

**THE HIGHLAND COUNCIL  
PENSIONS COMMITTEE**

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Glenurquhart Road, Inverness on Thursday 1 March 2018 at 10.30 a.m.

**PRESENT**

Mr R Bremner (by telephone conference)  
Mrs H Carmichael  
Mrs C Caddick  
Mr B Lobban

Mr D Louden  
Mr P Siggers  
Mr B Thompson (by Video Conference)  
Mr E Macniven (Trade Unions' representative)

Officials in attendance:-

Mr E Foster, Head of Corporate Finance and Commercialism  
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)  
Mr A MacInnes, Administrative Assistant, Chief Executive's Service

Also in attendance :-

Mr K Ettles, AON Hewitt, Investment Consultant  
Ms L Dewar, Baillie Gifford (Item 10a only) (by Video Conference)  
Ms M H Gow, Baillie Gifford (Item 10a only) (by Video Conference)  
Mr D Hogg, Aberdeen Standard (Item 7 - part of item only and 10b only) (by Video Conference)  
Ms C Snowden, Aberdeen Standard (Item 10b only) (by Video Conference)

**1. Appointment of Interim Chair**

The Sub Committee were advised that Mr B Thompson, Chair of the Sub Committee was attending the meeting by Video Conference. In terms of the Video Conference Protocol, the Chair could not participate remotely, and therefore the Sub-Committee were invited to appoint an Interim Chair for this meeting.

The Sub-Committee unanimously **AGREED** to appoint Mr B Lobban as Interim Chair for this meeting.

**2. Apologies for Absence**

Apologies for absence were intimated on behalf of Mr C Nicolson (Comhairle nan Eilean Siar), Mr D Macdonald (Pension Board representative), 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. **Minutes of Last Meeting**

The Minutes of the last meeting of the Sub Committee held on 1 December, 2017 were circulated for information and **NOTED**.

### 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/1/18 by the Depute Chief Executive/Director of Corporate Resources which provided an update on Pension Fund investment matters for the quarter to 31 December, 2017 and details of significant events since that date.

The report also provided details on the following matters: Private Equity funding draw-down; Commercial real estate debt; Training and Investment Adviser fees.

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

#### b) **Quarterly Performance Report to 31 December 2017**

There was circulated to Members only Report No. INV/2/18 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 December 2017.

It was reported that the combined Fund's performance over the quarter had been positive and had outperformed its benchmark by 0.2%. Over the year, to 31 December 2017, performance had been particularly strong with the Fund outperforming the benchmark by 3.2%. In relation to the longer term, the results were also strong with outperforming figures of 1.3% p.a. and 0.9% p.a. over 3 and 5 year periods respectively to 31 December 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.

In particular, it was noted that the Fixed Income Manager's performance over the longer term was relatively flat and information was sought on the Manager's fee compared to performance for the next meeting.

There had also been tabled for information a graph of the Pension Fund

showing the percentage return versus percentage invested over the last quarter for all the Investment Managers. The aim of the graph was to show where the fund was making money and that it mattered where funds were invested as some asset classes earned more than others. While the graph provided useful information, it was only a snapshot of the performance of the fund over a short period of time, and consideration would be given to producing a similar graph over a longer period of time.

While equities had done extremely well over the last ten years, it was important to invest in asset classes that provided a good balance of risk and return and that diversification was key to managing risks in the portfolio. The Fund's performance had been well managed and had performed extremely well over a long period of time.

If the performance of the fund continued to be strong then consideration may be given to a reduction in the Employers' contribution rate after the next Actuarial Valuation. However, the long term viability of the fund was the main consideration.

Thereafter, the Sub-Committee **NOTED** the contents of the report and **AGREED** that information on the Fixed Income Manager's Performance relative to their fees would be submitted to the next meeting.

## **7. Investment Strategy – Implementation Plan and Training on Asset Classes**

There was circulated to Members only Report No. INV/3/18 by the Fund's Investment Advisor which set out draft proposals, timetable and plan for implementing the target asset allocation approved at Pensions Committee on 8 February, 2018.

The draft proposals comprised – training and procurement of a multi asset absolute return manager; training on illiquid investments and procurement of infrastructure and direct lending manager(s); and arranging the asset transitions, with indicative timescales for each of the proposals.

The Investment Consultant provided a presentation on the alternative strategy for partly reducing the equity and bond allocations as agreed by the Pensions Committee and the alternative asset allocations that could be considered in implementing the strategy, namely, a multi asset absolute return fund; infrastructure and direct lending.

While a more detailed presentation would be provided at the next meeting in relation to infrastructure and direct lending, Mr D Hogg, Aberdeen Standard was in attendance for part of this item to provide a presentation on a multi asset absolute return fund in order to illustrate what this fund did, it's aims, objectives and key features.

In response to a query regarding the procurement process for a multi asset absolute return fund manager, a separate update on this would be provided to the Sub Committee prior to the next meeting.

