

AGENDA ITEM 11

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held REMOTELY on Friday 25 September, 2020 at 10.30 a.m.

PRESENT

Mr R Bremner	Mr D Louden
Mrs H Carmichael	Mr P Saggars
Mr R Gale	Mr B Thompson
Mr B Lobban	Mr C Nicolson (Comhairle nan Eilean Siar)
	Mr E Macniven (representative from Trade Unions)

Non Member in attendance

Mrs C Caddick (item 8 only)

Officials in attendance:-

Mr E Foster, Head of Corporate Finance and Commercialism
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Ms C Stachan, Accountant
Mr D Haas, Inverness City Area Manager
Mr A MacInnes, Administrative Assistant

Also in attendance :-

Mr K Ettles, AON Hewitt, Investment Principal and Actuary
Ms Sarah Cockburn; Ms Naomi Green; Ms Olivia Docker – Schrodgers (item 8 only)

Mr B Thompson in the Chair

1. Apologies for Absence

An apology for absence was intimated on behalf of Mr R Fea, Pension Board observer.

2. Declarations of Interest

There were no declarations of interest.

3. Minutes of Last Meeting

The Minutes of the last meeting of the Sub Committee held on 13 March, 2020 were circulated for information and **NOTED**.

4. Exclusion of the Public

The Sub-Committee **RESOLVED** that, under Section 50A(4) of the Local Government (Scotland) Act 1973, the public be excluded from the meeting for the following items on the grounds that they involved the likely disclosure of

exempt information as defined in Paragraph 6 of Part I of Schedule 7A of the Act.

5. Investment Activity Update and Performance Report

a) Investment Activity Update Report

There was circulated to Members only Report No INV/4/20 by the Head of Corporate Finance and Commercialism which provided an update on Pension Fund investment matters for the quarter to 30 June, 2020 and details of significant events since that date.

The report also provided details on the following matters: Private Equity funding draw-down and fees; Fund Performance; Training; Investment Strategy Review; Investment Adviser fees; Vote reports; Scheme Advisory Board; and information on the Institutional Investors Group on Climate Change.

In particular, the Chair undertook to discuss with Officers and the Investment Advisor on what further information could be provided to the Sub Committee to provide clarity on private equity fees.

Thereafter, the Sub-Committee **NOTED** the content of the report.

b) Quarterly Performance Report to 30 June 2020

There was circulated to Members only Report No. INV/5/20 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 30 June, 2020.

It was reported that over the quarter the combined Fund's performance had delivered absolute performance of 12.3% (net of fees) out performing the benchmark by 0.9%. Longer term performance had been strong in absolute and relative terms with the Fund outperforming the benchmark by 0.9% p.a. and 1.2% p.a. over the 3 year and 5 year periods respectively to 30 June 2020 (before fees). The report also detailed a Market summary, Fund asset allocation, Strategic asset allocation and all the Managers investment performances.

In addition, the Investment Principal and Actuary, Mr K Ettles from AON Hewitt, gave further commentary on the report. This had been a good quarter for the Fund with returns exceeding benchmark. There had been a tremendous recovery in returns since the downturn in the last quarter due to the impact of Covid-19 on markets.

In particular, reference was made to the poor performance of UK equities over the last five years and it was advised that there was a proposal to reduce the Funds allocation to UK equities. It was felt that global equities would deliver better returns than UK equities. Further discussion related to benchmarks and whether some of these were appropriate for Managers, and the impact of Brexit on currency and how this would affect the portfolio.

Thereafter, the Sub-Committee **NOTED** the content of the report.

6. Inverness Common Good and Associated Funds Investment Report

There was circulated to Members only Report No. INV/6/20 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 30 June, 2020. During this quarter the total value of the Funds increased which also helped the longer term returns over a 5 year period.

In particular, reference was made to the last meeting of the Sub Committee where it was advised that there was to be consideration of the long term strategy for the Nairn Common Good Fund. The Head of Corporate Finance and Commercialism was to discuss this further with Councillor P Saggars and the Inverness City Area Manager out with the meeting. It was advised that Members would have the opportunity to have discussions in relation to the strategic direction of investments soon.

Thereafter, the Sub-Committee **NOTED** the contents of the report.

7. Equities Advice

There was circulated to Members only Report No. INV/7/20 by the Investment Advisor.

The Investment Principal and Actuary, Mr K Ettles from AON Hewitt provided commentary on the report which was a discussion paper on proposals for the Sub Committee to consider in relation to the Fund's equity allocation going forward. Initial views on the proposals were sought with a view to recommendations being submitted to a future meeting.

During discussion issues raised by Members included:-

- how introducing impact investing into the equity portfolio would affect the fiduciary duty to maximise returns for pension fund members;
- the qualifying factors for investors being involved in the Paris Accord in their commitment to climate change;
- the poor performance of UK equities was noted, and therefore perhaps the Fund should reduce its UK equity allocation;
- increasing the Fund's passive allocation was queried as in the longer term these investments seemed to underperform;
- with Brexit there may be a case for the Fund having an additional Active Manager;
- prior to any decisions being made on the Fund's future equity allocation, Baillie Gifford be invited to a future meeting to discuss impact investing.

