

## THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Inverness/Remotely on Wednesday, 20 March, 2024 at 2.00 p.m.

### **Present:**

Mr C Balance	Mr P Oldham
Mr R Gale	Mrs T Robertson
Mr B Lobban	Ms E Johnston (representative from
Mr D Louden	Trade Unions)

### Officials in attendance:-

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

### Also in attendance :-

Mr K Ettles, AON, Investment Principal and Actuary  
Mr G Roberts & Ms C Erskine-Murray, Baillie Gifford (Item 5 only)  
Ms M Stueck & Mr J Helman, BentallGreenOak (Item 6 only)

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

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

Apologies for absence was intimated on behalf of Mrs M Paterson 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 24 November, 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: Baillie Gifford**

The Fund's Investment Advisor gave a short introduction about Baillie Gifford a global equity manager and their performance. In a market environment of rising interest rates, it had been a challenging period for managers such as Baillie Gifford who invested in higher growth type companies who had potential to grow their earnings. The companies that the manager invested in, still remained strong which did bring some comfort about the prospects of good performance going forward.

In this connection there was circulated to Members only Report No. INV/1/24 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Mr G Roberts and Ms C Erskine-Murray from Baillie Gifford were in attendance. The managers gave a presentation in relation to portfolio, investment strategy and performance. In particular, the manager had faced challenging market conditions in 2022 in light of sharply rising interest rates and inflation. However, there had been an improved performance in the fund in 2023 with the fund finishing the year on a real high and the momentum had carried forward into the first quarter of 2024. It was anticipated that interest rates had reached their peak and the next rate change would be downward. There was an upward trend in the growth prospects of the companies the Fund was invested in and this was reflected in improved share prices of those companies. Therefore, the manager was enthusiastic and confident in the portfolio going forward.

During discussion clarification was sought and provided on several issues including the impact of rising interest rates and stock picking affecting the performance of the fund; investments in computing and the potential for investment in artificial intelligence technology. Further, environmental, social and governance considerations were an integral part of their investment strategy by investing in companies with sustainable business practices. A climate audit of all the companies in the managers global alpha paris-aligned fund had been undertaken and the outcome would be shared with Members.

Continuing, the potential impact on US stocks of a republican win in the US elections later this year would continue to be analysed and sectors such as infrastructure and industrial should continue to be secure. The manager continued to invest in its staff and it has a well resourced investment team and experienced investment professionals.

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

## **6. Presentation: BentallGreenOak (BGO)**

The Fund's Investment Advisor gave a short introduction about BGO who are UK property debt managers that lend money to property developers to allow them to develop properties. This was an attractive sector to be investing in at present with very good returns from lending money. There was a high demand for capital and property developers were willing to pay high interest rates to secure that capital. There had been good stable returns for the fund from this investment.

In this connection there was circulated to Members only Report No. INV/2/24 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Ms M Stueck and Mr J Helman from BGO were in attendance to give a presentation in relation to the Fund's existing investment with the manager in the BentallGreenOak UK secured lending fund III. An update was provided on the performance of the investment and a market update. In particular, reference was made to a favourable market environment where there was a reduced amount of property debt availability and therefore an attractive environment for the manager to release new loans and receive good rates of interest on these loans in return. However, with interest rate rises there had been a softening of market values of properties being developed. Therefore, there was a robust monitoring process regarding each loan and asset.

During discussion, several issues were discussed such as the managers experience of defaults on loans and the process followed if this happened. They take a proactive approach to defaults and had financial covenants and business plan covenants in place that could be triggered in such instances. They would look to see how the issue could be resolved, for example, more equity could be put into the project to get it completed and enforcement action could also be taken. In the last few years, the managers had not had any principal losses or had to take over any of the assets where loans had been provided for projects.

Continuing, the manager evaluated each proposal put to them on its merits, but there were some sectors, such as office accommodation that were more challenging than others at present and the managers would be very selective in issuing loans in such sectors. The manager was confident about the UK property debt market going forward and hoped to continue to provide good returns for the fund.

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

Thereafter, an undertaking was given to get clarity from the manager on future cashflows to the BentallGreenOak UK secured lending fund III.

## **7. Investment Activity Update and Performance Report**

(a) There was circulated to Members only Report No INV/3/24 by the Head of Corporate Finance. The report provided an update on pension fund investment matters for the quarter to 31 December, 2023 and any significant events since that date.

Following commentary on the report by the Principal Accountant, it was highlighted that following the results of the Actuarial Valuation which were presented to Pensions Committee in February 2024, Officers would be working with the Investment Advisor to review the asset allocation with a view to taking recommendations to the Investment Sub Committee in May 2024.

In response to a query, the Investment Advisor confirmed that a quarter of the Fund's equity portfolio was protected and there would be a review on whether this

equity protection required to be adjusted given changes in the market environment since the equity protection was put in place.

Also, there had been an appointment to a post of Accountant and this was a welcome addition to the pensions team.

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

(b) There was circulated to Members only Report No. INV/4/24 by the fund's Investment Advisor setting out pension fund investment performance for the quarter ended 31 December, 2023.

The Investment Advisor provided commentary on the report and highlighted that the quarter had been good for all asset classes except for property, where property capital values continued to fall. The expectation of lower inflation and interest rates helped to support equity markets with the US equity market performing the best. Asset values had increased significantly over the quarter and this would continue to support the strong actuarial position. Also, over a three year period, the fund had underperformed the benchmark and over a ten year period the fund's performance was largely in line with benchmark.

Following questions on the report to which the Investment Advisor gave responses, the sub-committee **NOTED** the report.

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

There was circulated to Members only Report No. INV/5/24 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 31 December, 2023.

The Investment Advisor provided commentary on the report and highlighted that there had been positive returns in this quarter for all the funds and there had been a positive quarter for all asset classes except property. Over a five year period performance was behind benchmark although the gap had narrowed.

It was highlighted that the manager would be incorporating environmental, social and governance considerations into their investment policy. The manager would be asked to what extent they do this for the investments in the portfolio and the information would be shared with Members.

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

The meeting ended at 4.10 p.m.