

## AGENDA ITEM 7

### THE HIGHLAND COUNCIL PENSIONS COMMITTEE

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Glenurquhart Road, Inverness on Friday 31 August 2018 at 10.30 a.m.

#### PRESENT

Mrs H Carmichael  
Mr B Lobban  
Mr D Louden

Mr P Saggars  
Mr B Thompson

#### Non Member in Attendance:-

Mr R Gale

#### 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 D Haas, Inverness City Area Manager  
Mr A MacInnes, Administrative Assistant, Chief Executive's Service

#### Also in attendance :-

Mr D MacDonald, Pension Board representative  
Mr R Fea, Pension Board representative  
Mr K Ettles, AON Hewitt, Investment Consultant  
Mr T Cousins, Pyrford (Item 7a only)  
Mr L Nielson , Pyrford (Item 7a only)  
Mr B Miller, Lothian Pension Fund (item 7b only)  
Mr A Imrie, Lothian Pension Fund (item 7b only)

#### **Mr B Thompson in the Chair**

#### **1. Apologies for Absence**

Apologies for absence were intimated on behalf of Mr R Bremner, Mrs C Caddick, Mr C Nicolson and Mr E Macniven

#### **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 7 June 2018 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/12/18 by the Depute Chief Executive/Director of Corporate Resources which provided an update on Pension Fund investment matters for the quarter to 30 June 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 Schroder Investment Management Agreement; Investment Adviser fees and Vote reports.

In regards to Vote reports for the Fund Managers these had still to be circulated to Committee members and this would be done as soon as possible.

In relation to a proposed amendment to the Investment Management Agreement between the Fund and Schroders to revise a current restriction from 45% to 65% investment in order to maximise exposure to Schroder Funds, an undertaking was given to provide further clarification on the rationale behind the original restriction of 45% investment being the appropriate limit and also further information on the justification for increasing the limit to 65%.

It was queried if all the Fund Managers had signed up to the Investment Fee Transparency Code, the aim being to improve cost transparency in the institutional investment market. An update on this would be reported to the next meeting.

Thereafter, the Sub-Committee:-

i **NOTED** the content of the report;

ii **AGREED** that further information be provided to the next meeting on the justification for amending the Investment Management Agreement between the Fund and Schroders from the current restriction of 45% to 65% investment and also the rationale behind the original restriction of 45% investment; and

iii **AGREED** that an update would be provided to the next meeting on the position with regards to Fund Managers signing up to the Investment Fee Transparency Code.

**b) Quarterly Performance Report to 30 June 2018**

There was circulated to Members only Report No. INV/13/18 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 30 June 2018.

It was reported that over the quarter the combined Fund's performance had delivered absolute performance of 5.0% (net of fees) which was in line with benchmark. Over the year to 30 June 2018, performance had been particularly strong with the Fund outperforming the benchmark by 2.2% (before fees). In relation to the longer term, the results were also strong with outperforming figures of 1.5% p.a. and 0.9% p.a. over 3 and 5 year periods respectively to 30 June 2018 (before fees). 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.

It particular, it was requested that the Investment Manager fees be reflected in longer term performance information in future reports.

In relation to the 15% of the Fund investment in Gilts, it was queried why the Fund was still investment in this asset class when expected returns were poor. It was explained that the revised investment strategy was to reduce the Funds holding in Gilts and reinvest in a Multi Asset Absolute Return Fund and work on this transition was continuing and this would address some of the concerns. Another option was to diversify the Gilt portfolio into other sectors where better value may be gained. However, it was important to provide balance, protection and diversification of the investments in the Fund's Portfolio and Gilts tended to rise in value when other asset classes such as equities dropped in value and they also provided income.

The Sub-Committee **NOTED** the contents of the report and that Investment Manager fees would be reflected in longer term performance information in future reports.

**6. Inverness Common Good and Associated Funds Investment Report**

There had been circulated to Members only Report No INV/14/18 by the Fund's Investment Advisor which set out Common Good and Associated Funds investment performance for the quarter ended 30 June 2018.

During this quarter the total value of the Funds increased as a result of developed market equities having rebounded from the previous quarter's decline. As a result, for the quarter ended 30 June 2018, all four Funds delivered positive absolute performance. The Burial Grounds Commutation Fund and the Benevolent Fund outperformed their benchmark, whilst the Common Good Funds had underperformed their respective benchmarks, though Adam and Co were in the process of investing the capital for the Nairn Common Good Fund so no strong conclusions could be drawn on performance at this early stage.