Having heard the Investment consultant provide further commentary on the report and responded to a number of individual questions, the Sub-

Committee:-

i **APPROVED** the proposals and draft timetable for implementing the target asset allocation as agreed by the Pensions Committee on 8 February, 2018; and

ii **AGREED** that a separate update on the procurement process and timescale for a multi asset absolute return fund manager would be sent to the Sub Committee prior to the next meeting.

## 8. Approach to Voting

There was circulated to Members only Report No INV/4/18 which described the Fund's current approach for voting on corporate governance matters by the Fund's Investment Managers. This mainly applied to equity managers as generally bond owners and property owners did not have voting rights on most corporate governance matters.

Members were asked to consider the report and approve the current arrangements for the exercise of voting rights.

Following consideration, the Sub-Committee **APPROVED** the current arrangements for the exercise of voting rights.

## 9. Inverness Common Good and Associated Funds Investment Report

There had been circulated to Members only Report No INV/5/18 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 2017. Adam & Company's investment performances, measured against their respective strategic benchmarks were also provided.

During this quarter, while the total value of the Funds increased, all of the Funds had underperformed their respective benchmarks over the quarter to varying degrees. However, over the five year period to 31 December 2017 all three Funds were ahead of benchmark.

Following commentary on the report by the Investment Consultant, Members referred to the fact that performance had not been as strong as in the past and this would require to be monitored.

It was requested that information on Adam & Company's fees; whether they were still owned by The Royal Bank of Scotland, and if so, to what extent, had the problems at RBS impacted on Adam & Company, be provided to Members.

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

## 10. Presentations

### (a) Baillie Gifford (UK and Global equities)

The Chairman welcomed Ms L Dewar and Ms M H Gow from Baillie Gifford who gave a presentation in relation to their portfolio, (Global and UK equities

which have target asset allocations of 18.2% and 14.8% respectively of the Fund).

They also provided a summary of their investment strategy and performance and in amplification of the presentation, there had been circulated to Members only Report No INV/6/18 which provided further information regarding the performance of the Managers.

Following a question and answer session, and in particular information would be provided to Members on the Manager's corporate engagement with GKN, the Chairman thanked Ms Dewar and Ms Gow for their presentation, the details of which were **NOTED**.

**(b) Aberdeen Standard (Property Debt)**

The Chairman welcomed Mr D Hogg and Ms C Snowden from Aberdeen Standard Investments who gave a presentation in relation to their portfolio (Property debt which has a target asset allocation of 4% of the Fund), investment strategy and performance.

In particular an overview was provided on Absolute Return Investing and Commercial Real Estate Lending.

In this connection there had been circulated to Members only Report No INV/7/18 which provided further information regarding the performance of the Managers.

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

The meeting ended at 1.30 p.m.

**THE HIGHLAND COUNCIL**  
**PENSIONS COMMITTEE**

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Glenurquhart Road, Inverness on Thursday 7 June 2018 at 10.30 a.m.

**PRESENT**

Mr R Bremner (by Video Conference)	Mr D Louden
Mr C Nicolson (Comhairle nan Eilean Siar)	Mr P Saggars
Mrs C Caddick	Mr B Thompson (Chair)
Mr B Lobban	Mr E Macniven (Trade Unions' representative)
	Mr D MacDonald, (Trade Unions' representative)

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  
Miss J MacLennan, Principal Administrator, Chief Executive's Service

Also in attendance :-

Mr K Ettles, AON Hewitt, Investment Consultant  
Mr A Martin, AON Hewitt, Associate Investment Consultant  
Mr A Malan, BlueBay Asset Management (Item 6 only)  
Mr B Harrild, BlueBay Asset Management (Item 6 only)  
Mr M Ivory, Adam & Co (Item 9a only)  
Mr T Jeffery, Fidelity (Item 9b only)  
Ms R McMellin, Fidelity (Item 9b only)

**1. Apologies for Absence**

Apologies for absence were intimated on behalf of Mrs H Carmichael 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 1 December 2018 were circulated for information and **NOTED**.

Arising from the Minutes, in relation to item 7 (Investment Strategy – Implementation Plan and Training on Asset Classes), the Finance Manager explained that it had not been possible to circulate an update note on the procurement process for a multi asset absolute return fund investment. However, following discussion with the Council's Procurement Team, it was now hoped that this procurement could proceed in the near future.

#### 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/8/18 by the Depute Chief Executive/Director of Corporate Resources which provided an update on Pension Fund investment matters for the quarter to 31 March 2018 and details of significant events since that date.

The report also provided details on the following matters: Private Equity funding draw-down; Commercial real estate debt; Fund Performance: Training; Investment Strategy Review; Scottish LGPS Structure Review and Investment Adviser fees.

In regards to manager fees, information on specific fees was requested although it was acknowledged that this had to be compared to the initial investment and performance.

Following general discussion, the Sub-Committee otherwise **NOTED** the content of the report.

##### b) **Quarterly Performance Report to 31 March 2018**

There was circulated to Members only Report No. INV/9/18 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 March 2018.

