

THE HIGHLAND COUNCIL
RESOURCES COMMITTEE'S INVESTMENT ADVISORY GROUP

Minutes of Meeting of the Investment
Advisory Group held in Council
Headquarters, Glenurquhart Road,
Inverness on Thursday 28th August,
2008 at 2.00 pm.

PRESENT

Mrs C Wilson
Mr P Cairns
Mrs H Carmichael
Mr J Ford
Mr M Rattray

Officials in attendance:-

Mr A Geddes, Director of Finance
Mr B Williams, Head of Corporate Finance, Finance Service
Mr R Niven, Principal Accountant (Treasury, Leasing & Investments), Finance
Service
Mrs A MacArthur, Acting Administrative Assistant, Chief Executive's Service

Also in attendance:

Mr M Jaffray, Hymans Robertson, Investment Consultants

Lynn Dewar, Baillie Gifford (for Presentation only)
Tom Wright, Baillie Gifford (for Presentation only)

Mrs C Wilson in the Chair

1. Pension Fund Investment Report

There had been circulated to Members only Report No INV/4/08 dated 21 August, 2008 by the Depute Chief Executive/Director of Finance which highlighted the diversification of the Pension Fund's assets under the management of Baillie Gifford, Alliance Bernstein, Legal & General and Fidelity & Schroders for the quarter ended 30 June, 2008. The report also provided information on the Managers' investment performances, measured against their respective strategic benchmarks, the details of which were noted by Members.

It was reported that the investment performance of the Combined Fund for the second quarter ended 30 June, 2008 showed an out performance of 0.08%.

Following discussion on certain specific investment activities, the Committee **NOTED** the position and **AGREED** to ask Investment Managers Alliance

Bernstein and Adam and Co to the next meeting of the Investment Advisory Group In November 2008.

2. Inverness Common Good Fund and associated Funds Investment Report

There had been circulated to Members only Report No. INV/5/08 dated 21 August, 2008 by the Depute Chief Executive/Director of Finance which highlighted the diversification of Inverness Common Good and associated Funds under the management of Adam & Company for the quarter ended 30 June, 2008. Adam & Company's investment performances, measured against their respective strategic benchmarks were also provided.

The Group were pleased to note that each of the Funds had outperformed their respective benchmarks for the quarter ended 30 June, 2008 and over one and three year periods to 30th June, 2008.

Thereafter, the Group **AGREED** that:

- i future quarterly investment reports produced by Adam & Company should be sent to Members of the Group; and
- ii the Inverness City Manager be asked to produce an explanatory report on the purpose of the Inverness Burial Grounds Commutation Fund and the Inverness Benevolent Funds, and the use of income arising therefrom.

3. Presentation by Baillie Gifford

The Chairman welcomed Lynn Dewar and Tom Wright from Baillie Gifford to the meeting and the Group were given a presentation on investment performance, which detailed welcomed out-performances of their respective benchmarks over the quarter to 30th June 2008, one year and three years. The Managers also presented on the implications of a potential move to a Global Alpha Mandate and on Baillie Gifford's approach to engagement with Companies in respect of environmental, social and governance (ESG issues).

With regard to the latter, Baillie Gifford has 4 full time analysts in an ESG Team and they advised that all Companies in which they invest are reviewed at least once a year prior to their respective AGMs. The Company became a signatory to the UN Principles for Responsible Investment in June 2007. This formalised their existing approach to ESG issues and commits them to work towards the six principles:

- Incorporate ESG issues into investment analysis.
- Be active owners and incorporate ESG issues into our ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which we invest;
- Promote acceptance and implementation of the Principles within the investment industry;
- Work together to enhance our effectiveness in implementing the Principles.

- Report on our activities and progress towards implementing the principles.

Baillie Gifford became FSC compliant in 2008.

The Managers then gave examples of their recent engagement and research with Angang Steel Company, Microsoft, Petrochina and Genus.

Recent research had gone into mining, supply chains and governance. The current topics under research were emerging markets, water shortages and biofuels, and carbon storage.

The Chair thanked both Lynn Dewar and Tom Wright for their presentations.

4. Presentation by Hyman's Robertson, Investment Consultants

The Chairman welcomed Mr Mark Jaffray, Senior Investment Consultant from Hyman's Robertson, Investment Consultants to the meeting and the Group were given a presentation on their recommended structural changes to the Pension Fund; these were:

- to implement a change in the Fund's UK:Overseas split of the equities (from 60:40 to 50:50);
- to alter both Baillie Gifford's and Alliance Bernstein's benchmarks for their overseas equities to one based on market capitalisation; and
- to alter the Fidelity bond benchmark to a broader benchmark.

After discussion the Group **AGREED TO RECOMMEND** the following detailed structural changes for the Fund;

- To alter Baillie Gifford's mandate such that they would transfer all their overseas equities into their Global Alpha product (but maintain their UK:overseas split at circa 64:36).
- To alter Alliance Bernstein's mandate such that they would change their benchmark to a fully global market capitalisation index (MSCI All Countries All World Index). Whilst the benchmark would change, the mandate would remain a Global Diversified Value product.
- Both Baillie Gifford and Alliance Bernstein are to be transitioned into their new benchmarks at broadly the same time (with a gap of several weeks to spread some of the trading – the Managers to be instructed to manage the transition to their new benchmarks, with suitable monitoring and benchmarks over the transition period).
- Fidelity to split their bond mandate 50:50 between their UK Aggregate Fund and Sterling Core Plus Fund. Fidelity to undertake the transition at relatively small cost (estimated at 5bps) due to the fact that bond transfers can be largely transitioned in specie.
- To consider a potential allocation from the Fund to alternative assets at a later date.

5. Highland Council Pension Fund – Socially Responsible Investment

There had been circulated to Members only Report No INV/7/08 dated 16 July 2008 by the Depute Chief Executive/Director of Finance which provided details

on the Council's and its Elected Members' roles and responsibilities regarding the administration of the Highland Council Pension Fund. The report also detailed the Fund's current investment policy on social, environmental and ethical considerations and examined possible alternative policies in this regard.

The Committee **AGREED TO RECOMMEND** keeping the Pension Fund's current policy of company engagement on social, environmental and ethical considerations and to extend this policy to cover the Council's Common Good Funds and Associated Funds. The Group considered this to provide an effective means of securing the best financial interests of Fund beneficiaries, contributing employers and council taxpayers.

6. Global Securities Lending Report

There had been circulated to Members only Report No INV/8/08 by the Depute Chief Executive/Director of Finance which provided an update on the implementation by the Pension Fund of a global securities lending programme following the outcome of a meeting of the Financial Services Agency (FSA) in June 2008. The report recommended that Members agree to proceed with the previously agreed global securities lending programme with the Fund's Global Custodian, Northern Trust Ltd and the Group **AGREED TO RECOMMEND** accordingly.

7. Date of Next Meeting

The Group **NOTED** that the next meeting would be held in Committee Room 2, Council Headquarters, Glenurquhart Road, Inverness on Friday 21st November 2008 at 2.00 pm.

The meeting ended at 4.30 pm