

Shetland Islands Council



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Date: 15 January 2020

Dear Sir/Madam

You are invited to the following meeting:

**Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 22 January 2020 at 2pm**

Apologies for absence should be notified to Leisel Malcolmson at the above number.

Yours faithfully

Executive Manager – Governance and Law

Convener: Malcolm Bell
Depute Convener: Cecil Smith

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

Items

1. Fund Manager Presentations from Partners Group, Baillie Gifford and BlackRock
F-001



Shetland Islands Council

Agenda
Item

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Meeting(s):	Special Shetland Islands Council	22 January 2020
Report Title:	Fund Manager Presentations from Partners Group, Baillie Gifford and BlackRock	
Reference Number:	F-001-F	
Author / Job Title:	Jamie Manson – Executive Manager - Finance	

1.0 Decisions / Action required:

- 1.1 That the Council NOTE the fund manager presentations from Partners Group, Baillie Gifford and BlackRock.

2.0 High Level Summary:

- 2.1 The Council as part of its governance of its investments, annually invites the Council's fund managers to give presentations to the Council on their respective investment mandates.
- 2.2 Representatives from Partners Group, Baillie Gifford and BlackRock fund managers will be attending the meeting and giving presentations.
- 2.3 These three fund managers invest £348 million (unaudited) on behalf of the Council, out of the Council's total investment value of £368 million (unaudited) at the end of December 2019. Insight Fund Management are not giving a presentation as their mandate has ended and is in the process of transferring to Partners Group.
- 2.4 The fund manager's investment performance will be covered in more detail in their presentations, but Baillie Gifford are above benchmark and target over 1 and 3 years. BlackRock are very close to their aim of copying the benchmark return over 1 and 3 years. Partners are still building their investment portfolio and in the early stages of their mandate.
- 2.5 The fund manager presentations will allow the Council the opportunity to meet and hear directly from the fund managers which are investing on behalf of the Council. This also provides an opportunity to question the fund managers on any aspect of their process, investments and performance.

3.0 Corporate Priorities and Joint Working:

- 3.1 Reviewing and monitoring the Council's fund managers is important in the overall management of the Council's investments, as the Council's Investments play a key role in helping the Council deliver its corporate objectives, as described in the Community Plan, the Corporate Plan and other strategic documents.

4.0 Key Issues:

- 4.1 The Council's investment strategy is currently being reorganised, after the investment strategy review in 2018/19 (min ref: 45/18). Two new mandates were awarded to Partners in Direct Lending and to BlackRock in Diversified Alternatives (minute ref: 01/19), following a fund manager tender exercise conducted by investment consultants KPMG.
- 4.2 Partners mandate will be funded from Insight's outgoing mandate. Partners ask for funds when they find appropriate investments. Partners have so far requested and received £23.7 million up to the end of December 2019. BlackRock will reorganise their investments and transfer funds between their equity mandate and their new Diversified Alternatives mandate when investment opportunities arise.
- 4.3 The other investment strategy change concerned Baillie Gifford, which involved a slight reallocation between investments within their mandate. There was an increase to global equities with a corresponding decrease to both UK equities and the diversified growth fund, which was all concluded in July 2019.
- 4.4 The fund managers investment funds and current percentage allocations at the end of December 2019 are as follows:

Fund Manager	Fund	% of Assets
Baillie Gifford	Active Equities	41%
	Diversified Growth	15%
BlackRock	Passive Equities	33%
	Diversified Alternatives	0%
Partners	Direct Lending	6%
Insight	Bonds	5%

- 4.5 The following fund managers are giving presentations to the Council on their investment mandates.

Partners Group

- 4.6 Partners are one of the largest private markets investment managers in the world, with more than 1300 employees across 20 offices worldwide.
- 4.7 Partners invests into private markets such as private equity, private real estate, private infrastructure and private debt.
- 4.8 Partners were awarded a Direct Lending mandate by the Council in January 2019. Direct Lending involves giving loans to middle market sized companies for projects such as refinancing, acquisitions, restructuring etc. This was previously an area funded by banks but following new banking regulations they have been forced out of this lending sector.
- 4.9 Partners have so far requested and received 55% in value of their investment mandate up to the end of December 2019.

