

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held in Council
Headquarters, Inverness/Remotely on Friday, 6 September, 2024 at 10.35 a.m.

Present:

Mr C Balance
Mr R Gale
Mr B Lobban

Mr P Oldham
Mrs T Robertson

Officials in attendance:-

Mr B Porter, Head of Corporate Finance - Corporate
Ms C Stachan, Pensions Manager - Corporate
Mr A MacInnes, Senior Committee Officer - Corporate

Also in attendance :-

Mr K Ettles, AON, Investment Principal and Actuary
Mr C Elson and Mr R Barclay - Man Group (item 6 only)
Mr J Henry and Ms C Erskine-Murray - Baillie Gifford (item 7 only)

1. Appointment of Chair

Members were advised that Mr D Louden had resigned as Chair and member of the Sub Committee and therefore Members were invited to appoint a new Chair.

Mr P Oldham was nominated by Mr B Lobban and seconded by Mrs T Robertson. There being no other nominations, Mr P Oldham was appointed Chair of the sub committee.

At this point, the Chair on behalf of the sub committee thanked Mr Louden for his professionalism and expertise during his time as chair of the sub committee, that had ensured the pension fund continued to perform very well.

2. Apologies for Absence

Apologies for absence were intimated on behalf of Mrs M Paterson, Ms E Johnston, Mr N MacDonald and Mr C Munro, Pension Fund observer.

3. Declarations of Interest/Transparency Statement

There were no declarations of interest/transparency statements.

4. Minutes of Last Meeting

There had been circulated and **Noted**, minutes of meeting of the sub-committee held on 28 May, 2024, which had been approved at the Council meeting held on 27 June, 2024.

5. 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.

6. Presentation: Man Group

The Fund's Investment Advisor gave a short introduction about Man Group who were a global investment management firm focused on delivering performance for clients through a diverse spectrum of specialist active investment disciplines. The performance of the portfolio to date had been very good and was well diversified.

In this connection there was circulated to Members only Report No. INV/12/24 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Charles Elson and Richard Barclay from Man Group were welcomed to the meeting and gave a presentation in relation to their portfolio, investment strategy and performance. The objective of the Man Group portfolio was to generate absolute returns in a cost-effective manner by allocating capital to affiliated Portfolio Managers that implement risk premia strategies. Man Group were focused on pursuing outperformance for their clients via their systematic, discretionary and solutions offerings. A market update and strategy overview and performance was provided.

During discussion clarification was sought and provided on several issues including the reasons behind the good returns in investments to date such as in macro strategies in equities, bonds, commodities and currencies and single stock equity trading which had worked well in a high interest rate environment. The investment process was explained and the importance of the managers extensive team of researchers in this process was highlighted. The portfolio was well diversified to cope with challenging markets, such as recent volatility in Japanese markets. The manager's approach to responsible investing was also highlighted.

The Sub-Committee thanked the representatives from Man Group for their attendance and Noted the presentation and discussion.

7. Baillie Gifford Global Alpha strategy report

There was circulated to Members only Report No INV/13/24 by the Head of Corporate Finance. The report had been produced following an approach by Baillie Gifford regarding their Global Alpha strategy, and a specific investment shareholding in the defence sector, which Baillie Gifford were seeking views from their clients on.

Following commentary on the report by Officers, Members were asked to consider the report, officer assessment and officer recommendations, and agree that the Highland Council Pension Fund continues to follow the standard Baillie Gifford Global Alpha strategy with no further action required.

At this point, Jon Henry and Clare Erskine-Murray from Baillie Gifford were welcomed to the meeting and in response to Members questions provided further clarification on the investment and reasons behind the approach. Members were of the view that the manager should continue with the investment given that it had met all of the managers own internal tests and noted that in future such requests about a specific investment would not be made to the Sub Committee as this was the responsibility of investment managers.

Thereafter, the Sub Committee **Agreed**:-

i that the Highland Council Pension Fund continues to follow the standard Baillie Gifford Global Alpha strategy with no further action required. In accordance with the statement of investment principles, Baillie Gifford would have full discretion to invest in stocks which meet the criteria of the investment mandate, which include the investment under discussion and continue to take environmental, social and governance considerations in their investment decisions; and

ii a letter be sent on behalf of the Sub Committee to Baillie Gifford expressing their concerns about this approach to the Sub Committee on a specific investment. The managers performance would continue to be monitored.

8. **Asset backed security manager**

There was circulated to Members only Report No. INV/14/24 by the Investment Advisor on the selection of an Asset-Backed Securities (“ABS”) manager for the Fund. The report provided an overview of ABS as an asset class and a comparison of shortlisted fund’s key characteristics and alignment with the Fund’s long-term objectives.

It was recommended that the Committee approve the HSBC Global Investment Grade Securitised Credit Bond Fund, managed by HSBC for the ABS asset allocation (6.3% of the total portfolio). The Investment Advisor explained the process Aon used to identify and short-list potential asset backed securities investment managers and the reasons for recommending the HSBC Global Investment Grade Securitised Credit Bond Fund.

Following consideration, the Sub Committee **Approved** the HSBC Global Investment Grade Securitised Credit Bond Fund, managed by HSBC for the ABS asset allocation (6.3% of the total portfolio).

9. **Investment Activity Update and Performance Report**

(a) There was circulated to Members only Report No INV/15/24 by the Head of Corporate Finance. The report provided an update on pension fund investment matters for the quarter to 30 June, 2024 and any significant events since that date.

It was highlighted that following the approval of the statement of investment principles at the Special Pensions Committee meeting in June, 2024, Officers had been working with the Fund’s Investment Advisor, Custodian and Fund Managers to develop a transition plan in order to implement the revised asset allocation. To date, good progress had been made on the transition plan.

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

(b) There was circulated to Members only Report No. INV/16/24 by the Fund's Investment Advisor setting out pension fund investment performance for the quarter ended 30 June, 2024.

The Investment Advisor provided commentary on the report and highlighted market performance; fund assets and strategic asset allocation, total fund performance and individual managers performances. Overall this had been a positive quarter for the fund and the asset value of the fund had increased. Areas of underperformance were highlighted and would continue to be monitored.

Further, the table showing the Fund's current allocation by asset class and manager required to be amended and an updated report would be circulated to the sub committee.

In terms of the direct lending market, there had been some discussion in the market about the volume of capital going into this sector. The returns for the Fund's managers in this sector had been very good to date. Private credit was a large and diverse market place and from the Fund's perspective ensuring it had a well performing manager with good resources to carry out due diligence on companies was key.

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

10. Inverness Common Good and Associated Funds Investment Report

There was circulated to Members only Report No. INV/17/24 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 30 June, 2024.

The Investment Advisor provided commentary on the report and highlighted that the funds assets over the quarter were largely unchanged. Longer term performance was relatively disappointing. The managers performance would continue to be monitored, but the sub committee may wish to undertake a more formal market review if relative performance did not improve in the coming quarters.

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

Aob – the suggestion of having a Vice Chair for the sub committee was raised but given possible changes in membership of the sub committee, this may be considered in future.

The meeting ended at 12.27 p.m.