Thereafter, the Sub Committee **NOTED** the report.

8. Presentation – Schroders

The Chairman welcomed Ms Sarah Cockburn, Ms Naomi Green and Ms Olivia Docker from Schroders and there was a presentation in relation to their portfolio, investment strategy and performance.

There was circulated to Members only_Report No. INV/8/20 which provided

Members with possible questions for the Managers and further information regarding the performance of the Managers.

An overview was provided on how the current market was performing, where they saw opportunities, what investments were being made and the outlook for the Council's portfolio in regards to property investment strategies. In general terms it was considered that the portfolio was well positioned despite some approaching challenging conditions in the property market.

In particular, an update was provided in relation to funds that had been re-opened following a period of suspension, the rate of redemption from these and any risks to the portfolio. Also, the impact of Covid-19 on office demand, potential of investing in European and American property assets and investing in a sustainable way going forward was discussed.

There had been a request to measure the carbon footprint of the portfolio and it was advised that information on this should be available early in 2021.

Thereafter, the Chairman thanked Ms Cockburn, Ms Green and Ms Docker for their presentation, the details of which were **NOTED**.

The meeting ended at 1.15 p.m.

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held remotely on Friday 4 December, 2020 at 10.30 a.m.

PRESENT

Mrs H Carmichael
Mr R Gale
Mr B Lobban
Mr D Louden

Mr P Saggars
Mr B Thompson
Mr E Macniven (representative from
Trade Unions)

Officials in attendance:-

Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Ms F MacBain, Committee Administrator

Also in attendance :-

Mr K Ettles, AON Hewitt, Investment Principal and Actuary
Ms Lynn Dewar and Ms Claire Erskine-Murray, Baillie Gifford (Item 7 only)

Mr B Thompson in the Chair

1. Apologies for Absence

Apologies were submitted on behalf of Mr R Bremner.

2. Declarations of Interest

There were none.

3. Minutes of Last Meeting

There had been circulated and were **NOTED**, minutes of the meeting of the Sub Committee held on 25 September, 2020.

The Chair referred to issues for follow up from the last meeting:

- the Chair had undertaken to discuss with Officers and the Investment Advisor what further information could be provided to the Sub Committee to provide clarity on private equity fees; and
- in relation to issues around the Nairn Common Good Fund, these had been discussed at a ward business meeting and some progress was being made.

4. Exclusion of the Public

The Sub-Committee **RESOLVED** that, under Section 50A(4) of the Local Government (Scotland) Act 1973, the public be excluded from the meeting for the

following items on the grounds that they involved the likely disclosure of exempt information as defined in Paragraph 6 of Part I of Schedule 7A of the Act.

5. Investment Activity Update and Performance Report

- (a) There had been circulated to Members only Report No INV/9/20 by the Head of Corporate Finance and Commercialism detailing Pension Fund investment matters for the quarter to 30 September 2020 and any significant events since that date.

Attention was drawn to the private equity and commercial real estate investment, and to training events which Members had attended, with Members urged to keep up to date with training.

Work was ongoing to finalise legal work to appoint the multi-asset absolute return fund manager, the Man Group, and it was hoped the first investment would be undertaken in January 2021.

- (b) There had been circulated to Members only report No. INV/10/20 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter ended 30 September, 2020.

The report was summarised, with an overall strong performance in Quarter 3, from the perspectives of both market returns and fund managers as a whole. Other issues covered included the market summary for the quarter to 30 September 2020, strategic asset allocation, fund asset allocation, fund performance against benchmarks, and the performance of individual fund managers.

During discussion, the following main issues were considered:

- Members commented on the overall positive return, noting there were positives and negatives in the report, with some particular examples highlighted and discussed;
- discussion took place on the allocation to equities, noting they had performed well. This allocation could be restructured in early 2021 if Members so wished. Discussion also took place on the returns from gilts and bonds; and
- consideration was given to the usefulness of analysing performance against benchmarks for a quarter rather than over the longer term, eg over 3-5 years.

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

6. Inverness Common Good and Associated Funds Investment Report

There had been circulated to Members only Report No. INV/11/20 by the Investment Advisor, which sets out Common Good and Associated Funds investment performance for the quarter ended 30 September, 2020.

The report was summarised, with a key point being that on a relative basis, all the Funds had outperformed their respective benchmarks. Attention was drawn in particular to the UK stock allocation.

During discussion, the following issues were raised:-

- the Common Good Funds' exposure UK equities was considered; and
- concern was expressed about management charges from investment in funds and it was explained that this approach provided diversification for smaller funds and while it might incur an additional layer of fees, the overall benefits of this practice were thought to be positive.

The Sub-Committee **NOTED** the report and **AGREED** that the next time the manager of the Common Good Funds presented a report to the Sub-Committee, they provide detail on the charging structure when they invested into other managers' funds.

