

**THE HIGHLAND COUNCIL
PENSIONS COMMITTEE**

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Glenurquhart Road, Inverness on Friday 1 December 2017 at 11.00 a.m.

PRESENT

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| Mrs H Carmichael | Mr P Saggars |
| Mr C Fraser | Mr B Thompson |
| Mr B Lobban | Mr E Macniven (Trade Unions' representative) |
| Mr D Louden | |

Officials in attendance:-

Mr E Foster, Head of Corporate Finance and Commercialism
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Ms C Stachan, Accountant, Corporate Resources Service
Mr S Wright }
Ms R Rae } Trainee Accountants
Ms R MacDonald }
Miss J MacLennan, Principal Administrator, Chief Executive's Service

Also in attendance :-

Mr D MacDonald, Pension Board representative
Mr K Ettles, AON Hewitt, Investment Consultant
Mr A Martin, AON Hewitt, Associate Investment Consultant
Mr G Rutter, Schrodgers (Item 11 a only)
Mr L Bolton, Schrodgers (Item 11 a only)
Mr R Hamilton, Partners Group (Item 11 b only)
Ms C Bensen, Partners Group (Item 11 b only)

1. Appointment of Chair

Mr B Thompson, having been duly nominated and seconded, was unanimously appointed Chairman.

2. Apologies for Absence

Apologies for absence were intimated on behalf of Mr R Bremner, Mr C Nicolson, Ms L Leonard (Pension Board representative) and Mr D Haas (Inverness City Area Manager).

3. Declarations of Interest

There were no declarations of interest.

4. Investment Sub Committee Terms of Reference

Members having been provided with an explanation, with Agenda Items being used as illustrations, the Sub Committee otherwise **NOTED** the circulated

Terms of Reference.

5. Minutes of Last Meeting

The Minutes of the last meeting of the Sub Committee held on 3 March 2017 were circulated for information and **NOTED**.

6. 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.

7. Investment Activity Update and Performance Report

a) Investment Activity Update Report

There was circulated to Members only Report No INV/4/17 by the Director of Corporate Resources which provided an update on Pension Fund investment matters for the quarters to 31 March 2017, 30 June 2017 and 30 September 2017 and details of significant events since that date.

The report also provided details on the following matters: Private Equity funding draw-down; Legal and General disinvestment; Commercial real estate debt; LGPS Code of Transparency, Markets for Financial Instruments Directive II, Training and Investment Adviser fees.

In relation to proposed training, Members were informed that the Custodian would be providing training on Securities Lending on 29 January 2018.

Thereafter, the Sub-Committee **NOTED**:-

- i. the report; and
- ii. that training on Securities Lending would take place on 29 January 2018.

b) Quarterly Performance Report to 30 September 2017

There was circulated to Members only Report No. INV/5/17 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 30 September 2017.

It was reported that the combined Fund's performance over the quarter had been positive and had outperformed its benchmark by 0.7%. Over the year, to 30 September 2017, performance had been particularly strong with the Fund outperforming the benchmark by 2.4%. In relation to the longer term, the results were also strong with outperforming figures of 1.4% p.a. and 1% p.a. over 3 and 5 year periods respectively to 30 September 2017. 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 performance of the Fund.

Reference was made that the reporting of the various funds was before fees. This was a standard method used by the financial sector when advertising and reporting funds but it was acknowledged that this could markedly impact the level of return. A piece of work was currently underway across the Local Government Pension Scheme (LGPS) on cost reporting and templates would be put in place to enable comparisons to be made on a like-with-like basis and to allow better analysis of performance relative to Managers' fees.

Information was also sought as to the degree of investment the Baillie Gifford Global Alpha Equity fund had in the Chinese market. Details of all the Pension fund's holdings were prepared quarterly and provided on the Council's Pension website, which would allow such a calculation to be made, but it was acknowledged that this was an area meriting further analysis, especially when representatives from Baillie Gifford next attended the meeting.

