

THE HIGHLAND COUNCIL
INVESTMENT SUB COMMITTEE

Minutes of Meeting of the Investment
Sub Committee held in Council
Headquarters, Glenurquhart Road,
Inverness on Friday, 4 March, 2016 at
10.30 a.m.

PRESENT

Mr J Ford
Mr B Lobban

Mr K MacLeod
Mr E Macniven (representative from
trade unions)

Officials in attendance:-

Mr D Robertson, Head of Corporate Finance, Finance Service
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Mr A MacInnes, Administrative Assistant, Corporate Development Service

Also in attendance -

Ms L Leonard, Pension Board representative
Mr D Macdonald, Pension Board representative
Mr K Ettles, AON Hewitt, Investment Consultant
Ms S Brewer, Senior Vice President, Partners Group (item 7 only)
Mr P Mann, Investment Solutions, Partners Group (item 7 only)
Mr G Rutter, Head of Schroder Real Estate Capital Partners, Schrodgers (item 7 only)
Mr L Bolton, Client Director, Schrodgers (item 7 only)

Interim Chair

In the absence of the Chair, Mr B Lobban was unanimously appointed as interim Chair for this meeting.

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mr A MacKinnon, Mrs H Carmichael and Mr B Thompson.

2. Declarations of Interest

There were no declarations of interest.

3. Minutes of Last Meeting

The Minutes of the last meeting of the Sub Committee held on 27 November, 2015, were circulated and **NOTED**.

Arising from the minutes the following matter was raised:-

Passive Equities Allocation – it was **NOTED** that a report on Passive Equities Allocation would be submitted to a future meeting with a recommended approach to be taken.

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/1/16 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 31 December, 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; Investment Strategy Review; Investment Manager Fees; Securities Lending and Statement of Investment Principles.

It was advised that consideration was being given to another change in the investment strategy for the Fund by investing in Absolute Returns which could benefit the Fund in the longer term. The Sub-Committee's approval was sought for the Fund's Investment Adviser to prepare a report on this investment for Members' consideration. This was approved by Members.

The Sub-Committee:-

i **NOTED** the report; and

ii **AGREED** that a report on investment in Absolute Returns be submitted to a future meeting.

b) Quarterly Performance Report to 31 December, 2015

There was circulated to Members only Report No. INV/2/16 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 December, 2015.

It was reported that the combined Fund's longer term performance had been relatively strong, outperforming the benchmark over the 1, 3 and 5 year periods to 31 December, 2015. Over the shorter term the Fund had also outperformed the benchmark. Overall this had been a good quarter for Markets, the Fund's investment Managers performance had been good and there had been an increase in the value of the Fund.

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 and Associated Funds Investment Report

There had been circulated to Members only Report No INV/3/16 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, 2015. Adam & Company's investment performances, measured against their respective strategic benchmarks, were also provided.

It was noted that the Inverness Benevolent Fund and Inverness Burial Grounds Commutation Fund performance over the one, three and five year period had been strong and had delivered returns ahead of benchmark. The Inverness Common Good Fund was behind benchmark for the one year period to 31 December 2015, but ahead of benchmark over the quarter, 3 and 5 year periods to 31 December 2015.

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

7. Presentations

Partners Group

The Chairman welcomed Ms S Brewer and Mr P Mann from Partners Group who gave a presentation about Partners and its performance and a private equity market update. 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.

Following a question and answer session, the Chair thanked Ms S Brewer and Mr P Mann for their presentation.

Schroders

The Chairman welcomed Mr G Rutter and Mr L Bolton from Schroders to the meeting and the Sub-Committee were given a presentation in regard to Schroders business and market overview, the Fund's portfolio performance and investment activity. During the presentation Members were provided with the portfolio valuation and investment strategy for the Fund.

Following a question and answer session, the Chair thanked Mr G Rutter and Mr L Bolton for the presentation.

Mr David Robertson, Head of Corporate Finance, Finance Service

The Chair on behalf of the Sub-Committee expressed his appreciation to David Robertson for all his hard work, effort and good advice over the years on Pension Fund matters. The Chair wished David all the very best for the future

on his departure from the Council at the end of March.

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

The meeting ended at 12.25 p.m

Next Meeting Date – Friday, 3 June, 2016 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, 3 June, 2016 at
10.30 a.m.

