

## AGENDA ITEM 10a

### THE HIGHLAND COUNCIL PENSIONS COMMITTEE

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Glenurquhart Road, Inverness on Friday 15 March, 2019 at 10.30 a.m.

#### PRESENT

Mrs H Carmichael  
Mr R Gale  
Mr B Lobban  
Mr D Louden

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

#### 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 R Fea, Pension Board representative  
Mr K Ettles, AON Hewitt, Investment Principal and Actuary  
Mr A Martin, AON Hewitt, Associate Investment Consultant  
Mr G Rutter, Schrodgers (Item 8 only)  
Ms O Docker, Schrodgers (Item 8 only)

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

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

Apologies for absence were intimated on behalf of Mr R Bremner, Mr P Sagers and Mr C Nicolson.

#### **2. Declarations of Interest**

There were no declarations of interest.

#### **3. Minutes of Last Meeting**

The Sub Committee **NOTED** the Minutes of the last meeting of the Sub Committee held on 30 November, 2018 which were approved at the Pensions Committee meeting held on 28 February, 2019.

Arising from the minutes, it was confirmed that following discussions at the last meeting and approval to reduce the Fund's allocation to sterling investment grade credit and to reinvest in a Multi Asset Credit Fund, a tender for a Multi Asset Credit Manager would be completed alongside the ongoing multi-asset

absolute return fund.

#### 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/1/19 by the Depute Chief Executive/Director of Corporate Resources which provided an update on Pension Fund investment matters for the quarter to 31 December 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; Cost transparency; Review of Schroder Investment Management Agreement; Investment Adviser fees; Vote reports and Delegated Authority.

In particular, it was advised that as Brexit was a developing situation, it may be necessary to act quickly to make changes to protect the Fund. Therefore, it was proposed that delegated powers be given to the Depute Chief Executive/Director of Corporate Resources Service 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 Committee were in agreement with this proposal.

It was advised that the Fund was well diversified to manage market volatility in light of Brexit. However, there was a risk in terms of the Fund's liabilities if there was an adverse outcome to the Brexit process, as pensions were linked to inflation. In this respect, there may be a need to take measures to protect the Fund from an increase in inflation.

It was noted that Schrodgers were to attend later in the meeting (item 8) at which further consideration would be given to a proposal by Schrodgers to amend the Investment Management Agreement between the Fund and Schrodgers.

Thereafter, the Sub-Committee:-

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

ii **AGREED** that given the uncertainty of the impact of Brexit on the Fund, delegated authority be given to the Depute Chief Executive/Director of Corporate Resources Service in consultation with the Chair of the Sub Committee to make operational decisions to protect the Fund which are time critical. These decisions would be made following advice from the Fund's Investment Consultant.

**b) Quarterly Performance Report to 31 December 2018**

There was circulated to Members only Report No. INV/2/19 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 December 2018.

It was reported that over the quarter the combined Fund's performance had delivered absolute performance of minus 7.3% (net of fees) underperforming the benchmark by 0.4% per annum. Longer term performance had been strong in absolute and relative terms with the Fund outperforming the benchmark by 1.0% p.a. and 0.8% p.a. over the 3 year and 5 year periods respectively to 31 December 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 Principal and Actuary, Mr K Ettles from AON Hewitt, gave further commentary on the report and responded to a number of individual questions.

Members noted that due to the volatility in markets, particularly a downturn in equities, there had been an overall underperformance of the Fund in the last quarter. However, Members welcomed that the Fund's Alternative Asset classes had performed well in the last quarter.

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

**6. Equity Protection Strategy**

There was circulated to Members only Report No. INV/3/19 by the Fund's Investment Advisor on proposals for an Equity Protection Strategy.

It was explained that the objective of the equity protection strategy was to protect the value of the Fund's passive equities until they are to be sold and reinvested in multi asset absolute return, infrastructure and corporate direct lending funds. The equity protection would protect £200m against total return losses between 3% and 23% until December 2021. The Investment Consultant gave further commentary on the report and summarised some of the key points and responded to questions by Members.

It was queried if a similar Equity Protection strategy could be used to protect the value of equities in the Inverness Common Good Fund (ICGF) in light of the funding that would be required from the Fund for property contracts over the next couple of years. While this could be investigated, initial thoughts were that the size of equity funding to be protected may not be significant enough to merit a similar Equity Protection Strategy to that being proposed for the Pension Fund. There were other ways to protect the value of equities in the ICGF such as moving equities into bonds.

Following further discussion, the Sub-Committee **AGREED** to protect £200m of equities against total return losses between 3% and 23% by entering into zero premium collars for the amounts and terms as detailed in the recommendation contained in the report.

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

There had been circulated to Members only Report No INV/4/19 by the Fund's Investment Advisor which set out Common Good and Associated Funds investment performance for the quarter ended 31 December 2018.

During this quarter the total value of the Funds decreased as a result of negative returns on Global equities as a result of rising concerns of slowing global growth, trade issues between China and the US and the expectation of lower earnings growth heading into 2019. As a result, for the quarter ended 31 December 2018, all four Funds delivered negative absolute performance. The Common Good Fund, Burial Grounds Commutation Fund and the Nairn Common Good Fund outperformed their benchmark, whilst the Benevolent Fund underperformed its benchmark.

Over the five year period to 31 December, 2018 the Benevolent Fund and Burial Grounds Commutation Fund were ahead of the benchmark by 1.0% p.a. and 0.4% p.a. whereas the Common Good Fund performed broadly in line with its benchmark over the five year period.

Following commentary on the report by the Investment Consultant, it was noted that the Benevolent Fund bond portfolio was mostly invested in Corporate Bonds, but the portfolio had a UK Gilts benchmark. Consideration would be given to changing the benchmark for that part of the portfolio.

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

## **8. Presentation – Schroders**

The Chairman welcomed Mr G Rutter and Ms O Docker from Schroders 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/5/19 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, what investments were being made and the outlook for the Council's portfolio in regards to property investment strategies.

Further, consideration was given to a proposal by Schroders to amend the Investment Management Agreement between the Fund and Schroders. The reason for the change was that the current restriction provided limited opportunity for further investment. The Managers provided details of the proposal and responded to a number of questions.

Following a question and answer session, the Chairman thanked Mr G Rutter and Ms O Docker for their presentation, the details of which were **NOTED**.

Having heard from the Investment Consultant regarding the Schroders proposal, the Sub-Committee **AGREED** to amend the Investment Management Agreement between the Fund and Schroders to revise a current restriction from 45% to 65% for the maximum exposure to Schroder Funds.

The meeting ended at 12.40 p.m.