

**Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 20 May 2015 at 9.30 am**

Present:

M Bell	M Burgess
P Campbell	G Cleaver
A Cooper	B Fox
R Henderson	D Ratter
G Robinson	D Sandison
G Smith	T Smith
M Stout	A Westlake
V Wishart	

Apologies

S Coutts	A Duncan
A Manson	F Robertson
C Smith	J Wills
A Wishart	

In Attendance (Officers):

M Boden, Chief Executive
C Ferguson, Director of Corporate Services
J Belford, Executive Manager – Finance
C Bain, Treasury Accountant
A McIver, Assistant Accountant
C Anderson, Senior Communications Officer
L Gair, Committee Officer

Also:

A Black, SCT
K Thrumble, State Street

Chair:

Mr M Bell, Convener of the Council, presided.

Circular:

The circular calling the meeting was held as read.

Declarations of Interest

None

20/15 Pension Fund Management Annual Review 2014/15

The Council considered a report by the Executive Manager – Finance (F-018-F), which informed on the position and performance of the Council's Pension Fund external investments, with Fund Managers for the financial year 2014/15.

The Executive Manager – Finance introduced the report and explained that the Council's pension fund was now split between five fund managers with three of them being appointed in November 2014. He explained that the three new fund managers would not report on performance but would re-introduce their company.

The Executive Manager – Finance provided an update on the positive investment returns and advised that there had been a cash injection increasing the fund to £367m. He drew attention to fund managers that had not met or exceeded their targets but advised Members that the long term position was as important and urged Members to look back over the 5 year position as a starting point.

(Mr Griffith, Mr Maher and Mr Keane attended on behalf of Kleinwort Benson)

Kleinwort Benson

Members were advised that the Council invested £68m with Kleinwort Benson on 12 December 2014 and the fund was now worth £72.2m.

Following their presentation the Kleinwort Benson representatives responded to Members' technical questions about the company's involvement with emerging markets, the profile of the company, the company's approach and process to identifying investments, how resilient the company would be in the event of a market collapse. Members were advised that in terms of the level of investor the Council is the company's third largest client in the UK and in the top ten clients on the Global scene.

(Mr Griffith, Mr Maher and Mr Keane left the meeting)

(Mr Thomas and Mr Ellis attended on behalf of M&G)

M&G

Members were advised that the Council invested £33m with M&G on 1 December and this figure was now £3.2m as of 3 April 2015.

Following their presentation M&G representatives responded to Member's technical questions on the Company's philosophy behind the level of cash held at any point in time and their involvement with social housing organisations which is a growing market.

A Member highlighted the importance of each fund manager providing previous year comparators in order that Members can see at a glance and compare the performance of the fund to the previous year. The representatives agreed that this was something that could be done. Ms Thrumble advised that this was something that Officers could seek from fund managers at their next presentation.

(Mr Thomas and Mr Ellis left the meeting)

Ms Thrumble noted that during their presentation M&G representatives indicated a benchmark of cash but the Council had sought Cash+4 and this was something to bear in mind in the future.

(Mr Mitchell and Mr Forder attended on behalf of Newton)

Newton

Members were advised that the Council invested £68m and the investment had since produced a return on +3.4% return to the end of April. The fund was now worth £70.6m.

Following their presentation Newton representatives responded to Member's technical questions on the return achieved from holding cash versus the flexibility this provides by having capital available for new opportunities. Confirmation was provided that cash next year will not achieve LIBOR+4%.

(Mr Mitchell and Mr Forder left the meeting)

(The Council adjourned at 11.20am for a comfort break)

(Mr Cooper and Ms Westlake left the meeting)

(The Council reconvened at 11.40am)

Ms Thrumble, State Street explained the differences that had occurred since the fund changed to a more active management portfolio. She explained the fund benchmarks and the split that was made between the funds. She also explained that the fund performance was behind the benchmark and that this indicated that the changes have come at a cost. She advised however that, looking to the long term, although performance was still behind benchmark it was relatively close.

Ms Thrumble introduced Schroders and noted that they had a successful year on return but this was behind benchmark. She highlighted the European property market as the reason and she compared this to the UK property which was ahead of the benchmark.

(Ms Murray and Mr Day attended on behalf of Schroders)

Schroders

During their presentation, Ms Murray and Mr Day highlighted the challenges faced by the European Property portfolio stating that it had achieved a 6% p.a. return over 5 years but that the benchmark had not been achieved. They also noted that the UK property portfolio had out performed. It was highlighted that there were differences between the figures provided by State Street and Schroder as Schroder reports on the gross figure and State Street report on the Net figure.

