

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Glenurquhart Road, Inverness on Friday 6 September, 2019 at 10.30 a.m.

PRESENT

Mr R Bremner (by VC)
Mr D Louden
Mr P Sagers

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

Officials in attendance:-

Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation),
Corporate Resources Service
Ms C Stachan, Accountant, Corporate Resources Service
Mr D Haas, Inverness City Area Manager, Chief Executive's Service
Mr A MacInnes, Administrative Assistant, Chief Executive's Service

Also in attendance :-

Mr R Fea, Pension Board representative
Mr K Ettles, AON Hewitt, Investment Principal and Actuary
Mr M Ivory, Adam & Co (item 7 only)

Mr B Thompson in the Chair

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mrs H Carmichael, Mr R Gale, Mr B Lobban, Mr C Nicolson (Comhairle nan Eilean Siar), and Mr D MacDonald - Pension Board representative.

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 14 June, 2019 were circulated and **NOTED**.

Arising from the minutes the following matter was raised:-

Review of Investment Strategy for Inverness Common Good Fund – It was advised that a review of the investment strategy for the Inverness Common Good Fund was to be undertaken in consultation with Inverness City Committee Members. In this respect, a workshop was to be arranged for Inverness City Committee Members in October, 2019 and the outcome of this would be reported to the Investment Sub Committee meeting in November, 2019. The Investment Sub Committee had responsibility for the management and investment of the Common Good Fund.

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/10/19 by the Head of Corporate Finance and Commercialism which provided an update on Pension Fund investment matters for the quarter to 30 June, 2019 and details of significant events since that date.

The report also provided details on the following matters: Private Equity funding draw-down; Commercial real estate debt; Fund Performance; Training; Investment Strategy Review; Investment Adviser fees and Vote reports.

In particular, Members were requested to advise Officers on training they had received on Pension matters, as there was now a CIPFA requirement to record this.

An update was provided on the procurement of a Multi Asset Credit Manager, the multi asset absolute return fund and a private debt investment. Tenders for the three procurements would soon be issued, thereby further diversifying the Pension Fund out of equities as previously agreed by the Sub Committee.

An update was also provided on Investment Adviser fees and it was confirmed that invoices had now been received from AON Hewitt for the months of April and May, 2019.

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

b) Quarterly Performance Report to 30 June 2019

There was circulated to Members only Report No. INV/11/19 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 30 June 2019.

It was reported that over the quarter the combined Fund's performance had delivered absolute performance of 4.3% (net of fees) outperforming the benchmark by 0.8%. Longer term performance had been strong in absolute and relative terms with the Fund outperforming the benchmark by 1.7% p.a. and 1.1% p.a. over the 3 year and 5 year periods respectively to 30 June 2019 (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 and responded to a number of individual

questions.

Members discussed Managers individual investment portfolios and performances and thereafter Members welcomed the overall performance of the Fund.

In particular, it was noted that the private equity 2011 fund would be wound up in 2021 and the realisation phase had now commenced. Once the fund was closed, an analysis would be undertaken comparing performance of the private equity global value 2011 fund against other asset classes and other private equity funds of that vintage.

It was requested that a report explaining the fees for private equity be submitted to the next meeting.

Further, in relation to a loan in the property debt fund relating to a retail warehouse investment, further details on this would be provided to Councillor D Louden.

Thereafter, the Sub-Committee:-

- i **NOTED** the content of the report; and
- ii **AGREED** that a report explaining fees for private equity be submitted to the next meeting.

6. Inverness Common Good and Associated Funds Investment Report

There was circulated to Members only Report No. INV/12/19 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 30 June, 2019.

During this quarter the total value of the Funds increased. All funds outperformed their benchmarks over the quarter. Over the five year period to 30 June, 2019 the Benevolent Fund and Burial Grounds Commutation Fund were ahead of the benchmark by 1.2% p.a. and 0.6% p.a. whereas the Inverness Common Good Fund performed broadly in line with its benchmark over the five year period.

Following commentary on the report by the Investment Principal and Actuary, Members welcomed the overall performance of the Funds. In particular, reference was made to the Inverness Burial Grounds Commutation Fund which was a fund that was used to pay for upgrades to burial grounds, e.g. construction of new paths. These were additional projects not connected with the general maintenance of burial grounds funded by the Council. It was noted that there were different approaches to burial grounds maintenance in the Highland Council areas even though there was a common maintenance policy. In this respect, Community Services would be informed of Members interest in the wider aspects of burial grounds maintenance.

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

7. Presentation – Adam & Co

The chairman welcomed Mark Ivory from Adam & Co who gave a presentation in relation to their portfolio, investment strategy and performance.

In this connection there was circulated to Members only_Report No. INV/13/19 which provided Members with possible questions for the Managers.

In amplification, Mr Ivory explained that following a downturn in equity markets in the final quarter of last year, this year had seen a recovery and equity markets were again showing strong returns. Global economic growth seemed intact in 2019, although tariffs rises were causing worries over growth in China and the rest of the world. The shape of the UK stock market, interest rates and Sterling had been affected by Brexit. In this respect, the investment performance of the Portfolio as at end August, 2019 was highlighted, as were significant contributors to performance.

It was explained that there was to be a review of investment strategy of the Inverness Common Good Fund and there may be a further draw down from the Fund for future projects. Adam & Co would be informed when decisions were made on this, however at this stage the Manager was of the view that it was unlikely there would be any change to the way the portfolio was managed.

It was suggested that there be a review of the portfolios for the Nairn Common Good Fund and Inverness Common Good Fund under the management of Adam & Co in order to ensure that the portfolios investments were in line with future aspirations.

Following a question and answer session, the Chairman thanked Mr Ivory for his presentation, the details of which were **NOTED**.

Thereafter, it was **AGREED** that a report be submitted to the next meeting on a review of the portfolios for the Nairn Common Good Fund and Inverness Common Good Fund.

8. Refresher Training

A refresher training session was provided by the Investment Principal and Actuary, Mr K Ettles from AON Hewitt, which covered the following main areas:-

- Overall investment strategy - current SIP and target asset allocation.
- Reasons for the mix of managers used and particular weightings.
- Reasons for adding new managers and asset classes to the portfolio and an overview of the new asset classes and their benefits.
- Update on progress in moving towards the target asset allocation.

The meeting ended at 1.00 p.m.