

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held remotely on Friday, 25 February, 2022 at 10.30 a.m.

PRESENT

Mr R Bremner (part of meeting only)	Mr B Lobban
Mrs H Carmichael	Mr D Louden
Mr R Gale	Mr P Saggars

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, Investment Principal and Actuary

Mr J Gibson, Pension Board observer

Ms L Dewar, Ms C Erskine-Murray and Mr G Roberts, Baillie Gifford (Item 6 only)

Mr W Fox, Natixis, Mr J Peers, Mirova and Mr S Voorhis, Mr B Peterkin, Dodge & Cox (item 9 only)

Mr R Gale in the Chair

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mr A MacLeod, Comhairle nan Eilean Siar, Mr E Macniven, Representative Trade Unions, Mr D Haas, Inverness City Area Manager and Mr R Fea, Pension Board observer.

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 17 December, 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. Aon Report: Passive Equity Manager

There had been circulated to Members only Report No. INV/1/22 by Aon on the selection of a passive equity fund manager which integrates the Fund's Responsible Investment beliefs. The report provided an overview of passive fund opportunities and recent developments and a comparison of shortlisted fund's key characteristics and alignment with the Fund's long-term objectives.

It was recommended that the Committee approve the Future World Global Equity (hedged to GBP), managed by Legal and General Investment Management (LGIM) for the passive equity asset allocation (20% of equity portfolio, 11.2% of the total portfolio).

The Investment Adviser provide a summary of the reasons for recommending the Legal and General fund for the passive equity asset allocation. In particular, it was explained that Legal and General would not undertake a fundamental analysis of companies as they were a passive manager and would invest in companies as determined by the global market indices. If the Sub Committee were minded to invest in this fund, the Manager would select stocks that they determined had the strongest environmental, social and governance criteria and it might be expected that performance in these stocks would improve going forward and have a positive impact on the Fund's performance.

Following consideration, the Sub Committee **APPROVED** the Future World Global Equity (hedged to GBP), managed by Legal and General Investment Management (LGIM) for the passive equity asset allocation (20% of equity portfolio, 11.2% of the total portfolio).

6. Presentation: Baillie Gifford

Lynn Dewar, Claire Erskine-Murray and Gareth Roberts from Baillie Gifford were in attendance to give a presentation in relation to the Baillie Gifford Global Alpha Paris Aligned portfolio, investment strategy and performance.

In this connection there was circulated to Members only Report No. INV/2/22 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

In discussion, in light of recent events in Ukraine, reference was made to the exposure in the portfolio to Russian stocks. The situation in Ukraine was an evolving situation and stocks invested by Baillie Gifford in Russian companies, which were small compared to the overall value of the Fund, would continue to be monitored by the Manager and the Sub Committee would be informed of any decisions made in this respect. Members comments on investment returns on Russian companies and reputational risks would be factored into the managers consideration on investments.

The effects of interest rate rises, inflationary pressures and the Russia/Ukraine situation on the portfolio's investments were discussed and it was confirmed that stress testing on the portfolio was undertaken to assess the potential effects of these situations on investments. It was not known how long current market conditions would continue for. The Managers would continue to keep a long term focus, stick to its investment philosophy and processes and consider prospects of individual businesses.

At this point the representatives from Baillie Gifford were thanked for their very informative presentation. In particular, special recognition was given to Lynn Dewar who would be retiring in April this year. Lynn had worked with the Sub Committee as Baillie Gifford's Client Service Director for 30 years and Members extended their thanks for all her hard work and professionalism over the years and wished her a long and happy retirement.

Thereafter, there was further discussion on the Russia/Ukraine situation and there was a strong view from a matter of principle and moral standpoint that the Sub Committee should instruct Baillie Gifford to disinvest the Fund's holdings with Baillie Gifford in Russian companies.

In terms of the Fund's Responsible Investment Policy, Officers explained that there were no explicit constraints on Managers on how they invested and therefore encouraging Baillie Gifford to disinvest from the portfolio's Russian investments rather than instructing them to do so would be more appropriate in terms of good governance. Also, as there may be other exposures within the overall Fund to other Russian holdings, the exact details and financial implications to the Fund would require further research before any decisions were made. Therefore, Officers advised that in order to consider disinvesting Russian investments, in accordance with good governance principles, the financial implications and any wider governance implications of doing this should be considered further with a report to a special meeting of the Sub Committee which would be arranged as a matter of urgency.

