

AGENDA ITEM 11iii

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held remotely via Microsoft Teams on Friday 17 December, 2021 at 10.30 a.m.

PRESENT

Mr R Bremner
Mrs H Carmichael
Mr R Gale (Chair)
Mr B Lobban

Mr D Louden
Mr P Saggars
Mr E Macniven

Officials in attendance:-

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, Communities and Places Service
Mr A MacInnes, Administrative Assistant, Performance & Governance Service

Also in attendance :-

Mr K Ettles, AON, Investment Principal and Actuary
Mr R Fea, Pension Board observer
Mr J Gibson, Pension Board observer
Ms N Green, Mr P Myles, Mr P Bone , representatives of Schroders (Item 7 only)

1. Apologies for Absence

There were no apologies for absence.

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 19 November, 2021 the terms of which were **APPROVED**.

Arising from the minutes, it was confirmed that should urgent decisions be required to be made in the period from the Local Government Elections in May, 2022 to the first meeting of the Investment Sub Committee in October, 2022, these would be delegated to Officers and any decisions made, would be reported to the first meeting of the Sub Committee after the Election.

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. **Aon Report: Equity Strategy Update**

There was circulated to Members only, Report No. INV/14/21 by Aon on the approach to future equity manager selection.

The Investment Advisor provided the background regarding discussions and the implementation options discussed regarding responsible investing during workshop sessions with the Pension Committee/Pension Board and Investment Sub Committee members. A recap of the active versus passive investment management split that had been decided at the last meeting was also provided. Members were asked to consider a recommendation for the next steps in the equity manager selection exercise to incorporate responsible investment beliefs in the Fund's new global equity allocation.

Following consideration, the Sub Committee **APPROVED** the approach to the equity manager selection as detailed in the report.

6. **Aon Report: Nairn Common Good Fund and Associated Funds Options**

There was circulated Report No. INV/15/21 by Aon on Nairn Common Good Fund and Associated Funds options.

The Sub Committee had asked Aon to outline the impact on expected return and risk if different asset allocation benchmarks were adopted for the Nairn Common Good Fund. Also consideration was to be given to the Investment Manager's performance across all Funds.

The report provided a recap of the investment strategy of the Funds, a review of the Investment Manager's performance and the risk and return of adopting different benchmarks for the Nairn Common Good Fund.

Members noted that returns in the Funds had grown and that the Investment Manager had delivered excess returns which was welcomed. There would be challenges in equity markets going forward such as with the impact of inflation and interest rates were starting to increase. However, the proposals put forward by Aon were supported as they should provide longer term growth for the Funds.

In terms of transaction costs associated with moving from Fixed income to alternative assets, it was advised that the extra returns of moving to a Multi Asset Fund from Fixed income, would more than compensate for transaction costs incurred.

In respect of the programme Nairn had for its common good fund over the next few years, the proposals were supported, as the fund was in a period of consolidation and it was building its asset base.

It was suggested that the proposed review period for the increased equities provision and Investment Manager performance be extended from 12 months to 24 months so as to give a longer period to assess performance, noting that there would be less formal reviews in the interim.

In terms of the cash holding in the Nairn Common Good Fund, under the proposals this would effectively be removed and invested but that the Manager would have flexibility to allocate to cash or bonds if they had concerns over equities.

Thereafter, the Sub Committee:-

i **AGREED** to retain the Investment Manager for now given the evidence of adding outperformance;

ii noting that Nairn Common Good Fund wish to take a longer term growth orientated approach, **AGREED** to remove the Fixed Income (Cash and Bonds) from the benchmark, though maintain the allocation to equities at this point by moving to a longer term benchmark of 75% equities: 25% Multi Asset Absolute Return. The Investment Manager would have flexibility to allocate to cash or bonds if they had concerns over equities;

iii **NOTED** that if the Sub Committee were concerned about short term volatility, they could reduce Equities to below 75% until there is greater certainty of Omicron's impact.

iv **AGREED** that within Equities, all Funds move to a Global approach with a 50% currency hedge.

v **AGREED** in 24 months time to review – a) the benchmark allocation with a view to considering whether increased Equities position is appropriate given the market outlook and b) the Investment Manager's performance against the new benchmark.

7. Presentation: Schroders

Naomi Green, Paul Myles and Patrick Bone from Schroders were in attendance to give a presentation in relation to their portfolio, investment strategy and performance.

In this connection there had been circulated to Members only Report No. INV/16/21 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

The Managers provided an overview of the real estate market, their portfolio overview and performance and environmental, social and governance considerations when investing.

Following a question and answer session, the Chairman on behalf of the Sub Committee thanked the representatives from Schroders for their presentation.

8. Investment Activity Update and Performance Report

a) There was circulated to Members only Report No INV/17/21 by the Head of Corporate Finance and Commercialism. The report provided an update on Pension Fund investment matters for the quarter to 30 September, 2021 and any significant events since that date.

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

b) There was circulated to Members only Report No. INV/18/21 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter ended 30 September 2021.

In particular, it was highlighted that there had been a significant cash holding for some time in the commercial real estate debt fund which was returning 0% p.a. It was advised that the Managers had recently made a couple of new loans in the last quarter and so were still investing but at a slower rate than expected.

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

9. Inverness Common Good and Associated Funds Investment Report

There was circulated to Members only Report No. INV/19/21 by the Investment Advisor, which sets out Common Good and Associated Funds investment performance for the quarter ended 30 September 2021.

It was highlighted that the Funds had all delivered positive absolute performance over the quarter. Over the longer term (3 year and 5 year periods) all Funds outperformed their respective benchmarks and delivered excess returns.

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

The meeting ended at 12.10 p.m.