

## AGENDA ITEM 12i

### THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held remotely on Friday 12 March, 2021 at 10.30 a.m.

#### PRESENT

Mr R Bremner  
Mrs H Carmichael  
Mr R Gale  
Mr B Lobban  
Mr D Louden

Mr P Saggars  
Mr B Thompson  
Mr C Nicolson (Comhairle nan Eilean Siar)  
Mr E Macniven (representative from Trade Unions)

#### Officials in attendance:-

Mr E Foster, Head of Corporate Finance and Commercialism, Resources & Finance Service  
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation), Resources & Finance Service  
Ms C Stachan, Accountant, Resources & Finance Service  
Mr A MacInnes, Administrative Assistant, Performance & Governance Service

#### Also in attendance :-

Mr K Ettles, AON Hewitt, Investment Principal and Actuary  
Mr C Lyons, Mr R Lubbock, Mr A Pearce, Legal and General Investment Management (Item 8 only)  
Mr R Fea, Pension Board observer  
Mr J Gibson, Pension Board observer

#### **Mr B Thompson in the Chair**

#### **1. Apologies for Absence**

Apologies for absence were intimated on behalf of Mrs C Caddick, Pension Board Member and Mr D Haas, Inverness City Area Manager.

#### **2. Declarations of Interest**

There were no declarations of interest.

#### **3. Minutes of Last Meeting**

There had been circulated , minutes of the meeting of the Sub Committee held on 4 December, 2020 and 5 February, 2021, the terms of which were **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) There had been circulated to Members only Report No INV/2/21 by the Head of Corporate Finance and Commercialism detailing Pension Fund investment matters for the quarter to 31 December 2020 and any significant events since that date.

Attention was drawn to the Investment Strategy Review and that work was ongoing to finalise legal work by end March, 2021 to appoint the multi-asset absolute return fund manager, the Man Group. The Fund had also appointed Robeco to manage the Fund's multi-asset credit mandate and Officers were completing the onboarding process.

In relation to Investment Advisor fees, given the uncertainty at the start of year as to the level of input that will be required from the Investment Advisor, setting a budget for Advisor fees was difficult. The more involvement of the Investment Advisor the larger the fees would be.

The Sub Committee **NOTED** the report.

- (b) There had been circulated to Members only report No. INV/3/21 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter ended 31 December, 2020.

The report was summarised, with an overall strong performance in Quarter 4, across all asset classes. The main reasons for this strong performance were developments in Covid-19 vaccines, a relatively smooth transition of power in the US following the Election and a UK agreement with the EU for the trade of goods. Other issues covered included the market summary for the quarter to 31 December 2020, strategic asset allocation, fund asset allocation, fund performance against benchmarks, and the performance of individual fund managers.

Members commented on the overall positive return and individual Manager performances with some particular examples highlighted and discussed.

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

## 6. Inverness Common Good and Associated Funds Investment Report

There had been circulated to Members only Report No. INV/4/21 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 31 December, 2020.

The report was summarised, with a key point being that all the Funds had delivered strong absolute performance in this quarter. Over a five year period, all

of the Funds that had been in place that long, had outperformed their benchmarks.

It was noted that the final quarter showed respectable returns on the back of under performance in previous quarters and compared to the performance of Pension Fund investments, returns were disappointing. It was therefore suggested that other alternative management arrangements for the Inverness Common Good and Associated Funds be considered and possibly other Areas Common Good Funds also. The Head of Corporate Finance and Commercialism undertook to have initial discussions with the Investment Advisor to look at options for undertaking this work and feedback provided to Area Chairs for Inverness and Nairn who had significant Common Good investments. If the cost of this work was to be significant, approval would need to be sought at the relevant Area Committee. The Tain and Dornoch Common Good Funds may also wish to be included in this work, but this would need to be discussed by Ward Members.

Thereafter, the Sub-Committee:-

i **NOTED** the report; and

ii **NOTED** that the Head of Corporate Finance and Commercialism undertook to have discussions with the Investment Advisor to look at options for alternative management arrangements for the Inverness Common Good and Associated Funds.

## **7. Equity Strategy Implementation**

There was circulated to Members only Report No. INV/5/21 by the Investment Advisor with recommendations for the Equity Strategy Implementation.