Following their presentation Schroders representatives responded to a technical question on whether attempts were made to hedge currency within the fund. Ms Murray advised that legal advice was sought on this and it was considered not appropriate to hedge a local authority mandate.

During further discussions regarding the property market, Members were advised that the Company's strategy would be to invest new money into the UK property market should strong opportunities arise. Members were assured however that over the longer term it was expected that there would be a 5-7% return from the property market and the need to take a 5 year view was stressed. Schroder's representatives also commented on the growth areas in the UK property market and advised that there had been more caution in Scottish investments. Discussion also took place on the proposals for an EU Referendum, and Mr Day said that there was no clarity on the timing of a referendum but this is a factor that will be monitored closely.

(Mr Ratter left the meeting)

(Mr Head attended on behalf of BlackRock)

BlackRock

Ms Thrumble, State Street, introduced BlackRock and noted that the Council previously took the decision to split the pension fund and therefore BlackRock's portfolio was reduced and readjusted from £210m to £150m over the last year. She advised that BlackRock are just behind the benchmark over one year which is surprising as the fund is benchmark tracking, but added that they were in line with the benchmark over three and five years.

(Mr T Smith left the meeting)

Following the presentation, Mr Head, BlackRock representative, responded to Member's technical questions on the effect of moving to equities only, the cyclical opportunities in the US Market and that this trend is likely to continue for a further 18 months and the company's intention to invest in infrastructure.

(Mr Head left the meeting)

During consideration of the recommendation at paragraph 2.1, Members expressed concern as to the word "dissatisfaction" was being used to describe the performance of BlackRock. The Treasury Accountant advised that there are rigid rules around the wording and as the company performed under benchmark "dissatisfaction" is used.

In response to further questions the Treasury Accountant confirmed that Schroders have yet to invest £5.5m and that this will be transferred from BlackRock and the fund's bank account.

Members again questioned whether the underperformance of BlackRock would have been as a result of the significant changes to the portfolio, held by BlackRock and as this was a one off cost it was considered unfair that the word "dissatisfied" was used. The Executive Manager – Finance drew attention to the 5 year position and said that the long term was most important position to look at and said that the mandate still performed well considering the period of change. He said that it was a decision for Members whether they wished to step away from the rules that were driving the recommendation.

Following further consideration of the wording used, Mr Robinson commented that the benchmark had not been met and the minute would reflect the comments made by Members and he moved that the Council approve the recommendations contained in the report. Mr Stout seconded.

Mr G Smith moved, as an amendment, that the words "with dissatisfaction" be removed from the second bullet in recommendation 2.1, seconded by Mr Sandison.

Following summing up, voting took place with a show of hands and the result was as follows:

Amendment (Mr G Smith)	8
Motion (Mr Robinson)	3

Decision:

The Council **RESOLVED** to:

- Note with dissatisfaction the performance of Schroders (property fund) in 2014/15; and
- Note the performance of BlackRock (equity) in 2014/15.

(The Council adjourned at 1pm for Lunch)

(The Council reconvened at 1.30pm)

Present:

M Bell	M Burgess
P Campbell	G Cleaver
B Fox	R Henderson
G Robinson	D Sandison
G Smith	M Stout
A Westlake	V Wishart

Apologies

A Cooper	S Coutts
A Duncan	A Manson
D Ratter	F Robertson
C Smith	T Smith
J Wills	A Wishart

In Attendance (Officers):

C Ferguson, Director of Corporate Services
J Belford, Executive Manager – Finance
C Bain, Treasury Accountant
A McIver, Assistant Accountant
L Gair, Committee Officer

Also:

A Black, SCT
K Thrumble, State Street

21/15 Fund Management Annual Investment Report 2014/15

The Council considered a report by the Executive Manager - Finance (F-017-F), which informed on the position and performance of the Council's external investments with Fund Managers for the financial year 2014/15.

(Mr Gooding and Mr Templeton attended on behalf of Baillie Gifford)

The Executive Manager – Finance introduced the report and advised that an 11.5% annual return had been achieved as detailed in paragraph 3.14 of the report.

Ms Thrumble added that this return was ahead of benchmark and ahead of the pension fund return.

Baillie Gifford & Co

Ms Thrumble provided a brief overview of the fund's performance against benchmark highlighting that for the first time it had not outperformed. Ms Thrumble said that this was an unusual situation for Baillie Gifford & Co but over the longer

term 3-5 years the fund manager has been ahead of benchmark and Members were reminded that an aggressive outperformance level of 2.5% had been set by the Council.

Following their presentation Baillie Gifford & Co's representatives responded to Member's technical questions and expressed their surprise at the returns on the fund and explained that they were moving on with a cautious optimism.

