

AGENDA ITEM 11ii

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held remotely on Friday 19 November, 2021 at 10.30 a.m.

PRESENT

Mrs H Carmichael
Mr R Gale
Mr B Lobban

Mr D Louden
Mr E Macniven

Officials in attendance:-

Mr E Foster, Head of Corporate Finance and Commercialism, Resources & Finance Service
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation), Resources & Finance Service
Ms C Stachan, Accountant, Resources & Finance Service
Mr D Haas, Inverness City Area Manager, Communities and Places Service
Mr A MacInnes, Administrative Assistant, Performance & Governance Service

Also in attendance :-

Mr K Ettles, AON, Investment Principal and Actuary
Mr A Martin, AON
Mr R Fea, Pension Board observer
Mr J Gibson, Pension Board observer
Mr J Blackmore, Mr J Helman, Ms M Stueck representatives of BentallGreenOak (Item 6 only)

1. Appointment of Chair

Following the resignation of Councillor B Thompson from The Highland Council, the Sub Committee were invited to appoint a Chair of the Sub Committee.

Mr R Gale was unanimously appointed as Chair of the Sub Committee.

2. Apologies for Absence

There were no apologies for absence.

3. Declarations of Interest

There were no declarations of interest.

4. Minutes of Last Meeting

There had been circulated minutes of the meeting of the Sub Committee held on 17 September, 2021 the terms of which were **APPROVED**.

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 Strategy

The Investment Advisor provided an overview of the management selection process for the Property Debt Manager to maintain the overall asset allocation to private credit of 7%

It was recommended that BentallGreenOak (BGO) be appointed to manage the Fund's Property Debt mandate (3.5% of Fund's portfolio).

In this respect, there was a presentation from representatives of BGO (Jim Blakemore, Jack Helman, Manja Stueck) on their investment approach to lending on Commercial property in the UK. Their loan sizes, average term of loans, type of borrowers, how the Fund generated returns and investment process was explained. In particular, it was highlighted that there was a strong emphasis on lending with a sustainable focus and their strategy aligned real estate objectives with environmental, social and governance objectives.

Continuing, when lending on properties it was confirmed that the Manager was focused on lending on buildings that achieve building efficiencies and reductions on carbon emissions in line with environmental, social and governance objectives. Loan terms and the potential for rising interest rates impacting on loans was also discussed.

The Chairman on behalf of the Sub Committee thanked the representatives from BentallGreenOak for their informative presentation.

Thereafter, the Sub Committee **APPROVED** that BentallGreenOak be appointed to manage the Fund's Property Debt mandate (3.5% of Fund's portfolio).

7. Investment Strategy – Equities allocation

There had been circulated to Members only 3 reports by the Investment Advisor on the Fund's current equities allocation and how to manage current and future risks in this allocation of the Fund's portfolio.

An overview of the reports was provided by the Investment Advisor, firstly in relation to active v passive investment management, secondly, strategic currency hedging and thirdly, equity risk reduction. These topics were all linked to the future equity strategy of the Fund. Members were asked to consider the recommendations detailed in the reports.

In discussion, the following points were raised:-

- In terms of the recommendation to have more of the equity portfolio invested by an active manager, this was based on feedback from Officers and Members of the Sub Committee as to greater benefits to be gained by this approach and AON analysis. If the Sub Committee approved the recommendation, this would require a change to the Fund's Statement of Investment Principles. A report on this would need to be submitted to the next meeting of the Pensions Committee.
- The overall portfolio risk was being reduced by the reduction of equities and also by the measures being proposed in terms of currency hedging and equity protection.
- In relation to currency hedging, the risk that was being protected against was sterling appreciating in value relative to overseas currencies. It was explained that the value of overseas assets in the Fund, was converted back to sterling for the purposes of the accounts/actuarial valuation of the Fund. Therefore, if sterling appreciates, the sterling value of overseas assets would be lower.
- the costs of implementation of currency hedging were relatively low and should the Sub Committee's view on currency hedging change in future, it could be reversed relatively quickly.
- It was felt prudent to protect against equity markets falling in the medium term given that the actuarial position of the Fund was very strong and it would help preserve this strong funding position until the 2023 actuarial valuation. Further, it was not believed that the level of equity protection proposed would take too much risk away when investing that was necessary for good returns and the general view was that there was a good balance between the prospect of acceptable returns and reduction of risk with this proposal. It was advised that there was reasonable confidence that the equity protection proposal would not impact on the actuarial assessment of the fund or Employer rates at the next valuation of the fund, as it was a relatively short term proposal and for only 30% of equities or 16/17% of total fund assets.
- Members welcomed the good advice provided by AON in the reports and were content to accept the recommendations.

Thereafter, the Sub Committee **AGREED** the following recommendations for the Fund with regard to the equities' allocation:-

1) Active v Passive

that the split between active and passive equities is changed to the following reducing the allocation to passive equities from 30% to 20% of equities

- 50% Baillie Gifford Paris Aligned Fund (28% of total Fund)
- 30% New active manager (16.8% of total Fund)
- 20% LGIM passive fund (11.2% of total Fund)

2) Currency hedging

that the following currency hedging is implemented:

- 50% strategic currency hedge on the Fund's overseas public equity exposure
- 100% strategic currency hedge on the Fund's US Dollar denominated

infrastructure equity exposure.

- 50% strategic currency hedge on the Fund's Euro denominated private equity exposure.

3) Equity protection

that in order to reduce equity risk within the portfolio to help preserve the strong funding position until the 2023 actuarial valuation and investment strategy review, 30% of equities are protected.

8. Dates for Meetings

The undernoted dates for meetings of the Sub Committee were **APPROVED:-**

Friday, 17 December, 2021 at 10.30a.m

Friday, 25 February, 2022 at 10.30a.m.

Friday, 21 October, 2022 at 10.30 a.m.

It would be clarified what arrangements were in place should urgent decisions be required to be made in the period from the Local Government Elections in May, 2022 to the first meeting of the Investment Sub Committee in October, 2022.

The meeting ended at 1.10 p.m.