

AGENDA ITEM 11

THE HIGHLAND COUNCIL INVESTMENT SUB COMMITTEE

Minutes of Meeting of the Investment Sub Committee held in Council Headquarters, Glenurquhart Road, Inverness on Thursday, 19 February, 2015 at 2.55 p.m.

PRESENT

Mrs H Carmichael
Mr J Ford
Mr B Lobban

Mr A MacKinnon
Mr K MacLeod

Non Member also present:

Mrs M Smith

Officials in attendance:-

Mr D Robertson, Head of Corporate Finance, Finance Service
Mr A MacInnes, Administrative Assistant, Corporate Development Service

Also in attendance -

Mr K Ettles, AON Hewitt, Investment Consultant
Ms S Brewer and Mr J Larner, Partners Group (item 8 only)

1. **Appointment of Chair**

The Clerk sought nominations for the position of Chair of the Sub-Committee.

In this regard, it was **AGREED** that Mr A MacKinnon should be appointed as Chair.

The Chair on behalf of the Sub-Committee expressed his thanks and appreciation to the former Chair of the Sub-Committee Mr C Macaulay for all his hard work and effort over the past few years on pension fund matters.

2. **Apologies for Absence**

Apologies for absence were intimated on behalf of Mr R Laird, Mr B Thompson and Ms E Ward (representative for the other Employers).

3. **Declarations of Interest**

Mr A Mackinnon declared a financial interest on the items to be discussed at

the meeting on the grounds that his spouse was an employee of the Council but, having applied the test outlined in Paragraphs 5.2 and 5.3 of the Councillors' Code of Conduct, concluded that his interest did not preclude him from taking part in the discussion.

4. Minutes of Last Meeting

The Minutes of the last meeting of the Sub Committee held on 14 November, 2014, were approved by the Pensions Committee at their meeting held on 19 February, 2015.

5. 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.

6. Investment Activity Update and Performance Report

a) Investment Activity Update Report

There was circulated to Members only Report No INV/01/15 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 31 December, 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; Tax; Investment Strategy Review; Baillie Gifford and Investment Manager fees.

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

b) Quarterly Performance Report to 31 December, 2014

There was circulated to Members only Report No. INV/02/15 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 December, 2014.

It was reported that the investment performance of the Combined Fund for the fourth quarter of 2014 was an outperformance of 0.37% to the benchmark return. Over the three and five year periods the Fund's performance 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.

7. Inverness Common Good and Associated Funds Investment Report

There had been circulated to Members only Report No INV/03/15 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, 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 one, three and five year period had been strong.

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

8. Presentation

The Chairman welcomed Ms S Brewer and Mr J Larner from Partners Group to the meeting and the Sub-Committee were given a presentation in regard to the background to Partners Group, their approach to private equity investment management, investment performance and strategy and the economic outlook. During the presentation Members were provided with information on the private equity funds that the Highland Council Pension Fund was invested in. These funds gave access to a broad range of diversified global private equity opportunities.

Members were pleased to note that performance in private equity investments had been positive and had contributed to strong returns for the overall pension fund portfolio.

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

The meeting ended at 4.00pm

Next Meeting Date – Friday, 29 May, 2015 at 10.30a.m.

THE HIGHLAND COUNCIL
INVESTMENT SUB COMMITTEE

Minutes of Meeting of the Investment
Sub Committee held in Council
Headquarters, Glenurquhart Road,
Inverness on Friday, 29 May, 2015 at
10.30 a.m.

PRESENT

Mrs H Carmichael
Mr A MacKinnon

Mr K MacLeod
Mr B Thompson

Officials in attendance:-

Mr D Robertson, Head of Corporate Finance, Finance Service
Mr D Haas, Inverness City Area Manager
Mr A MacInnes, Administrative Assistant, Corporate Development Service

Also in attendance -

Mr K Ettles, AON Hewitt, Investment Consultant
Mr M Ivory, Adam & Company (item 7 only)
Ms L Dewar and Mr R Bell, Baillie Gifford (item 7 only)

Mr A MacKinnon in the Chair

1. Apologies for Absence

An apology for absence was intimated on behalf of Mr B Lobban.

2. Declarations of Interest

Mr A Mackinnon declared a financial interest on the items to be discussed at the meeting on the grounds that his spouse was an employee of the Council but, having applied the test outlined in Paragraphs 5.2 and 5.3 of the Councillors' Code of Conduct, concluded that his interest did not preclude him from taking part in the discussion.

Mr B Thompson declared a financial interest in relation to all matters concerning one of the Fund Manager's on the basis of a personal pension policy but, having applied the test outlined in Paragraphs 5.2 and 5.3 of the Councillors' Code of Conduct, concluded that his interest did not preclude his involvement in the discussion.