Following commentary on the report by the Investment Consultant, it was queried why the money for Nairn Common Good Fund (NCGF) had not yet been fully invested as this could have cost the Fund a significant amount of income. It was explained that the money would be invested in a phased basis over a relatively short period of time in order to mitigate against any volatility in the market. It was also queried if there was any change to Adam & Co fee during this phased period of investing NCGF money and an undertaking was given to provide information on this to Members.

Further, it was confirmed that the Inverness Common Good Fund and Inverness Burial Grounds Commutation Fund spend profile for the major works being undertaken was on target and therefore investments were being maximised.

Thereafter, the Sub-Committee **NOTED** the terms of the report and that information would be provided to Members on whether there had been any change to Adam & Co fee during the phased period of investing NCGF money.

## **7. Presentations**

### **(a) Pyrford**

The Chairman welcomed Mr Tony Cousins and Mr Lars Nielson from Pyrford International Ltd 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/15/18 which provided further information regarding the performance of the Managers.

In particular, information was requested on the Fund's portfolio overlap between Pyrford and Baillie Gifford.

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

### **(b) Lothian Pension Fund**

The Chairman welcomed Mr Bruce Miller and Mr Andrew Imrie from Lothian Pension Fund who gave a presentation on the Lothian Pension Fund Infrastructure team and the process they use to identify and invest in global infrastructure opportunities. The presentation also covered the collaborative infrastructure investment arrangements in place between Lothian Pension Fund and other Pension Funds.

The Highland Council Pension Fund was considering an infrastructure investment. The Lothian Pension Fund approach to infrastructure investment would be considered alongside the other option of recruiting a Private Infrastructure Manager and a report on this would be submitted to a future meeting.

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

The meeting ended at 1.20 p.m.

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

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Glenurquhart Road, Inverness on Friday 30 November, 2018 at 10.30 a.m.

**PRESENT**

Mr R Bremner (by Video Conference)  
Mrs H Carmichael  
Mrs C Caddick  
Mr B Lobban  
Mr D Louden

Mr P Saggars  
Mr B Thompson  
Mr E Macniven (representative from Trade Unions)

Non Member in Attendance:-

Mr R Gale

Officials in attendance:-

Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)  
Ms C Stachan, Accountant, Corporate Resources Service  
Mr A MacInnes, Administrative Assistant, Chief Executive's Service

Also in attendance :-

Mr R Fea, Pension Board representative  
Mr K Ettles, AON Hewitt, Investment Consultant  
Ms C Bensen, Partners Group (Item 9 only)  
Mr R Hamilton , Partners Group (Item 9 only)

**Mr B Thompson in the Chair**

**1. Apologies for Absence**

Apologies for absence were intimated on behalf of Mr C Nicolson and Mr A MacLeod, Comhairle nan Eilean Siar, Mr D MacDonald, Pension Board representative, Mr E Foster, Head of Corporate Finance and Commercialism 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 31 August, 2018 were circulated for confirmation 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/15/18 by the Depute Chief Executive/Director of Corporate Resources which provided an update on Pension Fund investment matters for the quarter to 30 September 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 Schroder Investment Management Agreement; Investment Adviser fees; Vote reports and Procurements.

In particular, it was noted that there would be further reporting on Fund Managers fees to the Sub Committee's meetings in 2019. Also, it was intended that a training session for Members, by Hymans, the Fund's Actuarial Consultant, would be held following the Pensions Committee/Pension Board meeting on 28 February, 2019.

It was noted that Schrodgers were to attend the next meeting of the Sub Committee at which further consideration would be given to a proposal by Schrodgers to amend the Investment Management Agreement between the Fund and Schrodgers.

It was noted that the Fund had moved into a cash flow negative position. It was queried if the Committee needed to be aware of risks with cash flow management. It was advised that cash flows were monitored daily in order to manage the Fund's cash flow. Also, if cash was needed in future this could be obtained from the Fund's assets, for example, taking distributions from equity funds, dividends, rental income from Property and income from Bonds. This would be the next step should the Fund have a greater negative cash flow position.

It was explained that pensioners payroll had been increasing gradually and this combined with reduced scheme member contributions and the Council's Voluntary Redundancy Scheme had been contributory factors to the negative cash flow position.

If reinvestment income was used for cash flow purposes, then potentially long term investment returns would be lower than they otherwise might be. However, this was a minimal risk in terms of the overall value of the Fund and at present reinvestment income was not being used for cash flow purposes.