Baillie Gifford

- 4.10 Baillie Gifford is a large independent global fund management company based in Edinburgh. Baillie Gifford is run as a private partnership with about 40 partners, all of whom work within the firm.
- 4.11 Baillie Gifford have managed an active equity mandate for the Council since 2001, with a Diversified Growth Fund investment added in 2013.
- 4.12 Baillie Gifford's mandate from October 2013 was invested 30% in Overseas Equities, 30% in UK Equities and 40% in a Diversified Growth Fund. This was changed after the recent investment strategy review and since July 2019 has been invested 55% Overseas Equities, 18% UK Equities and 27% in a Diversified Growth Fund.
- 4.13 The overall target for this fund is to outperform the benchmark by 2.5% per annum, net of fees, over rolling 5 year periods.

BlackRock

- 4.14 BlackRock was initially a large US fund management business but over the past few years they have acquired Merrill Lynch and BGI, to become one of the largest global fund managers.
- 4.15 BlackRock have managed a passive equity mandate for the Council since October 2013.
- 4.16 BlackRock's benchmark for this mandate is based on 75% Global Equities and 25% Emerging Market Equities. The mandate is passively invested which removes manager risk as it is mainly a computer based process, and their aim is to replicate the benchmark return, i.e. the market or markets return where they are invested.

5.0 Exempt and/or confidential information:

- 5.1 None

6.0 Implications :

6.1 Service Users, Patients and Communities:	The performance of the Council investments has a direct impact on the level and volume of services that it can afford to provide to the people and communities of Shetland. Monitoring of the performance therefore provides assurance that the additional funding that is created through the investments is sustainable.
6.2 Human Resources and Organisational Development:	None
6.3 Equality, Diversity and Human Rights:	None
6.4 Legal:	None

6.5 Finance:	<p>It is recognised that the actual investment performance each year will be different to what is expected or required however over the long term this will be monitored and reviewed to ensure that the Council is working towards meeting its long term investment objectives.</p> <p>It is not likely that the Council can expect a positive investment return from its investments every year but having robust governance and monitoring in place, alongside a diversified investment strategy, mitigates the financial risks and enables the Council to take action at appropriate times to address poor performance by the fund managers. This report is part of that governance and monitoring framework.</p>
6.6 Assets and Property:	<p>Long term investments are assets of the Council and represent money given to fund managers to manage on its behalf for sustainable long term benefits. The Council relies upon each fund manager's fiduciary duty and to buy and sell appropriate assets in accordance with the mandate awarded to them and to report regularly on the value and performance of the fund in which Council money is invested. The value of long term investments under these mandates can go down as well as up.</p>
6.7 ICT and new technologies:	<p>None</p>
6.8 Environmental:	<p>Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers will be expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.</p> <p>Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle the Council will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions. The fund managers, who will act in accordance with this policy, will exercise voting.</p> <p>All of the Council fund managers have signed up to the United Nations Principles on Responsible Investment. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or</p>

	equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.	
6.9 Risk Management:	All investments carry risk. Risks, such as market risk are mitigated and actively managed through diversification of fund managers, asset classes, markets, size of holdings and through performance monitoring against benchmarks.	
6.10 Policy and Delegated Authority:	<p>In accordance with section 2.2 of the Council's Scheme of Administration and Delegations, the Policy and Resources Committee has delegated authority to secure the co-ordination, control and proper management of the financial affairs of the Council.</p> <p>However, in accordance with section 2.1.3 of the Council's Scheme of Administration and Delegations, the approval of any annual investment strategy or annual investment report required by any consent issued by Scottish Ministers by virtue of Section 40 of the Local Government in Scotland Act 2003, is reserved to the Council.</p>	
6.11 Previously considered by:	None	

Contact Details:

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Appendices:

None

Background Documents:

None

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