PRESENT

Mrs H Carmichael	Mr K MacLeod
Mr J Ford	Mr A Campbell (Comhairle nan Eilean Siar)
Mr R Laird	Mr E Macniven (representative from trade unions)
Mr A MacKinnon	

Officials in attendance:-

Mr E Foster, Head of Corporate Finance, Finance Service
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Mr D Haas, Inverness City Area Manager
Mr A MacInnes, Administrative Assistant, Corporate Development Service

Also in attendance -

Ms L Leonard, Pension Board representative
Mr K Ettles, AON Hewitt, Investment Consultant
Ms L Dewar, Baillie Gifford (item 7 only)
Mr R Bell, Baillie Gifford (item 7 only)
Mr R Marshall, Standard Life Investments (Item 7 only)
Mr D Hogg, Standard Life Investments (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 J Ford declared a financial interest in relation to all matters concerning Baillie Gifford on the basis of a personal investment 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 4 March, 2016, were circulated and **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. Investment Activity Update and Performance Report

a) Investment Activity Update Report

There was circulated to Members only Report No INV/4/16 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 31 March, 2016, 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; Commercial real estate debt; Investment Strategy Review; Investment Manager Fees and Securities Lending.

Following consideration, the Sub-Committee **NOTED** the report.

b) Quarterly Performance Report to 31 March, 2016

There was circulated to Members only Report No. INV/5/16 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 March, 2016.

It was reported that the combined Fund's longer term performance had been relatively strong, outperforming the benchmark over the 1, 3 and 5 year periods to 31 March, 2016. Over the shorter term the Fund had also marginally outperformed the benchmark. Overall this had been a positive quarter for the Fund and there had been an increase in the value of the Fund.

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.

There was discussion regarding the European Referendum and what the possible effects may be on markets if the UK voted to leave or remain in the European Union.

There was a view that equity markets would remain challenged and that there would continue to be global economic risks. Given that Pyrford had a more defensive approach, focused on preserving value, it might be worth considering for example reducing the Fund's passive allocation in favour of Pyrford Global Equity Fund.

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/6/16 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, 2016. Adam & Company's investment performances, measured against their respective strategic benchmarks, were also provided.

During this quarter, the total value of the Funds decreased due to a large withdrawal from the Common Good Fund in order to meet known expenditure. Consideration would be given to changing the fairly defensive benchmark for the Inverness Common Good Fund once this expenditure was complete.

It was noted that the Inverness Benevolent Fund, Inverness Burial Grounds Commutation Fund and the Inverness Common Good Fund all under performed the benchmark for the quarter ended 31 March, 2016.

It was advised that Adam & Company would be attending the next meeting of the Sub Committee to give a presentation in relation to their portfolio, investment strategy and performance.

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

In accordance with Standing Order 18, with the consent of the meeting, item 8 on the agenda was taken at this point.

8. Passive Equities Allocation

There was circulated to Members only Report No. INV/7/16 by the Director of Finance which provided a recommendation on a change to the Passive Equities Allocation as part of the on-going strategic review of the portfolio.

The report detailed the current asset allocation in respect of equities for the Fund's passive equity Fund Managers and recommended change for the passive equity portfolio given the cautious view on the future of the UK equity market and that other markets offered more attractive returns.

Following consideration, the Sub-Committee **APPROVED** a change to the passive equities benchmark as detailed in the report.

7. Presentations

Baillie Gifford

The Chairman welcomed Ms L Dewar and Mr R Bell from Baillie Gifford who gave 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. The Manager's remained confident with the portfolios' long term growth prospects,

set against an ongoing volatile market backdrop.

Following a question and answer session, the Chairman thanked Ms L Dewar and Mr R Bell for their very informative presentation.

Standard Life Investments

The Chairman welcomed Mr D Hogg, Client Director and Mr R Marshall, Fund Manager from Standard Life Investments to the meeting and the Sub-Committee were given a presentation in regard to the Commercial Real Estate Debt Fund. Members were advised of the key features of the Fund, the Managers investment approach to achieve the Fund's objectives, the current portfolio of properties and the opportunities for further investment to use the capital that had been committed to the Fund.

Following a question and answer session, the Chair thanked Mr D Hogg and Mr R Marshall for their very informative presentation.

The meeting ended at 12.35 p.m

Next Meeting Date – Friday, 2 September, 2016 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, 2 September,
2016 at 10.30 a.m.