It was noted that at the Investment Sub-Committee meeting on 25 September, 2020, the Sub Committee considered Aon's discussion paper on the Fund's Equity Portfolio. The Fund's Officers had asked Aon to provide recommendations to the Officers and the Sub Committee on the implementation of the evolution of the equity portfolio taking account of discussion at that meeting, discussions at subsequent Sub Committee meetings, the continued performance of the Fund's equity funds and Aon's current outlook for equity markets and equity management styles. It was understood that the Sub Committee wished to have a more direct impact on environmental and social matters where this does not impact on expected investment returns, and this had been factored that into Aon's recommendations.

There was a commentary by the Investment Advisor on the report, during which a number of points of clarification were answered.

It was highlighted that a report was being submitted to the Pensions Committee/Pension Board meeting next week on the Statement of Investment Principles. While it was not proposed to change the various asset classes an increased breadth of investments was being considered. The 2020 Actuarial

Valuation showed that the Pension Fund was 100% funded which was great news. The key was diversification in investments, the need to preserve and increase asset values and to ensure there was enough cashflow to pay pension benefits when they were due. It was expected that the Fund would be marginally cashflow negative over the coming years, however it was anticipated that investment returns from equities would be substantially above this negative cashflow.

Continuing, when considering any investment, there was a need to ensure it was the right type of Investment to get the best return and there was no expectation of diminished performance within the recommendations set out in the report. A workshop would be held later in the year with a view to developing and publishing a Responsible Investing Policy Statement that was consistent with the Fund's fiduciary duty.

Further, there was a pressure on staff resources and at the Pension Committee/Board meeting there was a proposal to increase staffing in the Investment team, to build resilience into the team, to help manage the process and changes in investments and oversee the increased number of Investment Managers of the Pension Fund.

An explanation was provided in relation to Investment Manager fees with it being noted that in most cases fees were based on the value of assets and that active Managers were the more expensive type of Management and passive Management at the lower end of the scale of Manager fees.

It was highlighted that the recommendations would not be higher risk and in terms of the over Fund position there was a desire for returns to be stable across all assets in the portfolio.

Thereafter, the Committee considered the recommendations and decided as follows:-

i **AGREED** to reduce the future equities allocation to 56% of total Fund assets, and Baillie Gifford UK equities to 15% of this future allocation to equities by disinvesting circa £200m to fund the new investments in infrastructure and private credit;

ii **AGREED** to disinvest fully from the Pyrford holding in the Pension Fund;

iii **DECLINED** the recommendation to disinvest circa £100m from Baillie Gifford Global Alpha global equities portfolio and to reduce Baillie Gifford Global Alpha global equities to 35% of the future allocation to equities, so that overall Baillie Gifford manage 50% of the future allocation to equities.

**AGREED** that a report be submitted to a future meeting with an alternative to this recommendation.

iv **AGREED** that a new Investment Manager is identified to manage the proceeds from the disinvestment in Pyrford, with the amount to be invested with the new

Manager to be decided at a future meeting. The investment with the new Manager would be in Global Equities with quality and Responsible Investment /Impact Investment focus that complement the long term growth investment style of Baillie Gifford, and thus increase diversification of manager risk.

v **DEFERRED** recommendation 5 to a future meeting, namely, explicit protection of an additional £290m of global equities via LGIM protected equities, broadly benchmarked to MSCI ACWI, so protected equities are £390m so 30% of the future allocation to equities.

vi **AGREED** that 100% of the Baillie Gifford Global Alpha equities be invested in the Baillie Gifford Global Alpha Paris Accord equities and to monitor the performance of both variants.

Thereafter, reference was made to non voting members on the Sub-Committee and it was advised that it was the Highland Council that had legal responsibility for the administration of the Pension Fund and therefore Comhairle nan Eilean Siar and Trade Union representatives on the Sub Committee were not voting members. The Head of Corporate Finance and Commercialism undertook to explore the options to change this. Members were supportive of this action.

*At this point, the meeting was adjourned for a short comfort break and the meeting resumed at 12.55 p.m.*

## **8. Presentation – Legal and General Investment Management**

Chris Lyons, Richard Lubbock and Alex Pearce from Legal and General Investment Management (LGIM) were in attendance to give a presentation in relation to their portfolio, investment strategy and performance.

In this connection there was circulated to Members only\_Report No. INV/6/21 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

During discussion the managers provided an update on the performance of the funds invested and on their investment approach. Clarification was sought and provided on several issues including LGIM approach to passive management and how they add value for clients; how the equity protection structure had been managed and their approach to responsible investing.

Further information would be provided in relation to tracking error and impact on performance; rising US Treasury Bond Yields and impact of strengthening US Dollar on emerging markets.

The Sub-Committee **NOTED** the presentation, the answers provided to their queries and further information to be provided.

The meeting ended at 1.40 pm