

AGENDA ITEM 13ii

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Glenurquhart Road, Inverness on Friday 29 November, 2019 at 10.30 a.m.

PRESENT

Mr R Bremner (by VC)
Mr B Lobban
Mr P Saggars
Mr B Thompson

Mr C Nicolson (Comhairle nan Eilean Siar)
Mr E Macniven (representative from Trade Unions)

Officials in attendance:-

Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation),
Corporate Resources 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 N Odom-Haslett, Head of Commercial Real Estate Lending, Aberdeen Standard Investments (item 9 only)
Mr E Baird, Client Director, UK Institutional, Aberdeen Standard Investments (Item 9 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 D Louden and Mr D Haas, Inverness City Area Manager.

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 6 September, 2019 were circulated and **APPROVED**, subject to the following amendments:-

i Item 5a – Investment Activity Update Report – Fourth Paragraph, first sentence should read:- “An update was provided on the procurement of a Multi Asset Credit Manager, the multi asset absolute return fund and a private debt investment.”

ii Item 6 – Inverness Common Good and Associated Funds Investment Report – Third Paragraph, second sentence should read:- “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.”

Arising from the minutes the following matters were raised:-

i It was noted that a report had been due to be submitted to this meeting on a review of the portfolios for the Nairn Common Good Fund and Inverness Common Good Fund. Insofar as the Inverness Common Good Fund was concerned, two workshops had been held to determine the long term strategy for the whole Fund and a review of the investment strategy would take place after the strategic priorities had been identified. In relation to the Nairn Common Good Fund, consideration had been given to reviewing the investment benchmark used for this Fund. To properly progress this work the strategic priorities of the Fund required to be formalised with all Nairn Members.

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

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/14/19 by the Head of Corporate Finance and Commercialism which provided an update on Pension Fund investment matters for the quarter to 30 September, 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, it was advised that the procurement for the Fund's planned investment in multi-asset absolute return fund was progressing and currently an evaluation of responses to the tender exercise was in progress with the aim of completing this work by the end of the year.

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

b) Quarterly Performance Report to 30 September 2019

There was circulated to Members only Report No. INV/15/19 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 30 September, 2019.

It was reported that over the quarter the combined Fund's performance had delivered absolute performance of 1.5% (net of fees) under performing the benchmark by 1.1%. Longer term performance had

been strong in absolute and relative terms with the Fund outperforming the benchmark by 1.1% p.a. and 1.0% p.a. over the 3 year and 5 year periods respectively to 30 September 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 noted that overall performance of the Fund was below benchmark and this had been a challenging period for markets. However, despite this, the overall Fund had seen an increase in value from the previous quarter.

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/16/19 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 30 September, 2019.

During this quarter the total value of the Funds increased. All funds under performed their benchmarks over the quarter. Over the five year period to 30 September, 2019 the Benevolent Fund and Burial Grounds Commutation Fund were ahead of the benchmark by 0.7% p.a. and 0.1% p.a. whereas the Inverness Common Good Fund had underperformed its benchmark by 0.3% p.a.

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 significant asset allocation to Bonds in the Inverness Common Good Fund which would be earning low returns and it was queried if this weighting to Bonds in the portfolio was now appropriate. It was advised that the 30% benchmark in Bonds in the ICGF was specifically introduced to facilitate the drawdowns that the Fund was expected to make over recent years. Now that the drawdown process was close to conclusion, it would be appropriate to review the longer term strategic asset allocation and this was being discussed in terms of the current review of the long term strategy for the Fund.

It was queried if there was a need to review the asset allocation for the Nairn Common Good Fund, Inverness Benevolent Fund and Inverness Burial Grounds Commutation Fund and it was advised that the Bond allocation in these Funds was there to provide diversification. Discussion had been held with Adam & Co as to whether they had different types of investment Funds, however they advised that this was not possible and that they could only invest in conventional asset classes.

It was queried if Adam & Co had the capacity to go off benchmark in the management agreement in order to generate greater returns. It was explained that there would be limits to how far off benchmark they could go and this would be clarified and a response sent to Members.