It was reported that over the quarter the combined Fund's performance had delivered a negative absolute performance of 2.2% though this had outperformed its benchmark by 1%. Over the year, to 31 March 2018, performance had been particularly strong with the Fund outperforming the benchmark by 3.5%. In relation to the longer term, the results were also strong with outperforming figures of 1.6% p.a. and 1.1% p.a. over 3 and 5 year periods respectively to 31 March 2018. 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.

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

#### 6. **Investment Strategy –Training on Direct Lending Class**

A presentation was provided by Abhishek Malan and Ben Harrild from BlueBay Asset Management on Direct Lending as an Asset class.

The market opportunities and advantages of Direct Lending were outlined. Given the current economic situation, these types of products were especially attractive and conditions for lending were good with the demand for credit outstripping supply. Furthermore, the outlook was particularly positive for European corporates as the European market was hugely dependent on banks in comparison to the developed US market. In augmentation of the presentation a case study was also provided.

A question and answer session followed. Among the issues raised were the following: the impact of Brexit; how lending was originated; why borrowers would opt for this specific type of funding; and the diversity of business sectors that were provided with loans.

In discussion, while recognising the benefits this type of financing could bring, the changing economic conditions throughout Europe and the trade sanctions imposed would undoubtedly have a detrimental impact. As a consequence default and interest rates might go up. If such investment was to be pursued it was essential that an experienced team were used who were well resourced to carry out due diligence of the companies that they were lending money to.

The Sub-Committee otherwise **NOTED** the presentation.

## **7. Investment Strategy – Proposed Commitment to Partners Group Fund Report**

There was circulated to Members only Report No. INV/10/18 by the Depute Chief Executive/Director of Corporate Resources.

It was explained that the Pension Fund currently had two commitments to the Partners Group, namely the Global Value 2011 Fund and the Global Value 2014 Fund which, at the time the commitment was made, was intended to represent approximately 5% of the Fund's total asset value allocation. However, it was unlikely the Fund would reach its target of having 5% of the Fund's total asset value invested in private equity from the Global Value 2011 and 2014 Funds alone and it was therefore proposed that the Fund make a commitment to the Partners Group Global Value 2017 Fund to achieve the target allocation of having 5% of the Fund's total asset value represented by private equity.

Following discussion the Sub-Committee **AGREED** :-

- i. to commit €68m (£60m) to the Partners Group 2017 partnership i.e. the Global Value 2017 Funds; and
- ii. to grant delegated powers to the Depute Chief Executive/Director of Corporate Resources to reduce the allocation at the time of commitment, after consideration of total fund value, to ensure compliance with Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations.

## **8. Inverness Common Good and Associated Funds Investment Report**

There had been circulated to Members only Report No INV/11/18 by the Fund's Investment Advisor which set out Common Good and Associated



Funds investment performance for the quarter ended 31 March 2018.

During this quarter the total value of the Funds decreased as a result of a fall in global equity markets. As a result, over the five year period to 31 March 2018, the Burial Grounds Commutation and the Common Good Funds had underperformed their respective benchmarks to varying degrees while the Benevolent Fund had outperformed.

Following commentary on the report by the Investment Consultant, Members referred to the fact that performance had not been as strong as in the past and this would require to be monitored.

It was recognised that Adam & Co were restricted in the scope of assets they could invest in – essentially equities, bonds and cash – but if the value of these fell together it was important to establish how Adam & Co would mitigate that risk. In addition, access to the Common Good Fund was likely and therefore consideration should be given to invest more defensively such as short term bonds.

In future reports, the investment and performance of Nairn Common Good Funds which is now also invested with Adam and co would also be considered.

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

## 9. **Presentations**

### (a) **Adam & Co**

The Chairman welcomed Mr Mark Ivory from Adam & Co who gave a presentation in relation to their portfolio, investment strategy and performance.

In amplification, Mr Ivory explained that, having hit new highs in January, many equity markets fell in February and 12 month lows had been reached in March. However, he assured Members that, in April, the markets had largely recovered. The sell off was caused by strong US wage growth which caused investors to worry that US interest rates would rise faster than previously anticipated. In addition, other factors including the possibility of a global trade war, Brexit, Syria etc, had exacerbated the situation. Nevertheless, global economic data remained broadly supportive for growth and equity markets.

Following a question and answer session, and in particular requesting a review of the allocation of the portfolio allocation for the Nairn Common Food Fund, the Chairman thanked Mr Ivory for his presentation, the details of which were **NOTED**.

### (b) **Fidelity**

The Chairman welcomed Mr T Jeffery and Ms R McMellin from Fidelity International who gave a presentation in relation to their portfolio, investment strategy and performance.

In particular an explanation was provided as to the nature of bonds and the various factors affecting them generally. In relation to the Highland Council's Pension Fund, Fidelity's performance objective was to outperform the

benchmark by 1.25%, gross of fees, over a 3 year period. However, it was expected that UK growth would remain at low levels for the next few years.

Following a question and answer session, and in particular where Members asked for a report to a future meeting detailing Managers' fees, the Chairman thanked Mr Jeffery and Ms McMellin for their presentation, the details of which were **NOTED**.

The meeting ended at 1.35 p.m.