

AGENDA ITEM 7

THE HIGHLAND COUNCIL INVESTMENT SUB COMMITTEE

Minutes of Meeting of the Investment Sub Committee held in Committee Room 1, Council Headquarters, Glen Urquhart Road, Inverness on Thursday, 14 August, 2014 at 2.30pm.

PRESENT

Mr C Macaulay
Mrs H Carmichael
Mr R Laird

Mr A Mackinnon
Mr K MacLeod
Mr B Thomson

Non Members also present:

Ms M Smith

Officials in attendance:-

Mr D Robertson, Head of Corporate Finance, Finance Service
Mr D Haas, Inverness City Manager, Chief Executive's Office
Ms A Macrae, Committee Administrator, Corporate Development Service

Also in attendance -

Mr K Ettles, AON Hewitt, Investment Consultant

Ms C Morrison, Legal and General (item 7 only)
Mr T Jeffrey, Fidelity (item 7 only)
Mr A Weir, Fidelity (Item 7 only)

Mr C Macaulay in the Chair

1. Apology for Absence

An apology for absence was intimated on behalf of Mr J Ford.

2. Declarations of Interest

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

3. Minutes of Last Meeting

The Sub-Committee **NOTED** that the Minutes of the last meeting of the Sub-Committee held on 27 May 2014 had been circulated for approval with the Pensions Committee agenda and papers for their meeting held earlier on 14 August 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) There was circulated to Members only Report No INV/9/14 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 30 June 2014 and any significant events since that date.

Arising from the report it was confirmed that Mrs M Grigor would take up the post of Finance Manager with effect from 1 September 2014, replacing Mr B Porter who had taken up a new post as Head of Resources, Care and Learning Service.

In regard to the section of the report relating to Member training, the Chair encouraged all Members of the Sub-Committee to take the opportunity to attend any training events which were arranged.

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

- (b) There was circulated to Members only report No. INV/10/14 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 30 June 2014.

It was reported that the investment performance of the Combined Fund for the second quarter of 2014 was an underperformance of 0.6% to the benchmark return. The Fund's long term performance had been strong and it had outperformed the benchmark over the three and five year periods to 30 June 2014. The report also detailed a Market summary, Fund asset allocation, Strategic asset allocation and all the managers investment performances.

In discussion Members welcomed that performance overall for the Fund was good.

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

6. Inverness Common Good 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 30 June, 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 marginally below benchmark for the Inverness Common Good Fund and

Inverness Burial Grounds Commutation Fund (IBGF). In the past quarter the Inverness Benevolent Fund had also returned behind benchmark, however the Common Good Fund and IBGF had outperformed their respective benchmarks.

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

7. Presentations

Legal and General

The Chairman welcomed Ms Christy Morrison, Client Relationship Manager, Legal and General Investment Management, to the meeting and the Sub-Committee were given a presentation in regard to LGIM's investment strategy in respect of the Pension Fund. During the presentation Ms Morrison provided an overview of activity, valuation and performance on the Fund to 30 June 2014. She also provided an overview in regard to LGIM's strategy of adding value through indexation and the benefits associated with this approach, together with a summary of the market outlook.

Following a question and answer session, the Chairman thanked Ms Morrison for her presentation.

Fidelity

The Chairman also welcomed Mr Tom Jeffrey, Relationship Director and Mr Andy Weir, Portfolio Manager from Fidelity to the meeting and the Sub-Committee were given a presentation in regard to Fidelity's investment strategy in respect of the Pension Fund. During the presentation Mr Jeffrey and Mr Weir provided an overview of their fixed income strategy together with portfolio review, and the benefits associated with this approach. They also provided a summary of the market outlook in terms of both the European and Global markets.

Following a question and answer session, the Chairman thanked Mr Jeffrey and Mr Weir for their presentation.

8. Investment Strategy Review

- (a) There was circulated to Members only Report No. INV/12/14 by the Director of Finance which provided recommendations for Members to consider regarding private equity investment in Partners Group.

It was reported that at the previous meeting of the Sub-Committee in May 2014, it had been agreed to the continuation of the 5% target allocation to Private Equity and to achieve this using the Partners Group 2014 partners, Global Value 2014 Fund. The report set out the commitment to the Partners Group Global Value 2014 Fund which would be required to achieve this target allocation.

The report also advised that to comply with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations there

was a limit on contributions to a single partnership of 5% and that as at 30 June 2014, the proposed commitment set out in the report complied with the regulations. It was proposed that officials be granted delegated powers to reduce the allocation at the time of commitment to comply with the regulations if this was required.

In discussion a detailed explanation was provided in regard to the rationale which underpinned the proposal to increase the commitment to the Global Value 2014 Funds in order to achieve the 5% target allocation and also in regard to the risk analysis in respect of the proposals.

Following further consideration of the terms of the report and discussion, the Sub-Committee **AGREED** to:-

- i. commit €80m (£65m) to the Partners Group 2014 partnership i.e. the Global Value 2014 Funds; and
 - ii. grant delegated powers to the Director of Finance to reduce the allocation at the time of the commitment, after consideration of total fund value, to ensure compliance with Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations.
- (b) There was circulated to Members only Report No. INV/13/14 by the Investment Advisor which provided advice on alternative options for the management of the Fund's fixed income assets give the current low yield environment.

The Report recommended that the Pension Fund's fixed income assets were restructured by investing in alternative unconstrained fixed income strategies in order to better position the Fund for a rising yield environment and diversify the sources of fixed income market returns. The report set out a number of detailed recommendations in this regard to allocate around 10% of the Fund's assets to unconstrained fixed income strategies on the basis set out in the report.

In discussion it was suggested that given the pace, scale and complexity of the changes being progressed under the Fund's Investment Strategy Review that there was a need to achieve a balance between the benefits to the Fund and the demands on staff resources associated with managing a more complex portfolio. It was suggested that the Sub-Committee should take the opportunity to consider the proposals further at a future meeting together with the relevant timescales.

Following further discussion, the Sub-Committee **AGREED** the recommended approach for restructuring the Fund's fixed income assets on the basis set out in the report, subject to further information being brought to a future meeting in regard to the proposals, together with relevant timescales, for Members approval.

- (c) There was circulated to Members only Report No. INV/14/14 by the Investment Advisor which provided advice on investing in UK Property Debt as an alternative asset class.

It was confirmed that at its previous meeting the Sub-Committee had 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. In this regard the report proposed that:-

- the Sub-Committee procure a property debt fund for an allocation of 4% of the Fund's assets;
- as property debt had characteristics of fixed income and property investing that the investment be funded mainly from gilts (2.5%) with the balance (1.5%) anticipated to be funded from equities;
- that the Sub-Committee procure a property debt fund which focuses exclusively, or primarily, on UK property debt (and if it is a primary focus has discretion to invest to a limited level in other regions, such as Western European countries);
- the Sub-Committee procures a property debt fund which focuses primarily on whole loans, but has discretion to invest to a limited level in the wider spectrum of loans (senior debt and mezzanine debt only); and
- as this was a specialist class that arrangements be made to proceed straight to the Invitation to Tender stage thereby by-passing a Pre-Qualification Questionnaire stage.

Following further consideration of the terms of the report and discussion, the Sub Committee **AGREED** the recommendations as set out in the report.

The meeting ended at 4.45pm.