Following further discussion, Mr R Gale, seconded by Mr B Lobban, Moved that the Sub Committee recommend that Baillie Gifford disinvest in all Russian holdings on behalf of the Highland Council Pension Fund as soon as feasibly possible. This decision is as a result of the Russian invasion of Ukraine. Furthermore, the Sub Committee request that a full review of all other Russian Holdings and that an emergency meeting is convened once that review has been carried out.

As an Amendment, Mr P Saggars, seconded by Mrs H Carmichael, Moved that the Sub Committee asks officers to provide further information regarding the disinvestment of all Russian investments from our portfolios and provide an indication of costs that might arise from so doing and that this information is brought to an emergency meeting of the Committee within two weeks.

On a vote being taken, the **MOTION** was **CARRIED** by 3 votes to 2 and became the finding of the meeting.

For the Motion:- Mr R Gale, Mr B Lobban, Mr D Loudon

For the Amendment:- Mrs H Carmichael, Mr P Saggars

There were no Abstentions

Decision:-

* *The Sub Committee **AGREED** to recommend that Baillie Gifford disinvest in all*

Russian holdings on behalf of the Highland Council Pension Fund as soon as feasibly possible. This decision is as a result of the Russian invasion of Ukraine.

Furthermore, the Sub Committee request that a full review of all other Russian Holdings and that an emergency meeting is convened once that review has been carried out.

7. Investment Activity Update and Performance Report

(a) There was circulated to Members only Report No INV/3/22 by the Head of Corporate Finance which provided an update on Pension Fund investments matters for the quarter to 31 December, 2021 and any significant events since that date.

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

(b) There was circulated to Members only Report No. INV/4/22 by the Fund's Investment Advisor setting out Pension Fund investment performance for the quarter ended 31 December 2021.

The report was summarised, with a return of 2.6% (net of fees) for Quarter 4, underperforming the benchmark by 2.6%. Longer term performance remained positive, with the Fund outperforming the benchmark by 0.5% p.a. and 1.1% p.a. over the 3 and 5 year periods respectively to 31 December, 2021. Other issues covered included the market summary for the quarter to 31 December, 2021, strategic asset allocation, fund asset allocation, fund performance against benchmarks, and the performance of individual fund managers.

The Sub Committee **NOTED** the report.

8. Inverness Common Good and Associated Funds Investment Report

There was circulated to Members only Report No. INV/5/22 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 31 December 2021.

The report was summarised and all Funds delivered positive absolute performance over the quarter, however, underperformed their respective benchmarks. Over the longer term, all Funds outperformed their respective benchmarks and delivered excess returns.

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

9. Aon Report: Active Equity Managers

There was circulated to Members only Report No. INV/6/22 by Aon on the selection of active equity managers which are complementary to Baillie Gifford in order to manage equity portfolio risk.

It was recommended that the Committee approve Dodge and Cox and Mirova to manage the 30% of the active equity asset allocation (16.8% of the total portfolio).

There were presentations from representatives from Mirova and Dodge and Cox

in which they gave an overview of their companies, investment philosophy, investment team and process for investing.

In terms of Mirova, it was queried if they had any investments in renewables in Highland area. It was confirmed that they did invest in onshore and offshore renewable energy projects in Scotland, details which would be shared with the Sub Committee.

In relation to Dodge and Co it was confirmed that they did invest in emerging markets and details of the holdings were provided.

The Chairman thanked the representatives from Mirova and Dodge and Cox for their presentations.

Thereafter, the Sub Committee **APPROVED** Dodge and Cox and Mirova to manage the 30% of the active equity asset allocation (16.8% of the total portfolio).

Valedictory

The Chairman on behalf of the Sub Committee expressed his thanks to Officers and Aon, the Fund's Investment Adviser for their professionalism, guidance and hard work over the last term of this Council and the Fund was in a very strong position as a result of this.

The meeting ended at 1.50 p.m.