

## THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Inverness on Thursday, 22 June, 2023 at 10.30 a.m.

### **Present:**

Mr C Ballance  
Mr R Gale  
Mr B Lobban  
Mr D Louden

Mr A MacDonald (remote)  
Mr P Oldham  
Ms E Johnston (representative from Trade Unions) (non voting)  
Mr N MacDonald (Comhairle nan Eilean Siar) (non voting (remote))

### Officials in attendance:-

Mr B Porter, Interim Head of Finance, Resources & Finance Service  
Mr A MacInnes, Interim Senior Committee Officer, Performance & Governance

### Also in attendance :-

Mr C Munro, Pension Board Observer  
Mr K Ettles, AON, Investment Principal and Actuary  
Mr R Evans, Head of UK Clients & Mr R Hamilton, Managing Director, Partners Group (Item 5)  
Mr D Barber, Relationship Director & Mr B Deane, Associate Investment Director, Fidelity International (Item 6)

### **Mr D Louden in the Chair**

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

An apology for absence was intimated on behalf of Mrs M Paterson.

#### **2. Declarations of Interest/Transparency Statement**

There were no declarations of interest.

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

There had been circulated, and were **NOTED**, minutes of meeting of the Sub-Committee held on 16 March, 2023.

#### **4. Exclusion of the Public**

The Sub-Committee **RESOLVED** that, under Section 50(A) of the Local Government (Scotland) Act 1973, the public be excluded from the meeting during discussion of the following items on the grounds that they involved the likely disclosure of exempt information as defined in Paragraph 6 of Part 1 of schedule 7A of the Act.

#### **5. Presentation: Partners Group**

The Fund's Investment Advisor gave a short introduction about Partners Group, the Fund's private equity manager. Private equity invested in the ownership of companies and the managers would use their expertise to add value to the companies. Of key importance was the process the managers had for adding value to the companies. The structure of private equity investments in the Fund was explained and investments tended to be for 10 to 13 years. There were no concerns in performance of private equity in the Fund and it had been a good investment for the Fund over the last 12 years.

In this connection there was circulated to Members only Report No. INV/8/23 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Mr R Evans and Mr R Hamilton from Partners Group were in attendance. In a presentation to the Sub Committee, the managers provided information about Partners Groups, a global company, its assets; the Partners Group team; an explanation of what private equity was; the portfolio they managed on behalf of the Fund and performance.

During discussion clarification was sought and provided on several issues including that environment, social and governance (ESG) assessments were undertaken on investments; the effect of higher interest rates on current and future private equity investment; an explanation of fees and that there was a general downward trend in fees for private equity and reasons for the managers good performance.

The Sub-Committee thanked the representatives from Partners Group for their attendance and **NOTED** the presentation and discussion.

Following the presentation, there was discussion on the actuarial valuation of the Pension Fund, the need to keep the investment strategy under review, including the percentage of the Fund committed to private equity. Consideration could also be given in future to direct investments into renewable energy projects in Highland.

## **6. Presentation: Fidelity International**

The Fund's Investment Advisor gave a short introduction about Fidelity International which was one of the Funds fixed income managers. The mandate was to invest in UK Government bonds/gilts and Corporate bonds. Overall the managers performance was good over the last few years. In particular, the data behind the ESG rating would be confirmed to Members.

In this connection there was circulated to Members only Report No. INV/9/23 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Mr David Barber and Mr Ben Deane from Fidelity were in attendance and gave an overview in relation to the Fidelity team who managed the Fund, the portfolio and performance, the outlook for fixed income investments and an update on the valuation of the Fund's investment.

During discussion questions were asked and responded to on any defaults in the credit portfolio; the effect of high interest rates and inflation on fixed income investments; engagement with utility companies to improve on what they do.

The Sub-Committee thanked the representatives from Fidelity for their attendance and **NOTED** the presentation and discussion.

## 7. Investment Activity Update and Performance Report

(a) There was circulated to Members only Report No INV/10/23 by the Head of Finance which provided an update on Pension Fund investment matters for the quarter to 31 March 2023 and any significant events since that date. \*

In particular, as part of the ongoing Actuarial Valuation, there may be recommendations regarding changes in the asset allocations, but it was unlikely that new asset classes would be required to further diversify the portfolio. Any recommendations regarding changes to the strategic asset allocation would be taken to future meetings of the Investment Sub Committee with a final version of the Statement of Investment Principles to be presented to Pensions Committee for approval in early 2024, alongside the triennial Actuarial valuation.

In terms of direct local investment opportunities, it should be considered whether these were more attractive opportunities other than what the Fund was already invested in and consider if the Council had the skills, expertise and capacity to take on a more hands on approach to investments. How this aligned with fiduciary duty and potential conflicts also had to be considered.

With regard to the allocation to active global equities which was to be invested with Dodge and Cox, as approved at Investment Sub Committee (25 February 2022), this had been put on hold as Dodge and Cox hold Russian investments. The position was being reviewed on an ongoing basis and consideration would be given to reviewing this with a view to determining options and a recommendation for the Sub Committee to consider. On an interim basis these assets were being held with Legal and General as a passive investment which forms part of the equity protected assets.

Reference was made to there being no resource/community/legal etc implications in the report, it was advised that if there was a specific recommendation in a report there would be reference in the report to the implications. However, the point was noted and the implications section of the report would be reviewed in light of policy positions of the Fund such as on climate change.

The Sub Committee **NOTED** the report.

(b) There was circulated to Members only Report No. INV/11/23 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter ended 31 March, 2023.

Following commentary on the report by the Investment Advisor, the following issues were considered:

- This had been a positive quarter for absolute returns;

- Performance of the fund was largely in line with benchmarks. It was requested that benchmarks over a longer period of time be provided in future performance reports;
- Equity markets and fixed income assets had strong returns;
- rises in interest rates had little impact on performance due to the low allocation to bonds;
- the effects on performance of the fund if interest rates continued to rise. Overall it was not expected that interest rate rises would see a significant negative impact on the Fund.
- Some equity protection was in place if there was a downturn in equity markets;
- In terms of liabilities, rising gilt yields was expected to significantly reduce the actuarial valuation of the funds liabilities.

The Sub Committee **NOTED** the report.

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

There was circulated to Members only Report No. INV/12/23 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 31 March, 2023.

Following commentary on the report by the Investment Advisor, the following issues were considered:

- There were good returns on equities and bonds which the Common Good Funds invested in;
- Each of the Funds delivered positive absolute performance over the quarter; however, on a relative basis, and except for Inverness Burial Grounds Commutation Fund, they underperformed their respective benchmarks;
- Longer term performance (3-year and 5-year periods to 31 March 2023) had been positive for all four Funds. On a relative basis, however, all Funds had underperformed against their benchmark;
- Performance of the Manager would continue to be monitored.
- Information would be provided to Councillor Ballance on what the £0.5m disinvestment from the Inverness Common Good Fund was used for.

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

The meeting ended at 1.05 pm