(Mr G Smith and Ms V Wishart left the meeting)

The Baillie Gifford & Co representatives also confirmed that their exposure on the property market is in the UK but it is mainly the German exposure that has given the return. They also explained their involvement in the US and the strategy used to move away from boom and bust scenarios. They also confirmed that they do hedge currency within the fund. They also provided their view on an EU Referendum and commented that they did not expect there to be an impact on the Global Market were the UK to come out of the EU.

(Mr Gooding and Mr Templeton left the meeting)

(Mr Sandison left the meeting)

(Mr Lewis and Ms LaRusse attended the meeting on behalf of Insight Investment Management)

(Mr T Smith attended the meeting)

Insight Investment Management

Ms Thrumble advised Members that the Bond had outperformed the benchmark and the fund manager had done well returning 11.5% which was above the benchmark but below the target.

During their presentation a correction was indicated for the benchmark stated as 5.88%, which should in fact be 6.5%.

(Ms Westlake left the meeting)

Following their presentation Insight representatives responded to Member's technical questions and provided a view on the UK's period of austerity and stated that there was now decent economic growth. Their view on the proposals for an EU Referendum is that the people will vote to stay in the EU but should the UK come out of the EU big changes will happen and impact on growth.

The Convener advised Members that Mr Lewis had been coming to Shetland for a few years now but this would be his last visit as he would be retiring soon. He thanked Mr Lewis for his work and on behalf of the Council wished him all the best for his retirement.

(Mr Lewis and Ms LaRusse left the meeting)

(Mr Head attended on behalf of BlackRock)

BlackRock

Ms Thrumble advised Members that this was the best performing portfolio, with a return of 17.2% which was 0.3% behind benchmark.

(Mr Robinson attended the meeting)

Following the presentation, Mr Head, BlackRock representative, responded to Member's technical questions on emerging markets and gave his view on the status of the two funds managed by BlackRock and how moving fixed income and an active approach provides flexibility for positive returns. He also commented on ESG (environmental, social and governance) factors and provided an account of the active process that BlackRock have with the companies they invest in.

(Mr Head left the meeting)

During consideration of the report's recommendations, the Executive Manager - Finance responded to Members questions and confirmed that the status of the Reserve Fund is provided within the 6 monthly reports to the Council. He confirmed there was a move to provide quarterly reports through the performance framework. He advised that a report would be presented in August that would set out how the financial information will be presented and proposals on the regularity that Members will hear from fund managers. He advised that it was important to find the right mechanism of reporting that would provide meaningful information to Members.

Following some discussion on the borrowing referred to in paragraph 3.15 and to a question on the funds from the Shetland Development Trust (SDT) it was agreed that the Executive Manager – Finance would provide Members with a briefing note on the Council's reserves, borrowings from the Public Works Loan Board (PWLb) in regard to the Housing Revenue Account and on the investment of the transferred SDT funds.

Members also noted that one presentation had suggested that hedging currency within the Local Authority's funds was not allowed but other fund managers used this practice. The Treasury Accountant agreed that he would bring this up with the fund managers.

At the request of Members, the Treasury Accountant explained the strategy used to ensure a balance between the sums of money given to each fund manager.

In response to further questions, Ms Thrumble explained that BlackRock's fund is made up of: three quarters global equities developed index and one quarter emerging markets. She also explained that combining funds with other local authorities was a situation that the Government has moved away from as there appeared to be no political will for this, but the Scottish Government were keen to put all Scottish funds together. It was noted that Orkney have the smallest but best performing fund. Ms Thrumble said that combining funds was not something that would happen soon.

In terms of the property market, Ms Thrumble responded to a question that she believed that the fund would meet its benchmark this year, stating that the UK equity performance had been good and if the past was a prediction of the future things would get better. She said that the problem with property is that once you are in, it is a long term investment.

A Member asked whether there was a negative impact from the fund managers being asked to adhere to the United Nations position on ethical investments. Ms Thrumble advised that fund managers were now dealing with this as a matter of course. The Executive Manager – Finance added that the fund managers work within the investment guidelines in an open and transparent manner.

On the motion of Mr Robinson, seconded by Mr Bell, the Council approved the recommendation contained in the report.

Decision:

The Council **RESOLVED** to:

- Approve the Annual Investment Report for 2014/15 for the purpose do the consent issued by the Scottish Minsters by virtue of Section 40 of the Local Government in Scotland Act 2003;
- Note with dissatisfaction the performance of Baillie Gifford (diversified growth fund and equity fund) in 2014/15;
- Note the performance of Insight (bond fund) in 2014/15; and
- Note with dissatisfaction the performance of BlackRock (passive equity fund) in 2014/15.

The meeting concluded at 3.30pm

.....
Convener