

Highland Council Pension Fund Committee and Pension Board Meeting 18 March 2021

Transcript of Item no. 5: Statement of Investment Principles

(Timestamps within the text refer to the location of the contribution in the excerpted recording made by Highland - Palestine)

03.20

Edward Foster (Head of Finance): Section 10 of the report is important. There are a couple of things that we are looking at, to get that long-term stability in return that the fund's assets are generating and also in stability in the contributions that employers are making. Section 10.5 of the report is looking at asset allocation and again what we are looking to do there is to strike that balance between risk and return and that is also taking into account the fund's liability profile and the level of funding that we have already heard about today.

Appendix 2 to the report gives us our strategic benchmark and that's what we are looking for your approval today and that is how we are splitting our investments between different categories of assets. We are not looking for any change across the categories, the only change that we are looking for, which I think has been alluded to this morning, is just a shift away from the UK equities and offsetting that with global equities. So it's maintaining the same target allocation to equities that have been previously agreed by this committee, just a slightly different mix with less UK and more global.

In terms of the final item, on this one just to bring members attention to, and its one that is very topical at the moment, Section 17 outlines the fund's approach to responsible investing. So, Section 17.4, and 17.5 are just covering how we are looking for our managers to engage with companies. And they do report that back, we have an increasing focus on that when we are meeting our managers through the investment sub-committee, they are reporting back to us with much more information on their engagement with companies.

Point 17.6, again I think is important, just to say, to strike that balance, so where investments are compliant with fiduciary duty that we have, that we are looking to incorporate ESG items in. A good example of that is a recent of decision made through ISC that is included in the minutes, the last item on this agenda, is one of the new managers that we are looking to appoint is using the UN Sustainable Development Goals as part of their approach to asset selection. And that I think is kind of reflective of 17.6 in the report.

03.51

And I guess, just finally to highlight 17.2 , we know that responsible investing is an area of increasing focus so we are looking at holding a workshop with the members to look at any further developments we can make in this area. Thank you and I am happy to take any questions.

04.09

Cllr Richard Gale: Thank you for that Ed. I've got Councillor Loudon.

4.17

Cllr. Derek Loudon: Thanks again Richard and Ed for your input as well. The things I've picked up on in this report, page 70, scheme liabilities are 100% covered at the 31st March, so again despite having picked a terrible date, we still managed to cover our liabilities by 100%. I think that's a creditable achievement. The other things I've kind of picked up and one or two that Ed has alluded to, page 72 talks about 'an investment management agreement' and think that is something we could look at reviewing, just to see what covered when those investment management agreements are put together. Like Ed I think that the recent placement of funds with a business that were considerate in terms of UN sustainable goals was I think, an improvement, an advance, something we might want to consider for all of our future investments.

Page 74 refers to the pension fund and the fiduciary duty and we can't lose sight of the fiduciary duty. It is the most important part of the trustees' duty, but I think to be fair it perhaps isn't the only thing we should look at. I think it is important to look at the UN strategic development goals and also at the wider Environmental, Social and Governance requirements, which I think increasingly pensioners would expect to see being considered. Perhaps, I wondered, in closing, if we took ourselves back a couple of centuries, and were there in the 1800s would we be saying that investing in sugar plantations in the West Indies or North America would be acceptable because our fiduciary duty required it? I certainly would hope not. And I think I'd like to see us considering in particular the investment in General Dynamics. In future is this one that we should still continue to hold? And that's all I have to say on the matter.