It was advised that the Nairn Common Good Fund did not require income from their investment but sought long term growth instead. This would be included in the consideration of the long term strategy for the Fund.

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

7. Private Equity Report

There was circulated to Members only Report No. INV/17/19 by the Head of Corporate Finance and Commercialism with an explanation of the fees charged to the Pension Fund for private equity investment.

In discussion, information would be provided to Members on the reason for the difference between Fees as a percentage of investment and the Annual Charge Fee rate. This would help compare the fee Partners Group received with Gross performance over 5 years, as it was not clear if after fees their performance was above the benchmark or not. It was advised that performance fees would not be paid to the Managers if certain targets were not achieved.

Further, it was suggested that Partners Group be invited to the next meeting to discuss the private equity investment outlook. It was noted that the private equity 2011 fund would be wound up in 2021 and the realisation phase had now commenced. An analysis would be undertaken of performance of the private equity global value 2011 fund against other asset classes and other private equity funds of that vintage.

Thereafter, the Sub Committee:-

i **AGREED** to invite Partners Group to the next meeting;

ii **NOTED** that information would be provided to Members on the reason for the difference between Fees as a percentage of investment and the Annual Charge Fee rate and whether if after fees performance was above benchmark or not over 5 years; and

iii **NOTED** that there would be an analysis of performance of the private equity global value 2011 fund against other asset classes and other private equity funds of that vintage.

8. Investment Advisor Objectives

There was circulated to Members only Report No. INV/18/19 by the Head of Corporate Finance and Commercialism with an update on changes being introduced by the Competition and Markets Authority (CMA) which include new duties for trustees in setting Investment Advisor objectives.

It was explained that given this was not a review of the current Investment Advisor, but it was a review of Investment Advisor objectives as a result of a CMA Order, Members felt it appropriate that the Investment Advisor remained in the meeting for this item.

In particular, it was noted that the Pensions Regulator had also undertaken a consultation process on its guidance for trustees on the objectives and the outcome was awaited. Therefore, the objectives may require to be reviewed

when the Pensions Regulator guidance was received.

It was advised that the strategic asset allocation of the Pension Fund was reviewed in line with each actuarial valuation every 3 years, and the next review would be as at March, 2020. It was explained that there were two aspects to Investment Strategy, firstly, the long term strategic asset allocation which would not need to be assessed anymore than 3 to 5 years, and secondly, medium terms adjustments to the long term strategy.

In this respect, it was suggested that paragraph 1.3 of the Investment Advisor Objectives be amended to reflect medium term adjustments to the long term strategy to read *“Inform and update Officers and ISC of the residual risks and opportunities associated with the Fund’s investment strategy and ways to mitigate and/or take advantage of these. This may include ad hoc scenarios such as the potential impact from Brexit.”*

It was noted that the objectives were for Local Government Pension Schemes only and not Common Good Fund, but it was felt prudent that they should be.

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

i the proposed Investment Advisor objectives, subject to the amendment to paragraph 1.3 highlighted in italics above, and the process for monitoring the achievement of these; and

ii that the Investment Advisor objectives would also apply to Common Good Funds.

9. Presentation – Aberdeen Standard Investments

The Chairman welcomed Mr N Odom-Haslett and Mr E Baird who gave a presentation in relation to their portfolio (Property debt), investment strategy and performance. In particular, an overview was provided on Commercial Real Estate Lending, a market update, retail exposure and investment opportunities.

In this connection there was circulated to Members only_Report No. INV/19/19 which provided Members with possible questions for the Manager and further information regarding the performance of the Managers.

It particular, with reference to the £36m currently sitting as cash in the portfolio, it was explained that the cash balances would be required to meet investment commitments in January.

Following a question and answer session, the Chairman thanked Mr Odom-Haslett and Mr Baird for their presentation, the details of which were **NOTED**.

10. Dates for Meetings 2020

The Sub-Committee **APPROVED** the undernoted dates for meetings of the Sub-Committee in 2020:-

Friday, 13 March; Friday, 12 June; Friday, 11 September;Friday, 27 November

The meeting ended at 12.40 p.m.