

Shetland Islands Council
07 June 2006 Public Minutes
**Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 7 June 2006 at 9.30 a.m.**

Present:

F B Grains L Angus
B J Cheyne R G Feather
B P Gregson L G Groat
I J Hawkins J H Henry
J A Inkster Capt G G Mitchell
J G Simpson T W Stove

Apologies:

A J Cluness C B Eunson
J C Irvine E J Knight
W H Manson J P Nicolson
W A Ratter F A Robertson
W N Stove W Tait

In Attendance (Officers):

C Bain, Treasury Accountant
J Goddard, Financial Controller, SCT
A MacIver, Assistant Accountant
D Haswell, Committee Officer

Also:

G Urquhart, WM Performance Services
A Watson, Capital International
M Hole, Capital International
A Tait, Baillie Gifford and Co
T Wright, Baillie Gifford and Co
G Brown, Baillie Gifford and Co
M Cox, Henderson Global Investors
G Kitchen, Henderson Global Investors
G Jordan, Insight Investment Management
C Hartley, Insight Investment Management

A Taylor, Pension Fund Management Consultative Committee

Chairman:

Mrs F B Grains, Vice-Convener of the Council, presided.

Circular:

The circular calling the meeting was held as read.

100/06 **Management of the Pension Fund by Capital International**

The Council considered a report by the Head of Finance (RECORD Appendix 1).

Mr G Urquhart introduced the Performance Review report on behalf of WM Performance Services (attached as Appendix A). Ms A Watson

and Mr M Hole presented a report on behalf of Capital International (attached as Appendix B).

Ms Watson and Mr Hole provided Members with information on what they felt would be interesting developments in the future and Members noted the information provided. Ms Watson and Mr Hole answered questions from Members in relation to Vodafone and explained that, whilst it was acknowledged that there were coverage problems in some parts of the country, when it came to technology, Vodafone had the latest network technology, e.g. 3G. Mr Hole said that bonds did offer a safe haven and offered a balance and, in his view, there was a place for bonds in the Council's portfolio. Mr Hole said that over the next 12 – 18 months, yields in equities would improve. Members noted the information provided.

The Council noted with dissatisfaction the performance of Capital International in 2005/06, on the motion of Mrs I J Hawkins, seconded by Mr J A Inkster.

(Messrs Angus, Gregson and Simpson left the meeting).

101/05 **Management of Miscellaneous Equity Fund by Baillie Gifford and Co**

The Council considered a report by the Head of Finance (RECORD Appendix 2).

Mr G Urquhart introduced the Performance Review report on behalf of WM Performance Services (attached as Appendix A). Mr A Tait and Mr T Wright presented a report on behalf of Baillie Gifford and Co. (Attached as Appendix B).

(Messrs Angus and Simpson returned to the meeting).

Mr Tait and Mr Wright answered questions from Members and Members noted the information provided. There was a brief discussion on global and environmental issues and Members noted that it was very important to Baillie Gifford and Co that the companies they invested in met Health and Safety and Environmental Regulations.

Baillie Gifford and Co were congratulated on their stock selection and on both their verbal presentation and report.

On the motion of Mrs B J Cheyne, seconded by Mr L Angus, the Council noted with satisfaction the performance of Baillie Gifford and Co in 2005/06.

(Mr L G Groat left the meeting).

102/05 **Management of Miscellaneous Equity Fund by Henderson Global Investors**

The Council considered a report by the Head of Finance (RECORD Appendix 3).

Mr G Urquhart introduced the Performance Review report on behalf of WM Performance Services (attached as Appendix A). Mr M Cox and Mr G Kitchen presented a report on behalf of Henderson Global Investors (attached as Appendix B).

Mr Cox and Mr Kitchen provided Members with information on the steps Henderson Global Investors had taken to change the Council's portfolio and improve their performance. A Member congratulated Henderson Global Investors on the steps taken and wished the new team good luck. Members noted that, to an extent, Henderson Global Investors believed that growth stocks would strengthen. In response to a question, Mr Kitchen said it was likely that the interest rate would increase by ¼ of a percent in order to head off inflation.

Members noted the information provided and the Council noted with dissatisfaction the performance of Henderson Global Investors in 2005/06, on the motion of Mr L Angus, seconded by Mrs B J Cheyne.

103/05 **Management of the Capital Fund by Baillie Gifford and Co**

The Council considered a report by the Head of Finance (RECORD Appendix 4).

Mr G Urquhart introduced the Performance Review report on behalf of WM Performance Services (attached as Appendix A). Mr G Brown and Mr T Wright presented a report on behalf of Baillie Gifford and Co. (attached as Appendix B).

Members noted the information provided.

In response to a question, Mr Wright said that if restrictions were lifted, the fund would be able to work harder and receive better returns for the Council. The Treasury Accountant explained that the Council were still waiting on draft legislation on investment going through the Scottish Parliament. Although the Council's position did not rank high on the Scottish Parliament's list, the Council were still working on this but were not overly optimistic at present.

On the motion of Mr L Angus, seconded by Mr J H Henry, the Council noted with dissatisfaction the performance of Baillie Gifford and Co in 2005/06.

The Vice-Convener advised that Baillie Gifford and Co had managed the Capital Fund on behalf of the Council since 1986, a period of 20 years. Over this period, Baillie Gifford had been well aware that the Council had used the growth from the fund for the overall benefit of Shetland. Initially, in 1986, the Council gave Baillie Gifford £38M to invest and then increased this a few years later by £24M, making a total of £62M. The fund currently stands at £77M. However, over the 20 year period, the Council had taken out a total of £139M from the fund to be used within Shetland.

The Vice-Convener continued to say that the relationship between the Council and Baillie Gifford and Co continued to be very beneficial for Shetland and, to mark the occasion of the Council's 20 year association with Baillie Gifford, presented them with a painting of Shetland. The Council congratulated Baillie Gifford and Co with a round of applause.

On behalf of Baillie Gifford and Co, Mr Wright thanked the Council for the gift. Mr Wright added that Baillie Gifford and Co liked the Council's long term view and that they had a similar sensible outlook to Baillie Gifford and Co with regard to investment. Mr Wright concluded by thanking the Council for its support over the past 20 years.

104/05 **Management of Miscellaneous Bond Fund by Insight Investment Management**

The Council considered a report by the Head of Finance (RECORD Appendix 5).

Mr G Urquhart introduced the Performance Review report on behalf of WM Performance Services (attached as Appendix A). Mr G Jordan and Mr C Hartley presented a report on behalf of Insight Investment Management (attached as Appendix B).

Members noted the information provided, and the Council noted the performance of Insight Investment Management in 2005/06, on the motion of Mr L Angus, seconded by Mrs I J Hawkins.

The meeting concluded at 12.50 p.m.

VICE-CONVENER