PRESENT

Mrs H Carmichael
Mr B Lobban
Mr K MacLeod

Mr B Thompson
Mr E Macniven (representative from
trade unions)

Officials in attendance:-

Mr E Foster, Head of Corporate Finance, Finance Service
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Mr D Haas, Inverness City Area Manager
Ms C Stachan, Accountant, Finance Service
Mr A MacInnes, Administrative Assistant, Corporate Development Service

Also in attendance -

Ms L Leonard, Pension Board representative
Mr D Macdonald, Pension Board representative
Mr K Ettles, AON Hewitt, Investment Consultant
Mr A Martin, AON Hewitt, Associate Investment Consultant
Mr M Ivory, Adam and Company (item 7 only)
Mr T Jeffery, Fidelity (item 7 only)
Mr I Fishwick, Fidelity (Item 7 only)

Interim Chair

In the absence of the Chair, Mr B Lobban was unanimously appointed as interim Chair for this meeting.

Tribute

Tribute was paid at the meeting to the late Councillor J Ford who had served on the Investment Sub Committee for many years. Councillor Ford would be a great loss to the Committee and would be sorely missed.

1. Apologies for Absence

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

2. Declarations of Interest

There were no declarations of interest.

3. Minutes of Last Meeting

The Minutes of the last meeting of the Sub Committee held on 3 June, 2016, were circulated and **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. Investment Activity Update and Performance Report

a) Investment Activity Update Report

There was circulated to Members only Report No INV/8/16 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 30 June, 2016, 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; Commercial real estate debt; Fund Performance; Investment Strategy Review and Investment Manager Fees.

In particular, the EU referendum result had been a vote to leave the European Union and following this outcome, the Fund's Investment Adviser recommended that the original proposed change to the passive equities allocation be revised and details were shown in the report. Due to the volatility of the market, these changes had to be made quickly and the Chairman approved these changes and it was agreed that the revised passive equities allocation would be reported to the next meeting of the Sub Committee. However, before this change was in place further market changes led the Investment Advisor to recommend further changes and these were also detailed in the report. The implementation of the change to passive equities allocation would be complete by 17 August, 2016.

Following consideration, the Sub-Committee:-

- i **NOTED** the report; and
- ii **AGREED** to the retrospective approval of the passive equities allocation now in place as per paragraph 3.2 of the report.

b) Quarterly Performance Report to 30 June, 2016

There was circulated to Members only Report No. INV/9/16 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 30 June, 2016.

It was reported that the combined Fund's longer term performance had been strong, performing in line with benchmark over the 1 and 3 year periods to 30 June, 2016 and outperforming the benchmark over the 5 year period to 30

June, 2016. Over the shorter term the Fund had underperformed the benchmark. Overall this had been a positive quarter for the Fund and there had been an increase in the value of the Fund.

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.

Following consideration, 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/10/16 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, 2016. Adam & Company's investment performances, measured against their respective strategic benchmarks, were also provided.

During this quarter, the total value of the Funds increased. It was noted that the Inverness Benevolent Fund, Inverness Burial Grounds Commutation Fund and the Inverness Common Good Fund all delivered positive performance for the quarter ended 30 June, 2016, although the Benevolent Fund's return was more modest and so it under performed its benchmark.

The Common Good Fund had delivered returns ahead of benchmark over 1, 3 and 5 year periods to 30 June, 2016. The Benevolent Fund's performance was significantly behind benchmark over the 1 year period, though long term performance was ahead of benchmark and the Burial Grounds Commutation Fund was ahead of benchmark over the 5 year period, though marginally behind over the 1 and 3 year periods.

In particular, a comment was made that as these Funds were holding Investment Trusts, the total fee charge to the Funds should be looked at so as to compare fees against benefit gained. The Investment Advisor undertook to provide this information.

Thereafter, the Sub-Committee **NOTED** the terms of the report.

7. Presentations

Adam and Company

The Chairman welcomed Mr Mark Ivory from Adam and Company who gave a presentation on the economic and market background, investment mandate, portfolio review, and performance of the Inverness Common Good and Associated Funds Investment Performance.

Following a question and answer session, the Chairman thanked Mr Ivory for his presentation.

Fidelity

The Chairman welcomed Mr Tom Jeffery and Mr Ian Fishwick to the meeting and the Sub-Committee were given a presentation in regard to Fidelity's investment mandate, details of the fund performance along with an overview of the Fund's portfolio and economic outlook was provided.

Following a question and answer session, the Chair thanked Mr Jeffery and Mr Fishwick for their presentation.

In particular, it was noted that there had been an amalgamation of the management of the two funds within the portfolio. Members expressed concern regarding this joined up management approach and noted that the Fund performance would be monitored closely to see if there was any marked difference in performance.

The meeting ended at 12.35 p.m

Next Meeting Date – Friday, 2 December, 2016 at 10.30a.m.