

THE HIGHLAND COUNCIL

Minutes of Meeting of the **Investment Sub Committee** held in Council
Headquarters, Inverness/Remotely on Friday, 29 November, 2024 at 10.30 a.m.

Present:

Ms E Johnston (representative from trade unions)	Mr P Oldham
Mr B Lobban	Mrs M Paterson

Officials in attendance:-

Mr B Porter, Chief Officer Corporate Finance
Ms C Stachan, Pensions Manager, Corporate
Ms L Harrison, Pensions Accountant, Corporate
Mr A MacInnes, Senior Committee Officer, Corporate

Also in attendance :-

Mr C Munro, Pension Board observer
Mr K Ettles, AON, Investment Principal and Actuary
Mr R Evans, Ms H Topel, Mr R Hamilton, Partners Group (item 5 only)
Mr D Bloch, Mr C Fowler, CVC (item 6 only)

Mr P Oldham in the Chair

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mr C Balance, Mr R Gale, Ms L Kraft and Mrs T Robertson.

2. Declarations of Interest/Transparency Statement

There were no declarations of interest/transparency statements.

3. Minutes of Last Meeting

There had been circulated and **Noted** minutes of meeting of the Sub-Committee held on 6 September, 2024, which were approved at the joint meeting of the Pensions Committee/Pension Board held on 9 October 2024.

Arising from the minutes (item 7ii), it was confirmed that a letter had been sent on behalf of the Sub Committee to Baillie Gifford expressing their concerns about an approach to the Sub Committee on a specific investment and a letter from Baillie Gifford had been received in response, the terms of which were noted.

4. Exclusion of the Public

The Sub-Committee **Resolved** that, under section 50(A) of the Local Government (Scotland) Act 1973, the public be excluded from the meeting during discussion of the following items on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 6 of Part 1 of schedule 7A of the Act.

5. **Presentation: Partners Group**

The Fund's Investment Advisor gave a short introduction about Partners Group who were a private equity manager. A significant part of the portfolio with the manager was invested in Partners global value strategies. This was a multi strategy approach whereby the Fund invests in other private equity funds and also invested directly in companies. An overview of their investment performance was provided.

In this connection there was circulated to Members only Report No. INV/18/24 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Robert Evans, Ross Hamilton and Henriette Topel from Partners Group were welcomed to the meeting and gave an overview of private equity, including trends in private markets. Partners group focused on profitable, sustainable businesses with good environmental, social and governance strategies across all sectors. Thereafter, commentary was provided on the Fund's portfolio and investment performance. Recent investments in Partners Group direct equity fund and other managers funds (secondary investments) were highlighted. An overview of two case studies of recent investments was provided.

During discussion clarification was sought and provided on several issues including the managers views on the forthcoming US elections impacting on investments in the US; increased sales of investments in private equity secondary markets; the managers view of and current investment activity in technology, business services and health care markets; and Partners Group investment performance over the short and long term.

Thereafter, the Sub-Committee thanked the representatives from Partners Group for their attendance and **Noted** the presentation and discussion.

6. **Presentation: CVC**

The Fund's Investment Advisor gave a short introduction about CVC who invested in CVC Credit Partners European Direct Lending strategy. CVC aimed to construct a balanced portfolio of high conviction investments in loans to mid-market companies across Europe, incorporating specific environmental, social, governance key performance indicators into all loan documentation. Returns to date had been very strong.

In this connection there was circulated to Members only Report No. INV/19/24 which provided Members with possible questions for the Managers and further information regarding the performance of the Managers.

Daniel Bloch and Chris Fowler from CVC were welcomed to the meeting and gave some background to CVC, a strategy overview of European direct lending and how the managers went about implementing the strategy and risk mitigation. There was significant analysis and due diligence of companies undertaken before loans were made. There were no realised losses on investments to date for over 10 years. The managers were focused on investing in secure loans and typically they were the only lender to companies they provided loans to. They invested in

industries that regardless of the economic climate would continue to perform. They had a diversified portfolio with a very talented, stable investment team which had provided strong returns for the portfolio. Responsible investing was embedded in the investment process.

