

**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 Friday 21 November,  
2008 at 2.00 pm.

**PRESENT**

Mrs C Wilson  
Mr M Rattray  
Mr J Ford

Officials in attendance:-

Mr A Geddes, Depute Chief Executive  
Mr B Williams, Head of Corporate Finance, Finance Service  
Mr R Niven, Principal Accountant (Treasury, Leasing & Investments), Finance  
Service  
Mr D Haas, Inverness City Manager, Chief Executive's Service  
Mr A MacInnes, Administrative Assistant, Chief Executive's Service

Also in attendance:

Mr Graeme Griffiths ) Alliance Bernstein Institutional Investments (item 4 only)  
Ms Frances Smyth )

Mr Robin MacAdam ) Adam & Company (item 5 only)  
Ms Amanda Forsyth ) Adam & Company

**Mrs C Wilson in the Chair**

**1. Apologies for Absence**

An apology for absence was intimated on behalf of Mrs H Carmichael.

**2. Exclusion of the Public**

The Group **RESOLVED** that under Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for this 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.

**3. Pension Fund Investment Report**

There had been circulated to Members only Report No INV/9/08 dated 6 November, 2008 by the Depute Chief Executive which highlighted the diversification of the Pension Fund's assets under the management of Baillie Gifford, Alliance Bernstein, Legal & General, Fidelity and Schrodgers for the quarter ended 30 September, 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 September, 2008 showed an under performance against its benchmark of 2.84%. Over the one year period the Fund had under performed the benchmark by 3.56% and over 3 years the Fund also trailed the benchmark by 1.11%.

It was advised that all the Managers had a difficult last quarter due to the severe economic downturn and current volatility in stock markets. In particular stock selection was key to the underperformance over the quarter with every Equity region contributing negatively. Poor property selection also added to the deficit and asset allocation also had a negative impact.

In terms of the structural changes to the Pension Fund agreed at the last meeting and approved by the Resources Committee at their meeting held on 1 October, 2008, it was advised that both Fidelity and Baillie Gifford had completed the transition to their new mandates. Alliance Bernstein had still to carry out their transition and this would be discussed with them later in the meeting.

In response to a query, the Depute Chief Executive undertook to check the Government's proposals for pensions' increases for 2009/10 and to establish the extent to which these increases may generate any additional budgetary pressures.

Following discussion on certain specific investment activities, the Group **NOTED** the position.

#### **4. Presentation by Alliance Bernstein Institutional Investments**

The Chairman welcomed Frances Smyth and Graeme Griffiths from Alliance Bernstein to the meeting and the Group were given a presentation on investment performance to-date, market outlook and investment strategy.

In the presentation, the Managers explained the approach taken by Alliance Bernstein in their investment strategy and also their future approach to investments.

The Managers explained what they had done and why in relation to specific investments. They acknowledged that they had experienced a difficult last year in terms of investment performance and had modified their investment risk model as a result. This had been a very difficult period for equity investments. Overall the economic outlook had deteriorated and 2009 was projected to be a difficult year for the economy. However, corrective market forces were developing, investment opportunities were increasing and Alliance Bernstein were responding to this. Therefore they were positive about the future outlook for the Portfolio and the potential for their style of investing was good.

In terms of the structural changes to the Fund and Alliance Bernstein's transition to their new mandate, the Managers advised that, given current market volatility, the timing of the transition was critical if it was to be carried

out with minimal risk to the Portfolio. They continued to be in favour of the objectives of the new mandate, but wished to discuss with officers of this Group the overall perspective, before carrying out their own transition. In this respect, they undertook to liaise with Finance Officials early next week to go over their proposals and thereafter would make the transition to the new mandate at an appropriate time.

The Chair thanked both Frances Smyth and Graeme Griffiths for their presentation.

