

# MINUTE

# A & B PUBLIC”

**Special Shetland Islands Council**  
**Council Chamber, Town Hall, Lerwick**  
**Wednesday 5 June 2013 at 10 a.m.**

## **Present:**

|             |           |
|-------------|-----------|
| M Bell      | M Burgess |
| P Campbell  | A Duncan  |
| S Coutts    | B Fox     |
| R Henderson | D Ratter  |
| D Sandison  | C Smith   |
| G Smith     | T Smith   |
| J Wills     | V Wishart |

## **Also**

J Johnston, Pension Fund Management Consultative Committee  
R Polson, Pension Fund Management Consultative Committee  
D Marsh, Pension Fund Management Consultative Committee

## **Apologies**

|             |           |
|-------------|-----------|
| A Cooper    | G Cleaver |
| F Robertson | A Manson  |
| G Robinson  | M Stout   |
| A Westlake  | A Wishart |

## **In Attendance (Officers):**

H Tait, Team Leader - Accountancy  
C Bain, Treasury Accountant  
A MacIver, Assistant Accountant  
A Cogle, Team Leader – Administrative Services

## **Also in attendance**

K Thrumble, WM Company

## **Chair:**

M Bell, Convener of the Council, presided.

## **Circular:**

The circular calling the meeting was held as read.

## **Declarations of Interest**

None.

32/13

### **Pension Fund Management Annual Review 2012/13**

The Council considered two reports by the Executive Manager - Finance (F-032-F), which informed of the position and performance of the Council's Pension Fund external investments, with fund managers for the financial year 2012/13.

The Treasury Accountant introduced the report and provided Members with a brief introduction and background to the Pension Fund external investments.

*[Mr G Day, Mr R Bingen and Ms J Murray attended on behalf of Schroders.]*

### Schroders

Ms K Thrumble, WM Company, provided Members with an overview of the Property Fund's performance review report.

Mr G Day, Mr R Bingen and Ms J Murray presented a report on behalf of Schroders.

In response to a question from Dr Wills, Mr Day advised that, broadly speaking, the property yield was around 6%, but due to property costs, at around 0.7% to 0.8%, actual returns would be around 5% - 6% per annum.

Mr B Fox asked how the benchmarks were set. Mr Day advised that benchmarks for property investments were difficult as properties were unique, but Schroders used the services of the biggest benchmark provider, Investment Property Databank [IPD], which used market information regarding property funds worldwide. In terms of decision making, Mr Day said that whilst fund managers operated within the 'house view', and their performance was reviewed in-house on a 6 monthly basis, both directly and indirectly, stock selection was the choice and judgement of the individual fund manager, and they had discretion to invest as they see fit, subject always to the criteria set by their client.

Ms V Wishart asked why the property investments were restricted to Europe. Ms Murray confirmed that this had been the decision when they were appointed, based upon the robustness and transparency of the UK property market, and also the quality of tenure within the wider European market.

Mr G Smith asked how the funds were actually managed in relation to the frequency on which the percentage holdings were reviewed. Ms Murray advised that, to an extent, the funds were reviewed consistently, but every single portfolio was more formally reviewed on a quarterly basis. She added that the review process involved looking at the weightings and transactions, and ensuring they remained in line with the 'house view', adding that it was important to be ahead of markets.

In response to a question from Mr B Fox, Ms Murray advised that the down-grading of the UK credit rating from AAA status had not had any impact on investments.

Members noted the information provided.

*[Mr G Day, Mr R Bingen and Ms J Murray left the meeting.]*

*[Mr G Jung attended the meeting on behalf of BlackRock.]*

### BlackRock

Ms Thrumble then provided Members with an overview of the Equity and Bond fund's performance.

Mr G Jung presented a report on behalf of BlackRock.

Dr Wills asked how active BlackRock were in engaging with companies that they invested in. Mr Jung advised that BlackRock attended over 15,000 company meetings worldwide every year, and had voted on 130,000 separate proposals, 40% of which BlackRock had voted against the company proposals. In this

regard, Mr Jung said that close monitoring was carried out and views expressed at shareholders meetings. He said that whilst the UK market was a small proportion of what the company did, there were around 9 or 10 people worldwide whose jobs it were to engage with companies at every level. He said that much of this went on behind closed doors, and positive efforts were made to ensure that companies perform better in order to ensure improved and secure investments.

It was noted that BlackRock's purpose was to generate the best possible returns for its clients, and whilst they participated in shareholder meetings and used its vote to influence the direction and governance of companies, provided each business was legal and regulated, there was no measure as to what an ethical investment was and what was not.

Mr B Fox asked how much latitude was permitted in terms of investments, given that the fund was a passive interest fund, but managed. Mr Jung said that incredibly minimal latitude was given in this respect.