During discussion clarification was sought and provided on several issues including how the manager would manage the process of dealing with any defaults on loan repayments; the strategy for portfolio construction; the impact on returns as a result of Banks coming back to the lending market; and it was confirmed that there would be no impact on investment style or the team since CVC went public.

The Sub-Committee thanked the representatives from CVC for their attendance and **Noted** the presentation and discussion.

Thereafter, an analysis of CVC private equity offering compared to that of Partners Group was queried and information on this would be provided by the Investment Advisor.

7. Investment Activity Update and Performance Report

(a) There was circulated to Members only Report No INV/20/24 by the Chief Officer Corporate Finance. The report provided an update on pension fund investment matters for the quarter to 30 September, 2024 and any significant events since that date.

The Pensions Manager provided commentary on the report and in particular an update on progress with implementation of the investment strategy. It was intended that a report would be submitted to the next meeting on a review of the current equity protection in place. Further, information was provided on Investment Advisor fees and procurement exercise for a new Investment Advisor contract.

The process of how the Sub Committee monitored investment performance was raised, such as the frequency and how to determine which managers were invited to the Sub Committee in order to strengthen governance. A framework could be drawn up showing a timetable for Managers to be invited, albeit that some flexibility would be required on this, i.e. if a manager's performance was causing concern, they would be invited sooner. The risk register could inform the process of selecting managers for attending the Sub-Committee.

Other points raised during the meeting included:-

- investment funding in private equity was shown in Euros. Given the value of the Euro could vary quite significantly, it was suggested that the monetary value be shown in pound sterling to clarify the amount the fund had invested;
- the full year projections for Investment Advisor fees was queried as was progress with the procurement for the Investment Advisor contract. The contract procurement was being progressed as quickly as possible.
- the Government's Actuary department presented an update on the cost control valuation for the period 2024/2027 at a recent meeting of the Scheme Advisory Board. A report on this was expected around April,

2025. There may be implications from this report for individual pension funds.

- Conflict resolution protocols were likely to be developed for disputes between Pension Committees and Pension Boards.

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

(b) There was circulated to Members only Report No. INV/21/24 by the Fund's Investment Advisor setting out pension fund investment performance for the quarter ended 30 September, 2024.

The Investment Advisor provided commentary on the report and highlighted that this had been a positive quarter for equity markets and there had been some significant currency fluctuations in the quarter. Areas of market volatility in the quarter were highlighted. There had been reasonable returns from Bonds and the UK property market delivered fairly stable returns. Overall there had been reasonable returns in the quarter for the Fund. From a longer-term perspective, over the 10-year period to 30 September 2024 the Fund broadly performed in line with benchmark. Individual manager performances were also highlighted.

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

8. Inverness Common Good and Associated Funds Investment Report

There was circulated to Members only Report No. INV/22/24 by the Investment Advisor, which set out Common Good and Associated Funds investment performance for the quarter ended 30 September, 2024.

The Investment Advisor provided commentary on the report and highlighted that over the quarter all funds had positive returns, with the overall asset value of funds increasing. Longer term performance was still below benchmark. The manager's performance would continue to be monitored, but the sub committee may wish to undertake a more formal market review if relative performance did not improve in the coming quarters.

In terms of other common good funds across Highland, periodically an assessment of the level of funding held by these funds was undertaken. However, funds had to hold a certain amount of money before they could be invested with Adam & Co. Currently only the Inverness and Nairn common good funds were at a monetary level to invest with Adam & Co. Other common good funds invested their money elsewhere, for example, in the Council's loans fund.

The Sub-Committee **Noted** the report and that Adam & Co would be invited to the next meeting.

9. Dates for Meetings 2025

The Sub-Committee **Approved** the undernoted dates/times for their meetings in 2025:-

- Friday 14 March
- Friday 13 June
- Friday 26 September

- Wednesday 17 December

All the meetings would commence at 10.00 a.m.

The meeting ended at 12.50 p.m.