7. Presentation – Baillie Gifford

Lynn Dewar and Claire Erskine-Murray from Baillie Gifford gave a presentation in relation to their portfolio, investment strategy and performance.

In this connection there had been circulated to Members only Report No. INV/12/20 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

During discussion the managers provided an update on the performance of the funds invested and on their investment approach. Clarification was sought and provided on several issues including the performance of the UK and Global portfolios relative to benchmark and consideration of ESG (Environmental, Social and Governance) factors when making investment decisions.

The Sub-Committee **NOTED** the presentation and answers provided to their queries.

Other Business:

A further meeting in January 2021 was proposed and it was also suggested that the format and focus of future meetings would be considered.

Members **AGREED** that an additional meeting would be held in late January 2021

8. Dates for Meetings 2021

The undernoted dates for meetings of the Sub Committee in 2021 were **AGREED:-**

Friday, 12 March

Friday, 11 June

Friday, 17 September

Friday, 19 November

All the meetings would start at 10.30 a.m.

The meeting ended at 12.55pm

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held remotely on Friday 5 February, 2021 at 10.30 a.m.

PRESENT

Mrs H Carmichael
Mr R Gale
Mr B Lobban
Mr D Louden

Mr P Saggars
Mr B Thompson
Mr C Nicolson (Comhairle nan Eilean Siar)
Mr E Macniven (representative from Trade Unions)

Officials in attendance:-

Mr E Foster, Head of Corporate Finance and Commercialism
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Ms C Stachan, Accountant
Mr A MacInnes, Administrative Assistant

Also in attendance :-

Mr K Ettles, AON Hewitt, Investment Principal and Actuary
Mr R Fea, Pension Board representative
Mr J Gibson, Pension Board representative
Mr A Knell, Robeco
Mr E Keller, Robeco

Mr B Thompson in the Chair

1. Apologies for Absence

Apologies were submitted on behalf of Mr R Bremner and Mr D Haas, Inverness City Area Manager.

2. Declarations of Interest

There were no declarations of interest.

3. Exclusion of the Public

The Sub-Committee **RESOLVED** that, under Section 50A(4) of the Local Government (Scotland) Act 1973, the public be excluded from the meeting for the following item on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 6 of Part I of Schedule 7A of the Act.

4. Investment Strategy

There was circulated to Members only Report No INV/1/21 by Aon. The report highlighted that following the most recent review of investment strategy, the Investment Sub Committee agreed to allocate 5% of the total Fund assets to a Multi Asset Credit Manager pooled fund, so as to diversify the Fund's fixed income assets and target improved risk adjusted returns from fixed income by widening the opportunity set.

Following research of the Multi Asset Credit market, Aon had shortlisted funds appropriate for the Committee to consider and key aspects of each fund were detailed.

It was recommended that Robeco is appointed Multi Asset Credit pooled fund mandate (5% of Fund's portfolio). Mr A Knell and Mr E Keller, Robeco were in attendance to give an overview of Robeco and key highlights to their approach to multi asset credit investing.

During questioning, it was advised that in a Bear Market environment, the investment strategy included using Government bonds in order to reduce risk. In terms of how the portfolio would respond to rising interest rates given the impacts this could have on the portfolio return, it was explained that different investment tools combined with flexibility in the investment strategy would be used to respond to a rising interest rate environment.

There was a growing possibility of negative interest rates and it was queried what impact this would have on the strategy. It was explained that it was important to have a diversified strategy away from domestic low yield markets to Global markets in order to broaden opportunities in order to gain higher yields and the strategy allowed this to happen.

In the last year, Governments had extended credit at a significant rate and it was queried what impact this would have on the portfolio returns. It was advised that a lot of companies had gone to the Bond market to raise capital and they were able to do so at low rates and were also benefiting from Government support. The impact of the Covid-19 on companies could lead to rising defaults on the lower quality parts of the market. Therefore, the Managers strategy was a higher quality focus that would make the portfolio less susceptible to rising defaults in some parts of the market.

Robeco's focus on sustainable development goals and Environmental, Social and Corporate Governance was a good strategy that had delivered higher returns.

Robeco were committed to the United Nations Sustainable Development goals. In this respect, it was confirmed that Robeco did not invest in any companies involved in the Arms trade or for example, companies that had a large carbon footprint as they did harm to sustainable development goals. The strategy was to create a portfolio that had a clear positive impact with social and environmental goals.

There was no investment target set for the strategy as the Managers wanted to minimise negative returns and focus on opportunities of being more flexible which was a better way of providing a consistent stream of returns. However, an important element of the strategy was that there was still risk control and risk management of the portfolio.

The Chairman thanked Mr A Knell and Mr E Keller for their presentation.

Members were supportive of the appointment of Robeco as their social sustainable development goals and Environmental, Social and Corporate Governance focus along with evidence of high returns was a good choice for the Fund.

Thereafter, the Sub Committee **APPROVED** that Robeco is appointed Multi Asset Credit pooled fund mandate (5% of Fund's portfolio).

The meeting ended at 11.25 a.m.