8.12

Cllr Craig Fraser: It was so interesting to hear, so eloquently, Derek mention that point about General Dynamics. My concern is on, well it's not a concern, its observations on page 74 as Ed mentioned on point 17.3 and point 17.4, Social, Environmental and Ethical considerations. I just want to say this, that during all our lives we have life events that have emotional effect upon us, such as weddings, funerals and births etc. I had one the other week when I became a grandad for the first time and little Evie decided to come into the world. And this got me thinking about assets that are held within the Highland Council Pension Fund. We all know that we have a fiduciary duty as already been alluded to in administering the pension fund for the benefit of employees and pensioners of the fund. We have environmental and ethical considerations to consider as already been mentioned but I would also add that as ministers of the Highland Council Pension Fund we have a humanitarian duty as well. In my opinion, humanitarian duty should be included in the ethical element. As members know I have stated on numerous occasions, I am a humanitarian, the definition being a humanitarian means save lives, alleviate suffering and maintain and protect human dignity. I would also point out that the UK is a signatory to the UN Conventions on the Rights of the Child and this came into force on the 15th of January 1992. Now just this week, Scottish Government passed the United Nations Convention on the Rights of the Child – it was actually on Tuesday of this week – Scotland is the first country in the UK to directly incorporate the United Nations Convention on the Rights of the Child into domestic law. The UNCRC Incorporation Scotland Bill will make it unlawful for public authorities to act incompatibly with the incorporated UNCR requirements. And this is going to the crux of what I would like to consider. The four basic principles to the UNCRC: non-discrimination; best interests of the child and children; the right to survival and development; and the views of the child. Now I've come to the conclusion over a number of years that I've of the opinion that to hold assets in Highland Council Pension Fund that conflict with these aims, we will be in contravention of the United Nations Convention on the Rights of the Child. On point 2 and 3 of the 4 key principles, best

interests of the child and the right to survival and development. Now Highland Council publish a list of our investments excluding cash on a quarterly basis on the Highland Council Pension Fund website under 'investments' and as I've previously stated Highland Council has a humanitarian duty to make sure that we are not supporting companies that manufacture weapons of mass slaughter.

11.20

We really need to consider divesting General Dynamics from Highland Council Pension Fund as a matter of urgency. Any company that creates weaponry clearly doesn't respect the rights of children. The Highland Council has a humanitarian duty as well as a fiduciary duty and rightly so. The other day I spent time researching General Dynamics as they boast how effective and lethal their weapons are at killing. I looked at a YouTube clip, one of their gattling guns it fires 6000 rounds per minute and it states 'powered, highly lethal.' And just for clarity, lethality, capacity to cause death or serious damage. Are we saying this really is a suitable asset to be held within the Highland Council Pension Fund portfolio? As a humanitarian, I cannot accept for this company to be in the Highland Council Pension Fund. There are many religious, spiritual elected members, who I would think if asked, would say they are not happy with Highland Council Pension Fund holding this asset. Additionally General Dynamics is one of the companies working on the renewal of Trident. As a member of Scottish CND, I cannot accept this either. Highland Council is the client, we should be instructing the fund managers to divest this asset, if that is what is agreed and reinvest the value – I think it's about £6 million - into more ethical investments. So my basic question, thank you for letting me go through that piece there, what's the actual procedure for Highland Council to consider divesting this asset and also consider divesting some of the fossil fuel held assets? Should that question be directed to the investment sub-committee or can we actually start the process here? It's just that sort of question I'd like clarified because it will have a bearing on how we are perceived as trustees of the pension fund. We all get lobbied by various people and that lobbying is becoming more focused I think, more concentrated, and I agree with many of their sentiments, I really do, and I think not only do we have the fiduciary duty, but we also have a humanitarian duty within the ethical element of fund principles for this which is, at the end of it, an extremely well managed pension fund, let's not get away from that. Any local authority in the UK that is sitting on a pension fund of £2 billion plus, and is more or less 100% invested, to cover their liabilities, I think they would snap your hand off. So although I've been slightly negative on one of the assets within our portfolio, the overall position is that we are in a really positive position to take into consideration fluctuations in the markets etc., but my concern is the humanitarian element within the assets held within our pension fund. Thank you for your forbearance there, chair.

14.36 **Edward Foster:** Firstly, Councillor Fraser, congratulations on becoming a grandfather. As a grandfather you don't get to suffer the sleepless nights that us relatively new parents do.

Cllr. Fraser: It wasn't in the script.