Mr G Smith referred to paragraph 3.7 of the report, and to the fact that, at the last actuarial valuation in 2011, the Pension Fund was 91% funded. He asked whether there was anything today that would impact on that figure in the future. The Treasury Accountant advised that there was a review of the Pension Strategy planned to start this year, and that aim would be to achieve 100% funding, as at the moment, there were more contributions than benefits being paid out. The Treasury Accountant confirmed that he would provide Dr Wills with information after the meeting as to how much in benefits was paid out.

The Council noted that previous proposals to merge Pension Schemes in Scotland had been rejected following review and confirmation that merging schemes would not be of any advantage.

In response to a question from Mr Henderson, the Treasury Accountant confirmed that the review of the Pension Scheme would have regard to information such as the profile of staff in terms of when they would reach pension age, and when the balance would happen in terms of the contributions being paid in, equalling the benefits being paid out.

Members noted the information provided.

*[Mr G Jung left the meeting.]*

Dr J Wills moved that the Council note the recommendations contained in the report, seconded by Mr G Smith, and the Council unanimously concurred.

---

**Decision:**

The Council RESOLVED to:

Note with satisfaction the performance of BlackRock (equity and bond fund) in 2012/13; and

Note the performance of Schroders (property fund) in 2012/13.

*[Ms R Polson, Mr J Johnston and Mr D Marsh, left the meeting.]*

**Fund Management Annual Investment Report 2012/13**

The Council considered a report by the Executive Manager – Finance (F-031-F), which informed of the position and performance of the Council's external investments with fund managers for the financial year 2012/13.

*[Mr P Froude and Mr N Bashir attended the meeting on behalf of GMO.]*

**GMO**

Ms Thrumble provided Members with an overview of the Miscellaneous Equity Fund's performance.

Mr P Froude and Mr N Bashir presented a report on behalf of GMO (attached as Appendix D) and answered various questions from Members.

Members noted the information provided.

*[Mr D Ratter left the meeting.]*

*[Mr P Froude and Mr N Bashir left the meeting.]*

*[Mr T Smith left the meeting.]*

*[Mr S Lewis and Ms A LaRusse attended the meeting on behalf of Insight Investment Management.]*

**Insight Investment Management**

Ms Thrumble provided Members with an overview of the Miscellaneous Bond Fund's performance.

Mr S Lewis and Ms A LaRusse presented a report on behalf of Insight (attached as Appendix E).

Members noted the information provided.

*[Mr S Lewis and Ms A LaRusse left the meeting.]*

*[Mr T Wright and Mr T Gooding attended the meeting on behalf of Baillie Gifford & Co.]*

**Baillie Gifford & Co**

Ms Thrumble provided Members with an overview of the Miscellaneous Equity Fund's performance.

Mr T Wright and Mr T Gooding presented a report on behalf of Baillie Gifford & Co (attached as Appendix G).

In response to questions from Dr Wills in relation to responsible investing, Mr Gooding confirmed that companies were asked to disclose their policies, and if they did not come up to international standards, or there were no signs of any improvement, they would pull out of those investments. However, their preference was to hold onto shares, in order to exert influence over companies regarding their corporate, environmental and social responsibilities. With regard to the issues concerning investments such as tobacco, Mr Gooding agreed that whilst such products were harmful, they were legal and were highly regulated, and most

importantly for the Council's investments, were profitable. However, having said that, Mr Gooding explained that if the Council decided to dis-invest in such products and companies, they would do that.

Responding to a question from Mr G Smith, Mr Gooding explained that if there was to be a hostile take-over of any company that the Council was invested in, and such a take-over would benefit investment in the long term, it would be supported. If it was not in favour, there could be a decision to sell, but the preference would be to hold the asset and try to do better.

Regarding social media and online activities, Mr Gooding confirmed that sales were agreed at a valuation point, and it is generally the case that if an activity was doing well, the shares were expensive.

In response to Mr B Fox, Mr Gooding advised that they felt the disparity between oil and gas prices would change, and that US gas prices would rise in the short to medium term.

Members noted the information provided.

*[Mr T Wright and Mr T Gooding left the meeting.]*

The Council approved the recommendations contained in the report on the motion of Dr J Wills, seconded by Mr R Henderson.

---

**Decision:**

The Council **RESOLVED** to:

approve the Annual Investment Report for 2012/13 for the purposes of the consent issued by the Scottish Ministers by virtue of section 40 of the Local Government in Scotland Act 2003;

note with satisfaction the performance of Insight (bond fund) in 2012/13;

note the performance of GMO (equity fund) in 2012/13; and

note the performance of Baillie Gifford (equity fund) in 2012/13.

The meeting concluded at 1.10 p.m.

.....  
Convener