

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Inverness/Remotely on Tuesday, 28 May, 2024 at 2.00 p.m.

Present:

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

Officials in attendance:-

Ms C Stachan, Pensions Manager, Resources & Finance
Ms L Harrison, Pensions Accountant, Resources & Finance
Mr D Haas, Inverness City Area Manager, Communities and Place
Mr A MacInnes, Senior Committee Officer, Performance & Governance

Also in attendance :-

Mr C Munro, Pension Fund Observer
Mr K Ettles, AON, Investment Principal and Actuary
Mr C Lyons, Client Director, LGIM (item 5 only)
Ms A Pearce, Portfolio Manager, LGIM (item 5 only)
Mr T Simpson, Client Manager, LGIM (item 5 only)

Mr D Louden in the Chair

1. Apologies for Absence

There were no apologies for absence.

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 **APPROVED**, minutes of meeting of the sub-committee held on 20 March, 2024.

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: Legal and General Investment Management

The Fund's Investment Advisor gave a short introduction about Legal and General Investment Management (LGIM) who were the Fund's passive equity and gilt manager. They were an index tracking manager in the pension fund market and were very experienced and had delivered strong results for investors over a long period of time. Ways in which the passive manager could add value to the fund were explained, such as stock lending. The manager also managed the fund's equity protection structure and were tasked with doing this in a cost effective basis.

In this connection there was circulated to Members only Report No. INV/6/24 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Representatives from Legal and General Investment Management were in attendance and gave a presentation which provided an update on LGIM; a summary of the fund's assets managed by LGIM; a review of the equity protection strategy; the Future World Global Equity Index Fund which the fund's assets were invested in and had seen significant growth since its launch in 2018. LGIM's investment stewardship activities and their climate impact pledge were also detailed.

During discussion clarification was sought and provided on several issues. In particular, the manager's environmental, social and governance (ESG) integration in their investment approach was strong and they were very active in casting votes on policies of companies. LGIM stewardship themes and ESG ratings were explained and in relation to investments in coal, oil and gas companies, the manager would engage with companies and through disclosures from them, would assess their renewable energy credentials. The manager excluded investments in thermal coal companies whose only aim was to extract coal. The managers also had regular engagement with companies on social elements to improve on in their organisations such as gender and ethnic diversity.

Continuing, the equity protection strategy that had been put in place, had been a pragmatic approach at a time of market volatility, to protect the pension fund's improved funding level. The manager's view on projections for interest rates was also sought.

The Sub-Committee thanked the representatives from Legal and General Investment Management for their attendance and **NOTED** the presentation and discussion.

6. Protected Equities Review

There was circulated to Members only Report No. INV/7/24 by the Fund's Investment advisor Aon.

In December 2022 the Fund implemented a protected global equities structure for 3 years to December 2025 to manage equity risk given the improved funding position. Since then global equities had improved which was good for the Fund and it was felt the equity protection should be reviewed in light of this. The Investment Advisor provided commentary on the report and whether action on equity protection should be taken now or not.

Following this review and for the reasons as detailed in the report, the Investment advisor's recommendation was to retain all of the current protected equity structures and review again in around 6 months.

The Sub Committee **APPROVED** the above recommendation.

7. Review of Asset Allocation

There was circulated to Members only Report No. INV/8/24 Investment Strategy Review by the Fund's investment advisor Aon, which provided Aon's advice on the future investment strategy for the Fund following completion of the Actuarial valuation as at 31 March, 2023.

The Investment Advisor provided commentary on the report during which it was noted that the Fund was in a very strong financial position. The current investment strategy supporting the accrued and future liabilities was performing well and did not need material changes. The 2023 actuarial valuation had been finalised on the current investment strategy continuing for accrued, and future accruing liabilities.

However, it was recommended that an element of reducing investment risk, was appropriate to reflect the big improvement in funding position since the 31 March 2020 actuarial valuation, as future investment returns need not be targeted at the same level as in the past. To reflect the Fund's strong funding position and the Investment Advisor's current market outlook, the Advisor recommended changes to the Fund's asset allocation.

Continuing, if the Sub Committee and Pensions Committee agreed these recommendations, the Advisor would work with Officers to recommend an implementation plan.

The Investment Sub Committee having given their support to the recommendations for a review of the Fund's asset allocation, **APPROVED** the following recommendations for inclusion in the Statement of Investment Principles which will be presented to the Pensions Committee for approval:-

- For the assets supporting the accrued liabilities c 75% of total Fund assets, and future liabilities, reduce the target strategic allocation to UK property by 2% (to be 6% of total portfolio) and increase infrastructure by 2% (to be 5.3% of total portfolio) to increase direct inflation protection and reflect Aon's current relative views on those asset classes.
- For the surplus assets of 25% of total Fund assets invest
 - 50% in index linked gilts (to take the allocation to 12.5% of total portfolio)
 - 25% in global corporate bonds (to take the allocation to 8.4% of total portfolio) and 25% in asset backed securities (to take the direct allocation to 6.3% of total portfolio).

The Sub Committee also **AGREED** that a request be made for a Special meeting of the Pensions Committee in order that the Committee can consider the Statement of Investment Principles at an early date than the next scheduled meeting of that Committee in October 2024.

8. Investment Activity Update and Performance Report

(a) There was circulated to Members only Report No INV/9/24 by the Head of Corporate Finance. The report provided an update on pension fund investment matters for the quarter to 31 March, 2024 and any significant events since that date.

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

(b) There was circulated to Members only Report No. INV/10/24 by the fund's Investment Advisor setting out pension fund investment performance for the quarter ended 31 March, 2024.

The Investment Advisor provided commentary on the report and highlighted that this had been another strong quarter for equity investments led by strong performances in sectors such as IT and artificial intelligence. There had been a negative performance on Bonds. The total asset value of the fund increased over the last quarter by delivering absolute performance of 4.9% (net of fees). The fund had underperformed the benchmark over the last 3 year period and over a 10 year period performance was in line with benchmark.

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

9. Inverness Common Good and Associated Funds Investment Report

There was circulated to Members only Report No. INV/11/24 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 31 March, 2024.

The Investment Advisor provided commentary on the report and highlighted that there had been positive returns in this quarter for all the funds. The Manager had made some minor refinements to the asset allocation in the portfolio with an increase to fixed income with a slight reduction in equity investments. Longer term, absolute performance had been positive for all funds.

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

The meeting ended at 4.20 p.m.