Edward Foster: I guess just in terms of your main question there about what the procedure would be to consider disinvestment, I guess really it is today in terms of the approval of the Statement of Investment Principles. This is what sets kind of the tone for how we are asking our managers to invest. So our managers are aware of the Statement of Investment Principles that the fund has and we're saying to them please make sure that any investments that you have are compliant with this Statement of Investment Principles. So at the moment, the (statement of) investment principles that is before you today, is not specific it is not directive to them in any way about the types of stocks that

they may or may not hold, but it is asking them as you can see in the statement that is before you today, to consider those ESG-type considerations as part of their investment approach.

So, to cut to the chase, if you are looking for the fund going forward to exclude particular assets or particular sectors of assets, then it would be through the Statement of Investment Principles.

In terms of the workshop that I referenced that's mentioned at 17.2, that maybe is kind of the next place that as a committee we go to in terms of just developing what any kind of subsequent or any changes to the investment principles might be. I think actually going for an approach where you are looking at excluding particular sectors, that may well have one, just kind of the administrative element of it, but two, looking at what any financial implications of that might be are also key. So I think that workshop is maybe the next step to look at what can we do and how quickly can we do it. And then maybe look at bringing back a revised statement of Investment principles at some point in the future that reflects the needs of members.

17.00

Cllr Gale: Thank you Mr Foster. Councillor Saggars?

Cllr Saggars: Thank you Richard. I will ask for the forbearance of members of the investment sub-committee while I get on one of my hobby-horses. We as the trustees of the pension fund are in the investment game for the long term. Our liabilities stretch out over many years and we are in the fortunate position of having no cash-flow problems in as much that the dividend income and the contributions are more than adequate to meet the monthly pension liabilities. I am unhappy with the emphasis that we place on both fixed interest investment and alternative investments or believe that we should be placing more emphasis on equity investments. I've been running the numbers over the period since I joined the council in 2017 and the equity performance shows 37.5% uplift in value, fixed interest, 12.5%. The figures are replicated if you go back 10 years, 15 years, 20 years, 25 years. In the long term we know that equities out-perform fixed interest and such things as property. I would urge members to give some consideration to the investment policy and place a greater emphasis on investing in equities.

19.33

If I may now move on to the question of where the council should be investing. We have a fiduciary duty to invest for the benefit of the members of the pension scheme and for the employers to achieve the best financial position for the scheme. It would be well to remember that the cost of increased employer contributions affects all Council Tax payers and those that live in our local authority area. If we had to as an employer make greater contributions there is less money for other expenditure. While we keep to this fundamental principle we do encourage our investment managers to engage with the companies they invest in on ESG matters. So we are already doing this and this is made clear in the report. However the actual selection of companies for investment remains an area for our investment managers only. And where an investment may be adversely affected by any ESG factor then we expect our managers to take this into account. Now the regulations that we are guided by set out that in a case of potential conflict of interest, investment must be made in the sole interest of members and beneficiaries. The leading law case on the subject is that of Cowan vs Scargill and the conclusions from that include, 'when considering investments the trustees' - and in that case it is the pension investment committee - 'should set aside personal interest and views. And where the trustee is opposed to an investment for non-financial reasons, the

trustee should not refrain from making that investment by reason of those views. And trustees must do the best they can for beneficiaries and not merely avoid harming them.’ On those three factors I take it that we must not allow any personal feelings about armaments companies, oil, coal-mining, to affect the decisions or the instructions that we give to our investment managers. There is also the case of *Martin vs City of Edinburgh*, in summary it says that the trustee(s) must recognise that his own preference and principles but none the less he should do his best to be fair and impartial on the merits of the issue before him. And the trustees must not simply adhere to a policy where that policy restricts the choice of investments. We must not dictate to our investment managers where they may or may not invest.

23.11.

