

**THE HIGHLAND COUNCIL
INVESTMENT SUB-COMMITTEE**

Minutes of Meeting of the Investment Sub-Committee held in Council Headquarters, Glenurquhart Road, Inverness on Friday 3 March 2017 at 10.30 a.m.

PRESENT

Mr B Lobban
Mr K MacLeod

Mr B Thompson (by telephone conference)
Mr E Macniven (Trade Unions representative)

Officials in attendance:-

Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Ms C Stachan, Accountant, Finance Service
Mr S Wright, Trainee Accountant
Ms R Rae, Trainee Accountant
Mr A MacInnes, Administrative Assistant, Corporate Development Service

Also in attendance:-

Ms L Leonard, Pension Board representative
Mr K Ettles, AON Hewitt, Investment Consultant
Mr T Cousins, Pyrford International Ltd (Item 7 only)
Mr L Nielsen, Pyrford International Ltd (Item 7 only)

Preliminaries

Interim Chairman

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

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mrs H Carmichael, Mr A MacKinnon, Mr D Macdonald - Pension Board representative, and Mr D Haas – Inverness City Area Manager.

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 2 December 2016 were circulated for information and **NOTED**.

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/1/17 by the Director of Finance which provided an update on Pension Fund investment matters for the quarter to 31 December 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 Disinvestment; Commercial real estate debt; Fund Performance and fees; Investment Strategy Review; and Investment Manager fees and Social, Environmental and Ethical considerations.

In terms of the information on Managers fees relative to performance detailed in the report, it was requested this information in future be provided on an annual basis, and to include Managers performance against benchmark for a three year period.

In terms of Social, Environmental and Ethical considerations, information was provided on Fund Managers voting in relation to proposals at companies Annual General Meetings. It was requested that this information be provided on an annual basis.

Concern was expressed regarding the level of investment that the Pension Fund had in the tobacco sector. While the investment returns from tobacco had been good, it was felt that the risk was unacceptably high and there were other investment opportunities that could be considered. There was a risk that if there was a class action in the United States of America, the shares of every tobacco company would be affected, which would affect the tobacco investments in the Fund. Clarification was sought on the level of investment by the Fund in tobacco.

Continuing, while the Pension Fund relied upon its Fund Managers to make stock selections, it would be prudent to monitor tobacco investments so that the proportion invested in this sector did not get too large. There was considerable interest from members of the public and beneficiaries of the Pension Fund as to the types of investments made. There was also a fiduciary duty to ensure the right balance of investments to achieve the best financial position for the Fund.

It was suggested that Fund Managers be asked how much they took account of the risks the tobacco sector was exposed to, in order to make sure they were including this in their assessment of these investments. Further, Fund Managers performance was measured against benchmarks and those benchmarks for historical reasons often had a large tobacco sector weighting. In this respect, there may be ways of achieving good returns with ethical investments by giving Managers more stocks to choose from.

Members acknowledged that this issue required serious consideration in forthcoming meetings.

Thereafter, the Sub-Committee **NOTED** the report and **AGREED** that:-

- i. the information on Managers fees relative to performance be reported on an annual basis, and to include Manager performance against benchmark for a three year period;
- ii. information on the Fund Managers vote reports be provided on an annual basis;
- iii. the level of investment by the Fund in tobacco would be circulated to the Sub-Committee;
- iv. a report on the position to be taken with regard to ethical investments be submitted to the next meeting.

b) Quarterly Performance Report to 31 December 2016

There was circulated to Members only Report No. INV/2/17 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 December 2016.

It was reported that the combined Fund's longer term performance had been strong, performing in line with benchmark over the 3 year period to 31 December 2016 and outperforming the benchmark over the 5 year period to 31 December 2016. Overall this had been a positive quarter for the Fund, despite an underperformance in its benchmark 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.

In addition, the Investment Consultant Mr K Ettles from AON Hewitt gave further commentary on the report and responded to a number of individual questions and thereafter Members welcomed the overall good performance of the Fund.

In particular, reference was made to the Fund asset allocation as at 31 December 2016 of 66.1% in equities, which was above the benchmark allocation of 61% for equities. This was due to very strong performance in equities over recent years. Consideration was being given to reducing this allocation back to or below benchmark to capitalise on the tremendous gains on equities, with a view to reinvesting those profits in other assets. A report on this would be submitted to a future meeting.

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/3/17 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 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. All of the Funds delivered positive performance over the quarter, though all underperformed their benchmark. Over the five year period to 31 December 2016 all three Funds were ahead of benchmark. However, there had been a deteriorating trend in relative performance in recent years and this would continue to be monitored.

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

7. **Presentation**

Pyrford International Ltd

The Chairman welcomed Mr Tony Cousins and Mr Lars Nielsen from Pyrford International Ltd who gave a presentation about Pyrford and its performance, an overview of their investment strategy, the Highland Pension Fund portfolio and returns. They also provided a summary of the market outlook.

Following a question and answer session, the Chairman thanked Mr Cousins and Mr Nielsen for their presentation, the details of which were **NOTED**.

The meeting ended at 12.10 p.m.