3. Minutes of Last Meeting

The Minutes of the last meeting of the Sub Committee held on 19 February, 2015, were circulated and **APPROVED** for submission to the next meeting of the Pensions Committee.

Arising from the minutes, the Head of Corporate Finance advised that the next meeting of the Pensions Committee would be the first joint meeting of the Pensions Committee and Pension Board. The Pension Board would scrutinise the work of the Pensions Committee.

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/04/15 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 31 March, 2015, 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; Tax; Investment Strategy Review; Fund Manager Fees, Investment Consultant fees and Inverness Common Good Fund finance of capital projects.

In discussion, in terms of measuring performance of the Core Plus Fund managed by Fidelity following the proposal to move to shorter duration gilts, it was advised that once it had been confirmed by Fidelity that this proposed move could go ahead, if a change to the benchmark for Fidelity was required this would be brought to the Sub-Committee for consideration.

The Chair on behalf of the Sub-Committee expressed his thanks to the Finance Service Treasury Management team for their professionalism and hard work which was much appreciated.

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

b) Quarterly Performance Report to 31 March, 2015

There was circulated to Members only Report No. INV/05/15 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 March, 2015.

It was reported that overall investment performance of the Combined Fund for the first quarter of 2015 was broadly in line with benchmark, although there were some mixed results from Fund managers. The Fund's long term performance had been strong, outperforming the benchmark return over the three and five year periods. 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.

In relation to the view that prospects in the US were not as strong as in other regions, it was advised that there may be a requirement, as a result of this, to look at the allocations in the Legal & General Passive Equity Portfolio.

In response to queries regarding fee structures for the Investment Managers, the Head of Corporate Finance undertook to submit a report on this to the next meeting.

Following further discussion, the Sub-Committee:-

- i **NOTED** the contents of the report; and
- ii **AGREED** that a report on fee structures for the Fund's Investment Managers would be submitted to the next meeting.

6. Inverness Common Good and Associated Funds Investment Report

There had been circulated to Members only Report No INV/06/15 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, 2015. Adam & Company's investment performances, measured against their respective strategic benchmarks, were also provided. Overall, it was noted that the Funds' performance over the one, three and five year period had been strong and had delivered returns ahead of benchmark.

In response to a question regarding environmental and ethical considerations, particular reference was made to the Council's previous consideration of investments in tobacco and it was advised that, as trustees of the Pension Fund, the Council had a duty to maximise returns for the Fund and were not entitled to exclude investments on ethical grounds alone. The Sub Committee did however have the opportunity to question and challenge Investment Managers' investment decisions where, for example, they felt that investments were at risk.

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

7. Presentations

Adam & Company

The Chairman welcomed Mr M Ivory from Adam and Company who 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 for his very informative presentation.

Baillie Gifford & Co

The Chairman welcomed Lynn Dewar and Richard Bell from Baillie Gifford to the meeting and the Sub-Committee were given a presentation on Baillie Gifford's relationship with the Council which started in 1991 and over these years there had been strong 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 Mr R Bell for their very informative presentation.

The meeting ended at 1.00pm

Next Meeting Date – Friday, 21 August, 2015 at 10.30a.m.

THE HIGHLAND COUNCIL
INVESTMENT SUB COMMITTEE

Minutes of Meeting of the Investment
Sub Committee held in Council
Headquarters, Glenurquhart Road,
Inverness on Friday, 21 August, 2015
at 10.30 a.m.

PRESENT

Mrs H Carmichael
Mr J Ford
Mr B Lobban
Mr A MacKinnon

Mr K MacLeod
Mr B Thompson

Officials in attendance:-

Mr D Robertson, Head of Corporate Finance, Finance Service
Mrs M Grigor, Finance Manager, Finance Service
Mrs A MacArthur, Administrative Assistant, Corporate Development Service

Also in attendance -

Mr K Ettles, AON Hewitt, Investment Advisor
Mr T Jeffery and Mr A Weir, Fidelity (item 8 only)
Mr J Sparshott, Legal and General Investment Management (item 8 only)

Mr A MacKinnon in the Chair

1. Apologies for Absence

There were no apologies for absence.

2. Declarations of Interest

Mr A Mackinnon declared a financial interest on the items to be discussed at the meeting on the grounds that his spouse and his daughter were employees of the Council but, having applied the test outlined in Paragraphs 5.2 and 5.3 of the Councillors' Code of Conduct, concluded that his interest did not preclude him from taking part in the discussion.