Cllr Charlie Nicholson: ‘As a councillor, we are here for our community. We are here to listen, we are here to support, we are here to make decisions. And in regards to the world that we live in today and the points that Craig brought up we have a responsibility, a responsibility to care, a responsibility to encourage one another in the way that we live our lives. And our communities make it very clear, it’s a point that was brought up earlier chair, we have 30,000 members have we engaged with them in regards to ESGs and what their thoughts are? And of course we have the full responsibility to take in investment so that we can pay out and our pension fund is a very good fund. There’s no questions about that in any way and the way the managers are taking things forward. But we really need to look at what’s before us today and the investment principles. And we have to in my opinion look at the aspect of changing and getting more involvement in the ESGs. And the question I want to come to chair, is the aspect of members receiving a lot of communication etc., and it’s nothing personal it’s about the world we live in today, the care we have for people and the importance of that. And within our pension fund, every one of us should be taking that on board. But the question I want to come to, and I’m sure other members have had this, the Highland Charter for Responsible Investment. What shall be our approach to this? I believe from the last meeting that was on and that Ed indicated, we are not members of this. And when you look at the list that’s before us from the Highland Charter for Responsible Investment, quite a few of these we are already doing and taking on board chair, as such. I would like clarification on are we going to join the Highland Charter for Responsible Investment, which will dovetail into the principles which are on page 74, and the aspect of 17.2 down to 17.7 of the report that is before us. And from there take on board what our community are saying, what the world is saying, what us members have indicated at the end of the day we need to take in the finance for our pension fund. We can do that together by changing the investment principles and bringing in more ESGs, chair. And I’ll leave it like that and wait for the response in regards to the Highland Charter for Responsible Investment. Thank you.

26.37.

Cllr Richard Gale: Thank you Charlie for that, and yes I fully understand where you are coming from. I have certainly been in receipt of many, many emails over the last few weeks from the Highland Charter, and yes it is something that we need to take into consideration. Before I finally comment on that at the end, I will let in other members who wish to speak.

26.53.

Cllr Lobban: I think we need a reality check here. You know we don’t live in a Highland bubble. We live in the real world. And I’ve heard today, you know, Cllr Loudon, try and refer or infer our

investment principles back to the days of slavery. Well I think that's quite ludicrous and of course we wouldn't, but if we were sitting here in 1745 would we be divesting ourselves of investment in flintlock pistols or claymores? So history is history, we live in the real world, the today world. And with reference to General Dynamics, I'm not a General Dynamics shareholder myself, so I can speak on it quite freely, unlike some members who are actually members of CND, who should maybe declare an interest. The simple fact of life is they make other things, other than weapons, and every government in the world including in the UK, would have to buy some forms of weapons somewhere. So by us divesting our investment in any of the companies which makes armaments, then they would still go on because they would have to go on. Sometimes you see the average policeman at the corner of the street, he's wearing a pistol that was made by an armaments company. And with respect to fossil fuels, I'd be prepared to listen more closely to every single one of you who spoke against fossil fuels drove an electric car that was purely fuelled by a renewable source and didn't drive on a road that was made of bitumen. So I'm sorry, we need a reality check here and we should not make snap decisions about which organisations we invest in or not. Thank you, chairman.

28.55

Cllr Jarvie: I have to say I take great exception to some of the earlier statements made in the item today. Particularly from Cllr Fraser, who states that 'as a member of Scottish CND, I cannot accept this' in relation to an investment this fund holds. Somebody else mentioned, 'we are here to represent our community.' That may well be true for council in general, but not on the pension committee, where we are trustees of the pension fund, for thousands and thousands of people. And outside external influences or membership of bodies should pay no interest whatsoever to what decisions we make in this body here. I hope you will withdraw those comments and declare your interest of memberships in such organisations which may influence your decision making in this chamber here. Now you can talk at length about this but we'll all have seen from the number of emails we have had since we have been trustees of this pension fund the various asks to divest from X company, to divest from equities held in X country. And the question I really have to pose is, is this really just one company that we are going to divest from or is this the start of a very slippery vertical greased track, where once we start there is no stopping? Because General Dynamics, as was mentioned, doesn't just create weapons, it also owns Gulfstream, a civilian aviation company, almost essential to the continued economy and connectivity around the world for some of the largest companies. And I'm somewhat tired of hearing this argument that all arms industries are somehow intrinsically evil. Those of you who would have seen the news at the weekend would have seen the report that outlined quite clearly that the European NATO nations do not currently have the military strength to fend off an attack from Russia. You will have seen announcements just yesterday on nuclear stockpiles. We don't live in a lovely fluffy world where we can trust everyone around us when defence is a cornerstone of a civilised, democratic country. And what does divesting do? The Highland Council's few million pound interest in one particular company? I'm sure they will be simply just reeling from that. In terms of fossil fuels which comes up, it's the contradictions from so many of these asks in asking to divest from fossil fuels or from mining, when it is the fossil fuels companies, BP for example, that are in the forefront of developing electric car charging, through their existing forecourts. They own the infrastructure now, they will own the infrastructure in future. Are you seriously saying we should divest and take money away from advancing the rollout of the next green thing? Or when we are asked to divest from mining we should divest from the companies who are sourcing the materials and rare metals that actually power the electric cars, the same things we're

