

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Inverness/Remotely on Friday, 24 November, 2023 at 10.30 a.m.

Present:

Mr C Balance	Mrs M Paterson (remote)
Mr R Gale (remote)	Mrs T Robertson (remote)
Mr D Louden	Ms E Johnston (representative from Trade Unions)
Mr P Oldham	Mr N MacDonald (Comhairle nan Eilean Siar) (remote)

Officials in attendance:-

Mr B Porter, Interim Head of Corporate Finance, Resources & Finance Service
 Ms C Stachan, Principal Accountant, Resources & Finance Service
 Mr A MacInnes, Senior Committee Officer, Performance & Governance

Also in attendance :-

Mr K Ettles, AON, Investment Principal and Actuary
 Ms S Varlet; Mr W Fox-Robinson, Mirova (Item 5 only)
 Mr D Bloch; Mr A Davies, CVC (Item 6 only)

Mr D Louden in the Chair

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mr B Lobban and Mr C Munro, Pension Board observer.

2. Declarations of Interest/Transparency Statement

There were no declarations of interest/transparency statements.

3. Minutes of Last Meeting

There had been circulated, and were **NOTED**, minutes of meeting of the sub-committee held on 8 September, 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: Mirova

The Fund's Investment Advisor gave a short introduction about Mirova who were a quality growth global equity manager and aimed to invest in quality companies, with strong balance sheets and customer base, limited challenges to their profitability and the potential to grow their earnings in future. This was a relatively new investment for the Fund and the portfolio was focused on environmental, social benefits and sustainable development goals.

In this connection there was circulated to Members only Report No. INV/19/23 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Ms Soliane Varlet and Mr William Fox-Robinson from Mirova were in attendance. The managers gave a presentation in relation to portfolio, investment strategy, performance and market outlook as well as how environmental, social and governance was integrated in their investment process.

During discussion clarification was sought and provided on several issues including the mitigation in place within the portfolio to address energy security risks in Europe; how the varying inflation rates across Europe affected the managers investment decisions; the impact of high interest rates on the portfolio performance and how the portfolio had been adjusted to deal with a high interest environment; how the intrinsic value of companies was calculated and the managers considered all areas of energy transition, such as hydrogen when looking at potential investments.

The sub-committee thanked the representatives from Mirova for their attendance and **NOTED** the presentation and discussion.

6. **Presentation: CVC**

The Fund's Investment Advisor gave a short introduction about CVC who were a European corporate direct lending manager. They gave loans to small and medium sized businesses who required capital funding for growth and charged interest and a set up fee for these loans and this was an attractive asset class. Of concern would be if there was an economic downturn and what would happen to the companies CVC had invested in.

In this connection there was circulated to Members only Report No. INV/20/23 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Mr Daniel Bloch and Mr Andrew Davies from CVC were in attendance to give a presentation in relation to their portfolio, investment strategy and performance. In particular, reference was made to the well diversified, strong performing portfolio with environmental, social and governance considerations. The managers highlighted how they see the direct lending market develop, the robustness of the portfolio and the returns it was generating.

During discussion, several issues were discussed such as how the investments in the direct lending fund were performing and the outlook for the portfolio; what stress testing was undertaken on the portfolio and what factors could contribute to significant losses. It was highlighted that the investment process was very robust

and significant resources went into what CVC would invest in and as a result, the portfolio had seen a very robust performance.

The effect of interest rates falling on the direct lending market was discussed and how CVC could remain competitive and maintain good returns. The investment strategy was very much focused on environmental, social and governance (ESG) considerations. It was explained that companies that were ESG focused drive a positive enterprise value as they had a much happier workforce and a better way of expressing what they were doing positively for the environment and governance was far more diverse and attractive to a buyer.

Further, it was noted that managers used third party sources to rate ESG scores of companies and it was queried who was monitoring these third party sources. It was advised that there was work ongoing in the investment industry on this, but not yet concluded. Ideally there should be a set of consistent criteria to assess what investment companies were actually doing from an ESG perspective, when they claim to invest in an ESG way. Questions were asked about the process for auditing and checking ESG and Taskforce for Climate Related Financial Disclosures included in company Annual reports to ensure these were credible. Officers undertook to report back on this at a future meeting.

The sub-committee thanked the representatives from CVC 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/21/23 by the Interim Head of Corporate Finance. The report provided an update on pension fund investment matters for the quarter to 30 September, 2023 and any significant events since that date.

Following commentary on the report by the Principal Accountant, it was highlighted that the Fund's actuary, Hymans would be providing training on the actuarial valuation process in January, 2024. Also, the Fund's Investment Advisor was currently reviewing the asset allocation alongside the actuarial valuation. There would be an additional meeting of the Investment Sub Committee in February 2024 to discuss the Investment Advisor's recommendations. Following these discussions, if the strategic asset allocation was to be amended, a revised Appendix will be included in the statement of investment principles for approval at Pensions Committee on 22 February 2024.

Members expressed their thanks to the finance team for all their hard work and professionalism on pension fund matters.

The sub-committee **NOTED** the report.

(b) There was circulated to Members only Report No. INV/22/23 by the fund's Investment Advisor setting out pension fund investment performance for the quarter ended 30 September, 2023.

The Investment Advisor gave commentary on the report and highlighted key points from a markets perspective. There had been a continuation in the movement of interest rates affecting global markets. The UK equity market was

the best performing equity market over the last quarter, driven by rising commodity prices. There had been a negative return from property markets. Commentary was also provided on the individual performance of managers. Over the quarter, the Fund delivered absolute performance of -1.2% (net of fees), underperforming the benchmark on this basis. From a longer-term perspective, over the 10-year period to 30 September 2023 the Fund broadly performed in line with benchmark.

Overall there had been good performance from Managers over the quarter and where there had been negative performance the reasons for this were known.

The sub committee **NOTED** the report.

8. Inverness Common Good and Associated Funds Investment Report

There was circulated to Members only Report No. INV/23/23 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 30 September, 2023.

The Investment Advisor provided commentary on the report and highlighted that there had been a relatively moderate performance over the last quarter. Funds having more investments in UK equities had helped performance in this quarter, as the UK equity market was the best performing in the last quarter. Absolute performance was below the benchmark performance and the reasons for this were explained. Over the longer term performance was below benchmark. A further review of the manager's performance was due soon.

Reference was made to the possibility of the Council having a solar farm and it was queried if the Inverness Common Good Fund (ICGF) could invest in this which would save the Council from borrowing money from elsewhere. It was advised that a business case for this would need to be assessed, how this investment fitted with the investment strategy for the ICGF, the potential returns and risks associated with it, and the governance and legality for progressing this possible investment would all need to be determined. Further discussions on this could be held outwith the meeting.

The sub-committee **NOTED** the report.

9. Dates for Meetings 2024

The sub committee **APPROVED** the undernoted dates/times for its meetings in 2024:-

Thursday, 1 February – 10.30am

Wednesday, 20 March – 2pm

Tuesday, 28 May – 2pm

Friday, 6 September – 10.30 am

Friday, 29 November – 10.30 am

The meeting ended at 12.45 p.m.