Following consideration, the Sub-Committee **NOTED** the contents of the report and **AGREED**:-

- i. information on Fund Managers' fees, relative to performance, be provided to a future meeting; and
- ii. that further analysis of Baillie Gifford Global Alpha Equity fund's exposure to the Chinese market be made in advance of their attendance at a future meeting.

8. Inverness Common Good and Associated Funds Investment Report

There had been circulated to Members only Report No INV/6/17 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 30 September 2017. 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, with the Common Good Fund and Burial Grounds Commutation Fund outperforming their respective benchmarks whilst the Benevolent Fund underperformed. Over the five year period to 30 September 2017 all three Funds were ahead of benchmark.

Following a presentation, Members referred to other Common Good Funds and how these too might be invested to maximise dividends. This could involve the creation of a combined General Fund but was an issue for individual Local Committees to consider rather than this Sub Committee.

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

9. Investment Strategy

There had been circulated to Members only Report No INV/7/17 by the Fund's Investment Advisor.

The Statement of Investment Principles was due to be considered by the Pensions Committee in February 2018, as required in terms of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (No. 233). The report proposed a number of changes for Members consideration and, depending on what decisions were made, there might be a requirement for new Fund Managers to be procured. The paper covered how the Investment Strategy might evolve over the next 3-5 years and how it should react to market conditions as a result.

As a result, as the Sub Committee were broadly supportive of the suggested investment strategy, it was **AGREED** that a paper would be submitted to the Pensions Committee expanding on the issues raised during discussion.

10. Ethical Investments

There had been circulated to Members only Report No INV/8/17 by the Fund's Investment Advisor.

The presentation followed on from the discussion at the Sub Committee's last meeting and suggested some additional training. Pension Funds generally were looking more at environmental, social and governance (ESG) investment. However, Members were reminded of their fiduciary duty and the need to make proper assessments to ensure that a detrimental return was avoided. The Statement of Investment Principles was due to be submitted to the Pensions Committee in February 2018 and there would be an opportunity for wider comment to be made but Members would also need to take cognisance of the legal implications. While, for example, consideration might be made of investments in tobacco, as trustees of the Pension Fund, the Council had a duty to maximise returns for the Fund. Legal advice had been sought on this issue and, given the number of new Members, it would be useful for this to be recirculated.

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

- i. the recommendations detailed in the report; and
- ii. the Legal advice sought on ESG investment be recirculated to all Members.

11. Presentations

Schroders

The Chairman welcomed Mr Graeme Rutter and Mr Lyndon Bolton from Schroders who gave a presentation in relation to their portfolio, investment strategy and performance. They also provided a summary of the market outlook and, in amplification of the presentation, there had been circulated to Members only Report No INV/9/17 which provided further information regarding the performance of the Managers.

Following a question and answer session, particularly in regards to property investment strategies, the Chairman thanked Mr Rutter and Mr Bolton for their presentation, the details of which were **NOTED**.

Partners Group

The Chairman welcomed Mr Ross Hamilton and Ms Courtney Bensen from Partners Group who gave a presentation in relation to their portfolio, investment strategy and performance.

In this connection there had been circulated to Members only Report No INV/10/17 which provided further information regarding the performance of the Managers.

An overview was provided on how the current market was performing, where they saw opportunities and challenges, what investments were being made and the outlook for the Council's portfolio.

Following a question and answer session, the Chairman also thanked Mr Hamilton and Ms Bensen for their presentation, the details of which were **NOTED**.

12. Dates for Meetings in 2018

The Sub Committee **AGREED** the undernoted dates for meetings of the Sub Committee in 2018:-

Thursday, 1 March
Thursday, 7 June
Friday, 31 August
Friday, 30 November

with all the meetings being held at Council Headquarters, Inverness commencing at 10.30 a.m.

The meeting ended at 1.50 p.m.