also being asked to invest in. It's the cyclical hypocrisy and the idea that we can simply treat one, just one, separately or differently, with no impact whatsoever. But you only need to look at the one to see the utter hypocrisy that comes from this movement of divestment, which is so far removed from our fiduciary duty. When in reality ESG is at the core of everything because sustainability is key to the ongoing financial liquidity of the pension fund. I remain opposed to any such attempts to divest and impact negatively the future returns on political whims and quite frankly empty and illogical arguments.

33.14

Cllr Thompson: Thank you chair and thank you members for the comments so far, they've been very interesting. There's a number of topics I want to touch on chair, I'll try and go through them as quickly as possible. I think the debate so far which is interesting, and I think there's some very thoughtful comments been made, really comes down to the question as to whether our ESG policy is too weak, too strong or just about right. Clearly from the comments from members we've seen so far, it's highly subjective. Right across the chamber you'll probably get... everyone will have a slightly different view on what appropriate ethical balance is for investing. It is fundamentally a political question. To my mind, the examples that we've been given emphasise that whether the policy is weak or not, or strong or not, it comes down to a choice between divestment and engagement with companies. I am strongly of the view that shareholders have the responsibility to make sure that the companies they invest in act ethically. And that can only be done through engagement. The end result of divestment is to send companies into private ownership and that way we are all made worse off I think, because transparency is reduced. Engagement is fundamental to what we do in terms of our ESG policy and I would encourage anyone who has questions about our ESG policy to look at the engagement statistics of our managers. The number of times they vote against company proposals, the changes they seek, from equal pay through to workers' rights to health and safety. You can look at our managers and see them doing a good job of holding company management to account. There's been a number of examples put forward where ethics are difficult and I've had a huge email input to my inbox over the last few weeks and months. But just to give you an example of some of the companies that come forward which are 'unethical' and emphasise the kind of political and subjective nature of this, whisky manufacturers is one, fish farms is another, one company which is often cited happens to manufacture wind turbines. This company has a very large contract in Scotland and may establish manufacturing in Scotland and you might wonder why wind turbines are considered unethical. The company also happens to manufacture aircraft engines and so falls within some people's definition of a defence industry. So it is extremely difficult to I think be objective about any of these potential investments. Which is why I think we do need to consider the question that Cllr Nicolson put, which is a good one, which is about to what extent do we subscribe to or agree with the proposals put forward by various Highland pressure groups? And while I have some sympathy for the direction of travel they advocate and indeed the fund is moving in a more ESG direction, you can see that in the minutes at the back of the pack, the sort of steps we are taking to increase the emphasis on ESG within the portfolio and you'll see more of it going forward. But just to come to their proposal, effectively what they are suggesting is that we take significant more control in-house. So that we would be much more proactive in selecting individual investments and telling our managers what they should and should not invest in. I have an issue with that, as someone who worked in the industry in the past. On the basis of, one initial issue, how would you fund that? For us to do internal investment control like that we would need a substantial staff. I would estimate that would be a six, seven or even eight figure sum to fully staff that and do a proper job of selecting

