

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held in Council Headquarters, Glenurquhart Road, Inverness on Friday 13 March, 2020 at 10.30 a.m.

PRESENT

Mrs H Carmichael (by VC)
Mr R Gale
Mr D Loudon (by VC)
Mr P Sagers

Mr B Thompson
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 D Haas, Inverness City Area Manager
Mr A MacInnes, Administrative Assistant

Also in attendance :-

Mr R Fea, Pension Board representative (by TC)
Mr K Ettles, AON Hewitt, Investment Principal and Actuary (by VC)
Ms C Bensen, Partners Group (item 8 only) (by TC)
Mr R Hamilton, Partners Group (Item 8 only) (by TC)

Mr B Thompson in the Chair

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mr R Bremner and Mr B Lobban.

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 29 November, 2019 were circulated and **APPROVED**.

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/1/20 by the Head of Corporate Finance and Commercialism which provided an update on Pension Fund investment matters for the quarter to 31 December, 2019 and details of significant events since that date.

The report also provided details on the following matters: Private Equity funding draw-down and fees; Commercial real estate debt; Fund Performance; Training; Investment Strategy Review; Investment Adviser fees; Vote reports; LGPS structure review consultation and information on the Institutional Investors Group on Climate Change.

In particular, information was provided on the breakdown of private equity management and performance fees by investment categories. The Head of Corporate Finance and Commercialism provided Members with commentary and an analysis of the information provided. It was highlighted that further work was required to provide clarity on the fees paid relative to performance of investments.

In relation to the private equity 2011 fund, as this fund draws to a close, it was queried if the performance fees were likely to be an increasing percentage of the Net Asset Value or would the fees become cheaper. A response to this query would be provided to Members after the meeting.

Further, an explanation was provided on how and when Managers take their performance fees. In relation to the investment fee directs in the 2017 fund, the fee for 31/3/19 looked high and it was queried if the Managers were taking a management fee when the draw down money went into the 2017 fund and if so what would that percentage fee be. A response to this query would be provided to Members after the meeting.

It was confirmed that the procurement for the Fund's planned investment in multi-asset absolute return fund was complete. Once the standstill period was complete, work would be done to finalise contracts and place funds with the multi-asset absolute return fund manager. An overview of the extensive work involved in evaluating responses to the tender exercise was provided and Members commended the work undertaken by Officers on this matter and in relation to the work involved in providing a breakdown on the private equity manager's fees.

On another matter, it was advised that the equity protection that had been put in place to protect against total return losses had been very successful.

Reference was made to a recommendation to join the Institutional Investors Group on Climate Change (IIGCC). Being a member of this Group would allow the Fund to be aligned with and contribute to one of the leading organisations challenging corporate entities over their climate change policies such as Climate 100+ which was an investor initiative to lobby the world's largest corporate organisations to reduce

carbon emissions. Members were supportive of joining the IIGCC.

It was advised that the Pensions Committee at their meeting to be held next week would be invited to consider more resources for the Council's in-house investment team, given the extra demands on the team to work on developing issues around climate change; governance and responsible investing. The additional resources would also improve resilience and knowledge within the small team.

Thereafter, the Sub-Committee:

i **NOTED** the content of the report; and that further information would be provided on private equity performance fees paid relative to performance of the individual investments and other queries raised by Members as detailed above; and

ii **APPROVED** that the Fund become a member of the Institutional Investors Group on Climate Change to facilitate participation in other initiatives and collaborations such as Climate 100 +.

b) Quarterly Performance Report to 31 December 2019

There was circulated to Members only Report No. INV/2/20 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter to 31 December, 2019.

It was reported that over the quarter the combined Fund's performance had delivered absolute performance of 2.2% (net of fees) out performing the benchmark by 0.8%. Longer term performance had been strong in absolute and relative terms with the Fund outperforming the benchmark by 1.6% p.a. and 1.1% p.a. over the 3 year and 5 year periods respectively to 31 December 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. This had been a good quarter for the Fund with returns exceeding benchmark. However, reference was made to the significant negative impact that coronavirus had on markets recently. There had been significant volatility in markets, even more so than seen at the height of the 2008 financial crises. Further, economic activity around the world had taken a significant downturn which would impact on companies and investments. It was hoped that the economic downturn would be short term and that markets would recover thereafter. However, this would depend on whether the coronavirus could be contained.