Mr B Thompson declared a financial interest in relation to all matters concerning one of the Fund Manager's on the basis of a personal pension policy but, having applied the test outlined in Paragraphs 5.2 and 5.3 of the Councillors' Code of Conduct, concluded that his interest did not preclude his involvement in the discussion.

3. Minutes of Last Meeting

The Minutes of the last meeting of the Sub Committee held on 29 May, 2015, were circulated and **APPROVED** for submission to the next meeting of the Pensions Committee.

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. Report on Fee Structures for the Fund's Investment Managers

There was circulated **to Members only** Report No INV/7/15 by the Director of Finance which provided information on the Fund's Investment manager fee structures as requested by members of the Sub-Committee.

The Report provided information on the six fund managers and how they invested across a diversified range of investments, with a summary of the following attached at Appendix 1:

- fund manager;
- type of investment the fund manager manages on behalf of the Fund;
- whether management is active or passive;
- actual asset allocation at 31/03/15; and
- management fees for financial year 2014/15.

The Head of Corporate Finance commented on the fact that:

- certain fees on alternative investment models were included within the returns reported ;
- active manager charges were higher than the passive managers but the returns from our managers were generally good.

The Sub-Committee **NOTED** the report and **AGREED** to continue with the current investment strategy.

6. Investment Activity Update and Performance Report

a) Investment Activity Update Report

There was circulated **to Members only** Report No INV/8/15 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 30 June, 2015, 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; Tax; Investment Strategy Review; Investment Advisor fees, Investment Conference – Baillie Gifford, Training and Publication of Investments.

In relation to the Investment Strategy Review the tender for the Property Debt Mandate had been awarded to Standard Life and negotiation was on-going with the Council's legal advisors to reach formal agreement.

The project to move the Fidelity portfolio to shorter duration bonds was progressing and further information would be provided to future Sub-Committee meetings on progress.

Two spaces had been provisionally booked for the Baillie Gifford Client Conference on 23 to 25 September, 2015.

The Investment Governance Group Training Seminar on the 9 October, 2015 would be beneficial to the ISC members, the Pensions Committee and the Pensions Board and if members put forward a request to attend, a decision could be made on how many members would be able to attend at the forthcoming Pension Committee/Board meeting.

The Sub-Committee:

- i. **NOTED** the report; and
 - ii. **AGREED** that the Chair and Head of Corporate Finance would attend the Baillie Gifford Client Conference on 23 to 25 September 2015.
- b) **Quarterly Performance Report to 31 March, 2015**

There was circulated to Members only Report No. INV/9/15 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 March, 2015.

Overall investment performance of the Combined Fund for the second quarter of 2015 was broadly in line with the benchmark. One of the Fund Managers was trailing the benchmark, whilst it is appropriate to consider the long term performance the position would be closely monitored. The Fund's long term performance had been strong, outperforming the benchmark return over the three and five year periods.

Following a question, the Investment Advisor, confirmed that he would provide analysis of the level of risk that Fund Manager's had been taking within the Portfolio.

Following further discussion, the Sub-Committee **NOTED** the contents of the report.

7. Inverness Common Good and Associated Funds Investment Report

There had been circulated to Members only Report No INV/06/15 by the Fund's Investment Advisor which highlighted the diversification of Inverness Common Good and associated Funds under the management of Adam and Company for the quarter ended 30 June, 2015. Adam and Company's investment performances, measured against their respective strategic benchmarks, were also provided. Overall, it was noted that the Funds' performance over the one, three and five year period had been strong and had delivered returns ahead of benchmark.

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

8. Presentations

Fidelity

The Chairman welcomed Mr Tom Jeffery and Mr Andy Weir from Fidelity to the meeting and the Sub-Committee were given a presentation on Fidelity's relationship with the Council which started in 2003 and over these years there had been strong 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. Fidelity's Investment Philosophy and Investment approach together with recent transactions on the portfolio were highlighted.

Following a question and answer session, the Chairman thanked Mr Tom Jeffery and Mr Andy Weir for their very informative presentation.

Legal and General Investment Management

The Chairman welcomed Mr James Sparshott from Legal and General Investment Management to the meeting and the Sub-Committee were given a presentation on Legal and General Investment Management's relationship with the Council which started in 2003 and over these years there had been strong 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. Legal and General Investment Management's approach together with recent transactions on the portfolio were highlighted.

Following a question and answer session, the Chairman thanked Mr J Sparshott for his very informative presentation.

The Chairman advised that any queries by members should be addressed to the Head of Corporate Finance in the first instance and not directly to the Fund Managers.

The meeting ended at 12.30 pm

Next Meeting Date – Friday, 27 November, 2015 at 10.30 am.