighting to reflect the most up to date circumstance. Members sought assurance that the recommendation provided sufficient flexibility in the event that further funding for the project was identified, and the scale of disinvestment required reduced. This assurance was provided. It was advised that an update report on the further funding options was to be submitted to the next meeting of the City of Inverness Area Committee.

Members were of the view that the recommended option of an increase in benchmarking weighting to Bonds was the most prudent approach given the greater fluctuating values of equities. Consideration was also given to whether an increase in external funding would have an effect on the recommended option, but it was advised that the preferred option would remain the same, as any external funding would mean reducing the amount needed to be put into Bonds to meet the cost of the capital works, and the recommendation provided sufficient flexibility to address this.

Thereafter, the Sub-Committee **AGREED** to:-

- i vary the Common Good Fund benchmark, increasing the weighting to Bonds rather than Equities, with the objective of holding a sum equivalent to the £6.75m capital project cost in Bonds; and
- ii delegate to Officers, in liaison with the Fund's Investment Advisor and the Investment Manager, to determine the appropriate percentage weighting and date of implementation of the benchmark change, based on prevailing market values and latest project cost forecasts.

8. Investment Activity Update and Performance Report

a) Investment Activity Update Report

There was circulated to Members only Report No INV/6/14 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 31 March, 2014, and any significant events since that date.

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.

In discussion, Members requested that consideration be given to future training opportunities for Members.

The Sub-Committee **NOTED** the information contained in the report, and that consideration would be given to future training opportunities for Members.

b) Performance Report

There was circulated to Members only Report No. INV/7/14 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 March, 2014.

It was reported that the investment performance of the Combined Fund for the first quarter of 2014 was an outperformance of 0.3% to the benchmark return. Over the one, three and five year periods the Fund had been strong as it had outperformed 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.

9. Investment Strategy Review

There was circulated to Members only Report No. INV/8/14 by the Director of Finance providing an update on the Fund's Investment Strategy Review, the recent workshop held on that subject, and some early recommendations for members to consider.

It was advised that the workshop had considered an overall review timetable, and links to the actuarial valuation process, options for Fixed Income investments, and Options for Private equity investments.

The report set out some of the near-term matters for consideration, with specific recommendations for consideration in relation to Property Debt, Private Equity, Baillie Gifford Mandate/Benchmarks and also some other discussion points from the workshop i.e. options for Fixed Income investments, which would require some further investigation and would come back to a future meeting.

Following consideration, the Sub-Committee:-

- i **AGREED** in principle to consider Property Debt as a new asset class, and to allow work to progress on that strategy, with a follow up report to the August meeting setting out detailed implications and an implementation plan;
- ii **AGREED** the continuation of at least a 5% target allocation to private equity for the Fund;
- iii **AGREED** to continue with Partners Group and the 2014 partnership close to achieve the current 5% target allocation;
- iv **AGREED** a revision of the Baillie Gifford benchmark to reflect a split 55% UK Equities and 45% Global equities, with flexibility for the manager to use their discretion to vary from these allocations by a small degree for example +/- 5% to seek to achieve additional return;
- v **NOTED** the potential alternative approaches to fixed income investments, as set out in section 5 of the report;
- vi **NOTED** the initial investment model assumptions to be advised to the Actuary for the 2014 valuation; and
- vii **AGREED** that a 2nd investment strategy workshop would not be

required, but that sufficient time is set aside at the August Sub-Committee meeting to allow the strategy review discussion to take place in that forum.

Mr Brian Porter, Finance Manager (Corporate Budgeting, Taxation & Treasury), Finance Service

The Chair on behalf of the Sub-Committee expressed appreciation to Brian Porter for all his hard work, effort and good advice over the years on Pension Fund matters. The Chair wished Brian all the very best for the future in his new post of Head of Resources, Care and Learning Service.

Mr Porter thanked the Sub-Committee for their kind remarks.

The meeting ended at 12.40 p.m.