In response to a query, it was advised that as a result of recent changes in markets, the Fund's Portfolio was now fairly aligned with the strategic asset allocation target. Further details on this would be forwarded to Members. It was also requested that Pyford be invited to the next meeting to give a presentation on their portfolio.

In relation to a deferral in repayment of a loan in the property debt fund relating to a retail warehouse investment, it was confirmed that the loan

had now been repaid in full.

In relation to forthcoming triennial valuation of the Pension Fund, it was expected that the market value of the Fund's assets would be smaller as at the end of March, 2020 than otherwise would have been due to the effect of coronavirus on markets. Therefore, if the Actuary took the same assumptions as at the last valuation then it was expected that the pension fund deficit would be greater. However, it was explained that the Actuary may allow for the fall in equities and adjust the expected future return (i.e. assume higher returns on equities). In terms of contribution rates, there was a stability mechanism built in, whereby if rates were to increase for the core employers in the Pension Fund, increases in contribution rates would be limited and not increased substantially.

Thereafter, the Sub-Committee **NOTED** the content of the report and that Pyford be invited to the next meeting to give a presentation on their portfolio.

6. Inverness Common Good and Associated Funds Investment Report

There was circulated to Members only Report No. INV/3/20 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 31 December, 2019. During this quarter the total value of the Funds increased.

In particular, drawdowns from the Inverness Common Good Fund (ICGF) for major projects being undertaken in Inverness were being measured to maximise financial performance. A review was ongoing of the longer term strategic asset allocation of the ICGF. In this respect, steps had been taken to reduce revenue expenditure so as to start reinvesting in the Fund and allow equity investments to build again for the future. Inverness City Committee Members were aware that there was now less funding available for major projects.

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 and the Head of Corporate Finance and Commercialism undertook to discuss this further with Councillor P Saggars and the Inverness City Area Manager outwith the meeting.

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

7. Private Equity

The Investment Principal and Actuary, Mr K Ettles from AON Hewitt, gave a presentation on the current private equity market.

The presentation covered what private equity is and why it was believed it should continue to form part of the portfolio in future. It also considered options for investing in private equity markets; current approach to private equity and costs; potential ways to develop the private equity programme going forward and a review of the performance of Partners Group.

Following a question and answer session, the Sub Committee **NOTED** the private equity presentation.

8. Presentation – Partners Group

The Chairman welcomed Ms C Bensen and Mr R Hamilton from Partners Group to the meeting.

The Managers gave a presentation that covered a market update; Highland Council Portfolio update and overview of the three private equity investment funds performance over the past year relative to benchmark, investment strategy and performance fees.

In particular, the Managers were actively assessing what the impact, if any, of coronavirus would have on the private equity investments in the portfolio in what was now a much more volatile economic environment.

Investments which had seen good performance were highlighted, as well as investments that had detracted the overall performance of the portfolio. In this respect, it was noted that there was a difference in the portfolios performance figures between those provided by Partners Group and those provided by Northern Trust, the Fund's custodian. The Managers undertook to provide a written explanation of their understanding of the difference in performance figures.

At this point Mr B Thompson left the meeting, and the Sub Committee agreed that Mr P Saggars Chair the remainder of the meeting.

Continuing, it was queried how many companies were in the three investment funds in order to get a sense of how well diversified the overall portfolio was. In response, the portfolio was very diversified and it was estimated that there were between 300 to 500 underlying companies in the 3 Funds. An exact number would be provided after the meeting.

Reference was also made to Partners Group Responsible Investing Strategy which covered social, environmental and governance issues. Details of how environmental concerns were delivered in Partners investment strategy was provided.

Thereafter, the Chairman thanked Ms C Bensen and Mr R Hamilton for their informative presentation, the details of which were **NOTED**.

The meeting ended at 1.00 p.m.