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

**b) Quarterly Performance Report to 30 September 2018**

There was circulated to Members only Report No. INV/16/18 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 30 September 2018.

It was reported that over the quarter the combined Fund's performance had delivered absolute performance of 2.1% (net of fees) marginally underperforming the benchmark by 0.1%. Over the year to 30 September, 2018, performance had been strong with the Fund outperforming the benchmark by 1.5% (before fees). 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 30 September, 2018 (before fees). 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. Brexit Update for The Highland Council Pension Fund**

There was circulated to Members only Report No. INV/17/18 by the Fund's Investment Advisor on the potential implications of Brexit for the Pension Fund.

The Investment Consultant gave further commentary on the report and summarised some of the key outcomes/risks of various scenarios of Brexit on various asset classes. The Fund's portfolio was potentially exposed to a number of 'bad Brexit' risk factors and the Committee discussed these various scenarios and their potential impact on the Fund and what changes to the portfolio could be taken to mitigate the risk.

As Brexit was a developing situation, it may be necessary to act quickly, in consultation with the Fund's Investment Consultant, to make changes to protect the Fund. Therefore, it was suggested that delegated powers be given to the Depute Chief Executive/Director of Corporate Services in consultation with the Chair of the Sub Committee to make operational decisions to protect the Fund, following advice from the Fund's Investment Consultant. The Sub Committee supported this suggestion.

Following further discussion, the Sub-Committee **AGREED**, that should it be necessary to protect the Fund from risks associated with Brexit between now and the next meeting of the Sub-Committee, to grant delegated powers to the Depute Chief Executive/Director of Corporate Resources in consultation with the Chair of the Sub Committee and the Fund's Investment Consultant to make investment decisions relating to reducing the Fund's UK Property exposure and increasing UK index linked Gilt exposure in a range of between 0% to 15%.

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

There had been circulated to Members only Report No INV/18/18 by the Fund's Investment Advisor which set out Common Good and Associated Funds investment performance for the quarter ended 30 September 2018.

During this quarter the total value of the Funds increased as a result of developed market equities built on gains from the second quarter. As a result, for the quarter ended 30 September 2018, all four Funds delivered positive absolute performance. The Common Good Fund, Burial Grounds Commutation Fund and the Nairn Common Good Fund outperformed their benchmark, whilst the Benevolent Fund performed broadly in line with its benchmark.

Following commentary on the report by the Investment Consultant, it was queried why the money for Nairn Common Good Fund (NCGF) had taken so long to be fully invested as this could have cost the Fund a significant amount of income. An explanation for the delay would be sought from Adam & Co. It was also confirmed that Adam & Co only received a fee for money that had been invested.

Thereafter, the Sub-Committee **NOTED** the terms of the report and that an explanation from Adam & Co for the delay in fully investing NCGF money would be circulated to the Committee.

## 8. Review of Fidelity Active Fixed Income Portfolio

There was circulated Report No. INV/19/18 by the Investment Advisor which provided advice on the future evolution of actively managed fixed income assets in the Fund's portfolio, to increase the risk adjusted returns over the medium term, taking account of the weakening view on sterling investment grade credit.

Following commentary on the report by the Investment Consultant, Members were in support of reducing the Fund's allocation to sterling investment grade credit and reinvesting in a broader multi asset credit (MAC) fixed income strategy as this was expected to offer better risk adjusted returns, over the medium to longer term. In terms of options for the procurement of a MAC Fund it was preferred that Aon Hewitt, the Fund's Investment Consultant, provide a short list of MAC funds it has researched and Buy rated for the Committee to select from.

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

- i to reduce the Fund's allocation to sterling investment grade credit and reinvest in a MAC fund; and
- ii that Aon Hewitt provide a short list of MAC funds for the Committee to select from.

## 9. Presentation – Partners Group

The Chairman welcomed Ms Courtney Bensen and Mr Ross Hamilton 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/20/18 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.

In particular, information would be provided to Members on the 5% of investments in the Global Value 2011 Fund that had issues marked against them.

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

#### **10. Dates for meetings in 2019**

The Sub Committee **APPROVED** the undernoted dates for its meetings in 2019:-

Friday, 15 March  
Friday, 14 June  
Friday, 6 September  
Friday, 29 November

with all the meetings being held in Council Headquarters, Glenurquhart Road, Inverness at 10.30 a.m.

The meeting ended at 1.00 p.m.