

Appendix 1

Please see below an extract from the Fund's statement of Investment Principles, available at:-

[http://www.highland.gov.uk/meetings/meeting/3652/pensions committee and board](http://www.highland.gov.uk/meetings/meeting/3652/pensions_committee_and_board)

Social, Environmental and Ethical Considerations

14.1 The following approach was approved at the Resources Committee on 1 October 2008. The Fund recognises that social, environmental and ethical considerations are among the factors which Investment Managers will take into account, where relevant, when selecting investments for purchase, retention or sale. Public opinion and consumerism are beginning to add a further dimension to corporate life such that companies which act irresponsibly or without consideration for the public view may run serious reputational risk which could have a significant impact on their earnings and ultimately on the value of their shares.

14.2 In general terms, this means that there is a group of socially responsible investment type concerns which investors need to be aware of and which should be taken into consideration when the decision to invest is being made. This does not mean that the decision whether or not to invest depends entirely on the assessment of these factors but that they should be weighed in the balance along with all over relevant factors when decisions to buy, hold or sell investments are being made.

14.3 The Council has elected to delegate management of the Fund to external Investment Managers with a view to securing the best financial interests of Fund beneficiaries, contributing employers and Council taxpayers.

14.4 The Council has instructed the Investment Managers to take into account the key principles of socially responsible investment primarily through a policy of engagement with Companies that demonstrate appropriate observance of these principles.

14.5 Engagement in this context is to involve the Investment Managers in:

- ☐ Meeting and corresponding with Companies on relevant issues;
- ☐ Working with the representatives of other shareholders, where appropriate;
- ☐ Voting against adverse proposals at Company AGM/EGMs;
- ☐ Reporting regularly on actions taken in this regard.

The Highland Council

Investment Sub-Committee – 4 March 2016

Agenda Item	
Report No	

Investment Activity Update Report

Report by Director of Finance

Summary

This report provides Members with an update on Pension Fund investment matters for the quarter to 31 December 2015, and any significant events since that date.

1. Update

- 1.1 The following section provides Members with an update on matters relating to Pension Fund investments as at the date of this report. A verbal update will also be provided at the meeting where appropriate.

a) *Private Equity funding draw-down*

The Pension Fund continues to make capital advances to this investment, as requested through capital calls from Partners Group. The Fund also receives occasional distributions back, representing returns of capital plus profits realised, from sale of private equity holdings. Details of Capital call and distributions are below.

Partnership	Date	Distribution/capital call	Amount
2011	22/10/15	Distribution number 9	+€0.807m
2011	07/12/15	Capital call number 21	-€1.100m
2014	10/09/15	Capital call number 6	-€5.138m
2014	15/10/15	Capital call number 7	-€4.817m
2014	14/12/15	Capital call number 8	-€4.014m

- Partners Global Value 2011 - the Fund has now advanced €33.186m of its overall €50m commitment to this investment and received overall distributions back of €6.608m.
- Partners Global Value 2014 - the Fund has now advanced €32.538m of its overall €80m commitment to this investment and as yet no distributions have been received.

b) *Legal and General Investment Management(LGIM) Disinvestments*

In January 2016, there was a disinvestment of £10m in order to fund future Partners Group capital calls.

2. Fund Performance

- 2.1 Fund performance reporting is provided separately on the agenda of this meeting, including a performance report provided by the Fund's investment advisor.

3. Investment Strategy Review

- 3.1 The initial capital call by Standard Life Investments for the property debt portfolio was for £35.5m on 5/01/16, with a remaining £19.5m commitment outstanding of the overall £55m commitment.
- 3.2 The Property Debt investment is being funded from the Legal and General investments (passive global equity (1.5%) and passive bonds (2.5%)). Therefore, there was a disinvestment of £35m from the Legal and General portfolio to fund the investment in property debt.
- 3.3 The Fidelity portfolio restructuring is now complete so that 5.25% of the total Highland Council portfolio (35% of the Fidelity portfolio) is held in the shorter duration, Fidelity Institutional Sterling Core Plus Reduced Duration Fund. The final restructuring took place in December.

4. Investment Manager fees

- 4.1 Investment Adviser fees for quarter end December 2015 and year to date were £62,583. Investment Adviser fees for specific tasks are agreed prior to work being completed and rates used are checked to the Investment Adviser contract. Invoices are checked and approved against the agreed work. The annual core investment fee is £39,996.

5. Securities Lending

- 5.1 The Fund's lawyers and the Custodian continue to negotiate terms for the Securities Lending agreement so a contract has not yet been signed.

6. Statement of Investment Principles

- 6.1 The Statement of Investment Principles was updated to reflect changes in the portfolio following the Investment Strategy Review. The Statement of Investment Principles is to go to Pensions Committee on 18/02/16 for approval.

7. Implications

- 7.1 The resource implications are covered in this report. There are no Legal; Equalities; Climate Change/Carbon Clever; Risk; Gaelic or Rural implications relating to this report.

Recommendation

Members are asked to note this report.

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