

**THE HIGHLAND COUNCIL**

Minutes of Meeting of the **Investment Sub Committee** held remotely on Friday 11 June, 2021 at 10.30 a.m.

**PRESENT**

Mrs H Carmichael  
Mr R Gale  
Mr D Louden  
Mr P Saggars

Mr B Thompson  
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 D Haas, Inverness City Area Manager  
Mr A MacInnes, Administrative Assistant, Performance & Governance Service

Also in attendance :-

Mr K Ettles, AON Hewitt, Investment Principal and Actuary  
Mr C Elson, Mr R Barclay and Ms S Sharmer from Man Group (Item 7 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 Mr R Bremner, Mr B Lobban and Mr C Nicolson.

**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 12 March, 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/7/21 by the Head of Corporate Finance and Commercialism detailing Pension Fund investment matters for the quarter to 31 March, 2021 and any significant events since that date.

Attention was drawn to the opportunities for training that were available to Members and that the Fund had appointed a multi-asset absolute return fund manager, the Man Group and representatives from the Man Group would be present later in the meeting to give a presentation. Also, the Fund appointed Robeco to manage the Fund's multi-asset credit mandate and Officers had now completed the onboarding process.

The report also set out a recommendation for members to consider regarding the potential commitment to Partners Group Global Direct Equity 2019 Fund which would be required in order to achieve the 5% private equity target allocation approved by the Pensions Committee in March 2021.

In particular, discussions were underway with Partners Group to set up a Highland Council Managed Account which would be a way that all of the Fund's private equity holdings could be managed together, and additional contributions could be added outwith the triennial cycle of fund raising. It was explained that the advantage of a managed account would be to remove the triennial requirement for the Sub Committee to make decisions on investing in funds and enable Partners Group to make investments on an ongoing basis in order to maintain the allocation to 5% private equity target allocation. Officers would give consideration to increasing this investment on an ongoing basis to ensure the allocation was maintained or whether to subscribe to any new private equity funds.

The Committee **AGREED**:-

- i) to commit an amount of €55m to the Partners Group Global Direct Equity 2019 Fund and;
- ii) to commit €20m Euro to a Partners Group managed account to allow investment in secondary and primary funds.

in order to maintain the 5% target asset allocation to private equity as approved by Pensions Committee in March 2021.

Infrastructure Manager Selection – there had been circulated a late paper by the Fund's Investment Advisor on the progress of the appointment of an Infrastructure Manager to manage 5% of the Fund's assets. There were benefits to the fees associated with this type investment and an early sign

up to the investment would give favourable terms, therefore the Committee were asked to give urgent consideration to the report.

It was highlighted that following the most recent review of investment strategy the Sub Committee agreed to allocate 5% of the total Fund assets (c. £120m initially, based on current total Fund assets) to infrastructure equity to provide further diversification, reducing overall portfolio risk; access attractive risk adjusted returns; and provide regular income to help pay benefits as the Fund becomes cashflow negative.

The Investment Advisor gave a presentation on the key points relating to Infrastructure as an asset class and the key aspects of the Infrastructure fund being recommended and a comparison with another shortlisted Manager.

In discussion, Members raised questions and received responses to:- the length of time to get returns on greenfield projects and how would government legislation affect these returns in any part of the world; that the recommended investment might not be called upon for some time and what would happen to the investment in the meantime; exchange rates and fee structure. Reference was also made to local infrastructure projects and whether there was potential in exploring opportunities and investigating options for Highland Infrastructure investments. The advantages and disadvantages of this were discussed and it was also highlighted that there was an ongoing Scottish Government Capital Spend Review and one of the aspects of this was investing in Scotland. The outcome of this review would be advised in due course.

Thereafter, the Sub Committee **AGREED** to invest 5% of the total Fund assets (c. £120m, based on current Fund assets) to infrastructure equity in the KKR fund.

- (b) There had been circulated to Members only report No. INV/8/21 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter ended 31 March, 2021.

The report was summarised, with an overall strong performance in Quarter 1. The Fund's allocation and overweight position to equities was the largest contributor to relative performance as global equity markets overall continued to perform well. Longer term performance of the Fund also remained strong. Other issues covered included the market summary for the quarter to 31 March, 2021, strategic asset allocation, fund asset allocation, fund performance against benchmarks, and the performance of individual fund managers.

An update was provided on the staff resources available to manage the pension fund. Reference was made to the Pensions Committee meeting in March, 2021 at which the Committee approved a Pension Fund staffing structure that would add more staff resources to pension fund matters. It was intended to implement some of the revised structure over the summer

period and there would be a further review to ensure that the resources were sufficient.

Members commented on the overall positive return and individual Manager performances with some particular examples highlighted and discussed. In particular, reference was made to risks with rising corporation tax rates and Brexit; performance of fixed interest investments; stimulus in infrastructure and other spending in the US.

Thereafter, 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/9/21 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 31 March, 2021.

The report was summarised, with a key point being that there had been a significant disinvestment from the Common Good Fund in Quarter 1. All the Funds had delivered positive absolute performance in this quarter, however all underperformed their benchmarks to varying degrees.

In particular, it was highlighted that the capital spend on the 2 remaining projects (Victorian Market and Town House) for the Inverness Common Good Fund was making good progress and once concluded rebuilding investments in the Fund would continue and it would be an appropriate time to assess the investment strategy of the Fund.

A point was made that the Investment Manager was using other funds to invest in, so in effect the Pension Fund was paying double fees and in addition fees were being paid to them for holding cash. A commitment was given by Officers to discuss this issue with Nairn Committee members at a Ward Business meeting to ensure that the investment strategy of the Nairn Common Good Fund fits with local needs and efficient use of money.

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

## **7. Presentation – Man Group**

Mr C Elson, Mr R Barclay and Ms S Sharmer from Man Group were in attendance. Man Group were a global investment management firm focused on delivering performance for clients through a diverse spectrum of specialist active investment disciplines.

In this connection there was circulated to Members only Report No. INV/10/21 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

In a presentation to the Committee, an overview was provided of the Man Group investment team; the investment approach, investment strategy, performance to date and their approach to responsible investing.

During discussion clarification was sought and provided on several issues including investment strategy, changes within the investment team and whether there was an impact on investment philosophy, benchmark of performance and return to work arrangements following Covid lockdowns

Thereafter, the Sub-Committee thanked the Man Group representatives for their attendance and **NOTED** the presentation.

The meeting ended at 1.10 pm