## 5. **Inverness Common Good Fund and associated Funds Investment Report**

There had been circulated to Members only Report No. INV/10/08 dated 6 November, 2008 by the Depute Chief Executive which highlighted the diversification of Inverness Common Good and associated Funds under the management of Adam & Company for the quarter ended 30 September, 2008. Adam & Company's investment performances, measured against their respective strategic benchmarks were also provided.

The Group were advised that each of the Funds had under performed their respective benchmarks for the quarter ended 30 September, 2008. However, over the three year period to 30<sup>th</sup> September, 2008, each of the Funds had significantly outperformed their benchmarks.

The Chairman welcomed Amanda Forsyth and Robin MacAdam from Adam & Company Investment Management Ltd to the meeting and the Group were given a presentation on the background to Adam & Company; their investment strategy and objectives; Funds under their care; performance to-date and market outlook. Over the last five years, growth in each of the Funds was favourable and the Managers were confident about their investment strategy and that it would produce favourable returns for the Portfolio in future.

The Managers also sought permission to re-invest income from the Burial Grounds Fund and Benevolent Funds with the aim of achieving greater returns than at present. Having considered this, the Group approved this approach.

In discussion, it was noted that currently no ethical investment restrictions were placed on the Manager. In this respect, the Head of Corporate Finance informed the Managers that the Council had recently reconfirmed their agreement to 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 Head of Corporate Finance undertook to forward a copy of this policy to the Managers.

The Managers were also informed that the Council's authorised signatories for dealing with financial transactions required to be reviewed. Once Committee approval had been received for this, the Managers would be formally notified.

Thereafter, the Group :

- i **NOTED** the report and the presentation;
- ii **NOTED** that the Council's Policy on Socially Responsible investment

- would be sent to Adam and Company for immediate application to the Funds under their management;
- iii **NOTED** that Adam and Company would be informed of the Council's new signatories for Banking arrangements once approved by Resources Committee;
  - iv **AGREED TO RECOMMEND** that income from the Inverness Burial Grounds Commutation Fund and Inverness Benevolent Funds should be re-invested with the aim of achieving greater returns; and
  - v **AGREED** that the Group should meet Adam and Company again in approximately 6 months time or as otherwise required.

The Chairman thanked both Amanda Forsyth and Robin MacAdam for their presentation.

## 6. **Inverness Burial Grounds Commutation Fund and 1<sup>st</sup> and 2<sup>nd</sup> Benevolent Funds**

There had been circulated to Members only Report No. INV/11/08 dated 8 November, 2008 by the Inverness City Manager which detailed the latest financial position and claims made against the Inverness Burial Grounds Commutation Fund and 1<sup>st</sup> and 2<sup>nd</sup> Benevolent Funds, as well as giving some background to their origins.

Following a summary of the report by the Inverness City Manager, the Committee **NOTED** the contents of the report.

Also, now that the governance of the Inverness Common Good Fund and associated Funds had been transferred to the Investment Advisory Group, it was **AGREED** that quarterly performance reports on the performance of these Funds should be submitted to the Inverness City Committee for information following consideration of the Group's minutes by the Resources Committee.

## 7. **Dates for Meetings in 2009**

The Group **APPROVED** the undernoted dates and times for their meetings in 2009.

27 February  
22 May  
28 August  
13 November

All the meetings would be held at Council Headquarters, Glenurquhart Road, Inverness and would commence at 2p.m.

The Group also **AGREED** to ask Investment Managers Schrodgers to the next meeting of the Group on 27 February, 2009.

## 8. **Any Other Competent Business**

### Structural Changes to the Pension Fund

The Head of Corporate Finance advised that Baillie Gifford, Fidelity and

Alliance Bernstein were required to submit update reports on the transition to their new mandates. The reports would include information on costs and performance associated with the transition.

With regard to transition activities yet to be completed, and other potential future transition considerations including alternative assets such as private equity and active currency funds, The Head of Corporate Finance undertook to discuss this issue in the first instance with the Council's Investment Consultant's Hymans Robertson and an early meeting of the Group could be arranged to discuss the matters further.

The meeting ended at 4.20 pm