

MINUTE

A&B – Public

**Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 18 May 2016 at 9.30 a.m.**

Present:

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

Apologies:

S Coutts	A Duncan
A Manson	D Ratter
F Robertson	G Robinson
C Smith	A Westlake (Lateness)
A Wishart	

In Attendance:

M Boden, Chief Executive
C Ferguson, Director of Corporate Services
J Belford, Executive Manager - Finance
C Bain, Treasury Accountant
A McIver, Assistant Accountant

Also

A Black, SCT
R Mainland, SCT
K Thrumble, State Street

Chair:

M Bell, Convener of the Council, presided.

Circular:

The circular calling the meeting was held as read.

Declarations of Interest:

None

26/16 Fund Management Annual Investment Report 2015/16

The Council considered a report by the Executive Manager – Finance (F-028-F) which informed Members on the position and performance of the Council's External Fund Managers for the financial year 2015/16.

The Executive Manager – Finance introduced the report and explained that the changes in the governance arrangements for the Pension Fund meant that the pension fund performance would now be presented to the Pension Fund Committee/Board. He advised that three Fund Managers would present to the Council today and explained that it would not be unexpected to hear of negative or low returns.

The Executive Manager – Finance introduced Ms Thrumble of State Street advising that this would be her last visit to the Council in this capacity and the Council were in the process of identifying an appropriate company to provide this service from quarter 2 this year.

Ms Thrumble provided an overview of the total fund advising that over 1 year there is not a positive rate of return and the benchmark has not been met, however over 3 and 5 years the fund is holding up and in the longer term the fund managers are adding value.

(A Westlake attended the meeting).

Baillie Gifford & Co

Ms Thrumble explained that Baillie Gifford holds half of the Council's assets and she provided a brief overview of the fund's performance against benchmark highlighting that over 3, 5 and 15 years the company had outperformed by 1½% above the benchmark which was an exceptional performance. She advised that over the last three-year period the company was still ahead of benchmark but not as far and the key reason was that the diversified growth fund was performing way behind benchmark.

(Mr A Cooper attended the meeting).

In response to a question, the Executive Manager – Finance confirmed that the biggest increase in the overall value of the fund was due to the income invested from the tugs that were sold, and the funding received for Housing debt.

(Mr Gooding and Mr Wright attended on behalf of Baillie Gifford).

Following their presentation, Baillie Gifford & Co's representatives responded to Member's technical questions relating to environmental, economic and safety issues affecting some investments. They also commented on the diversified growth performance but advised that although they had no long term concerns around the companies they have holdings in, putting money into equities did not help. The Baillie Gifford representatives also provided an explanation on their decisions to reduce holdings when companies are still performing well. During further discussion the Baillie Gifford representatives responded to questions on the holdings in branded fashion companies and explained how they are affected by a young and affluent Asian demographic, as well as which companies they invest in High Yield Credit. They commented on the UK property market and how this may be affected by the EU referendum, their decision to trade in oil and gas component companies rather than the big players in the industry, and the controversial involvement in the growing modified crop industry. Baillie Gifford representatives confirmed that they are no longer invested in the tobacco industry.

The Chair thanked Mr Gooding and Mr Wright for attending the meeting.

(Mr Gooding and Mr Wright left the meetings.)

Insight

Ms Thrumble provided an overview of Insight's performance advising that the company was slightly behind benchmark, but over 3 and 5 years they are slightly ahead adding significant value to the fund. She assured Members that this was a small "blip" but nothing to worry about.

(Mr MacMillan and Ms LaRusse attended the meeting).

Following their presentation Insight representatives responded to Member's technical questions and provided a view on the EU Referendum and the November USA Presidential Elections. The view was also given that the new normalised interest rate could be around 2%, taking account of historical influences and the variables yet to be experienced. In responding to a question on whether the UK government could do more in fiscal alleviation in terms of the oil and gas industry, the Insight representatives said that in light of the importance of the asset to the economy they believed the government would like to be helpful. In terms of whether Insight has the best mandate in place, they commented that the objective was being met providing growth and low volatility but they would be happy to discuss should the objectives have changed.

The Insight representatives commented on the bonds performance and were asked what prospect there was of achieving the 2% target above benchmark, given the challenging future ahead. They advised that they are confident in their strategy which is fit for purpose and has performed well with the exception of this last year, but since April 2016 indications are that there will be growth next year. It was further advised that because of the selloff of bonds last year this was a good time to buy corporate bonds which are index linked and not driven by value.

The Chair thanked Mr MacMillan and Ms LaRusse for attending the meeting.

(Mr MacMillan and Ms LaRusse left the meeting).

BlackRock

Ms Thrumble provided an overview of the fund's performance explaining that the funds are invested in 75% Global equities and 25% Emerging Market equities. She explained that emerging markets have not performed as well and Members may wish to consider whether they want to reaffirm the benchmark.

(Mr Head attended the meeting).

Following the presentation, Mr Head, BlackRock representative, responded to Member's technical questions including how he would beat the index if asked to, what the outlook was for emerging markets in India and what his predications would be for the next three-month period for performance in emerging markets. Mr Head was also asked to give his view on what effect the USA elections would have on the stock market.

The Chair thanked Mr Head for attending the meeting.

(Mr Head left the meeting).

The Executive Manager – Finance provided a summary of the presentations and referred to Mr Head's introduction and reference made to a withdrawal of money from Insight's fund. He explained that this was required in respect of the new Anderson High School project and it was anticipated that a further withdrawal would be made from Insight, as they hold cash in liquid form, that will be used for the Halls of Residence project.

Concern was expressed that the Council is not reaching its targets in order to implement the Medium Term Financial Plan (MTFP) and it was questioned whether more should be done in this regard. The Executive Manager – Finance drew Members

attention to the long term nature of some investments. The Chief Executive commented that the Council's investment strategy had served it well and that it was important to focus on the long term view. Members noted that the impact on the MTFP and the Council's aspirations versus resources would be considered during the MTFO review in the summer in light of the change in the global market.

In response to a question regarding the future draw down from Insight for the Halls of Residence Project, the Executive Manager – Finance advised that he and the Treasury Accountant would consider this and update Members at a further quarterly meeting, on how investments will be rebalanced following withdrawals. He advised that the draw downs would be carried out over the course of the whole financial year when invoices need to be paid.

Following further discussions, the Council approved the Annual Investment Report for 2015/16 on the motion of Dr Wills, seconded by Mr Campbell.

In considering the recommendations for each Fund Manager, concern and disappointment was expressed in regard to the terminology and criteria used when assessing Fund Manager's performance. It was agreed that the Executive Manager – Finance and the Treasury Accountant will review the criteria and report to a future meeting of the Council. In the meantime, it was agreed that the Fund Managers understand the terminology used but this would be addressed in early course.

Mr G Smith moved that the Council note with dissatisfaction, the performance of Baillie Gifford in 2015/16. Mr Fox seconded.

Ms Wishart moved that the Council note with dissatisfaction the performance of Insight in 2015/16. Mr Campbell seconded.

Dr Wills moved that the Council note the performance of BlackRock in 2015/16. Mr G Smith seconded.

The Chair drew attention to this being the last meeting that Ms Thrumble would be attending in this capacity, and thanked her for her assistance over the years. The Chair, on behalf of all Members, extended their best wishes for the future.

The meeting concluded at 12.40pm.

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Convener