investments when we have approximately a thousand or more individual investments. It's an extremely onerous task that they are suggesting. The second thing they are suggesting is that we would remove the selection of investments from democratic control if you like, from a committee that is made up of those who are democratically elected and hand it over to an unelected advisory body. I fundamentally disagree with that approach. I think it's at the heart of everything we do that the investment policy is determined by those who are answerable to the voter. So trying to answer Charlie's question, I can't support the proposal that various pressure groups are putting before us, primarily because it's anti-democratic but also the consequences in terms of the financial drag on the fund could be very significant. I'll leave it there chair. There's a huge amount to say on this issue. I'm more than happy to continue the debate offline with anybody who'd like to contact me about it. I would say, because there are many who've emailed me, I am trying to respond to all of them. I'm prioritising my ward constituents first, I will try and get round everyone. I don't like to send out copy emails, I respond to them all individually. It may take some time but as I say I will try and respond to everyone who has contacted me about this issue individually. It is important and I hope they will agree we are making progress. Thank you.

39.06

Cllr Carolyn Caddick: I think... I've listened to what a lot of others have said on this issue. I think our fund managers are doing a fantastic job, we are very lucky to be in the position that we are in and I'm certainly not in favour of us becoming more directive. I think we pay them to do a good job, they do their job and we protect our funds and therefore our 30,000 members. Because we are not here in the capacity as councillors to represent necessarily our local constituents in quite the same way as we are on lots of other committees. This is really about the pension fund itself but we must listen to those outside but primarily our fiduciary duty is to our members. I do think when discussing the balance of equities over gilts and bonds, I think it's all about risk, an attitude to risk, and I think that's something that we need to discuss in a workshop, I'm quite happy to have a workshop to look at all these arguments but its never as simple as people perhaps would like it to be. I know that we all struggle with the complexity of that. I think we are following ESG policy, it is very subjective. I have also responded, I think to over 50 emails so far, because I like to respond to people that write to me but actually I acknowledge people's concerns and I take great care to explain my position, which is that we are moving towards an improved ESG position, but we cannot be directive with our fund managers, that's what we pay them for. As I said, I am supportive of a discussion around this about future strategy, not now because I think we are here to agree this one, but I think for the future it is certainly worth considering. But we cannot look at one industry or funds in arms, because as its been pointed out, that would be slightly hypocritical as the government's first duty is to protect its citizens and that includes having the right equipment to do so. So to take ourselves out of funding any arms seems slightly counter-intuitive. You could then also argue from the point of view of other people's opinions on what is important on fossil fuels perhaps, is even more critical, but as has already been discussed, some of the public companies that are on the exchange that we have stocks in, are Shell and BP and these companies are actually investing in the renewables in the future. The private fossil fuel companies aren't even perhaps going in that direction but we have no influence over them because they are on the private market. When it comes to the public shares I think that's where we can make a difference so to cut their legs off from under them when they are trying to do the right thing, I think is harsh. I think you could then look at tobacco, you could look at alcohol, we could talk about red meat and we could talk about mining for minerals and we could talk about fish farms... people are very subjective about what they object to and I think that if we take everybody's into

consideration we would be stuck trying to find something that we could actually invest our money into that would actually give us the return that we need. So I am very happy with the recommendation today, very happy with the work that's being done. It's always good to look, it's good to listen, but I think for me, we are going in the right direction. Thank you.'

43.29

Cllr Paterson: Thank you very much chair. I won't repeat what others have repeated, I just wanted to say, you know I've listened to the debate which was really interesting, and I agree with Bill Lobban. Sadly we don't live in a perfect world. I wish we did and there are many things that I object to that other people don't. You know, it's very hard to take an agreement which will offend people. We have all received the letters asking us not to support various certain investment funds, but we can't agree with everyone and you know, they can come up with different arguments than what I would think, so we have difficult decisions to make and it would be good to talk at more depth about them. Thank you very much.

44.35

Cllr Loudon: Yes, I won't refer to Cllr. Jarvie's description of I think, myself and others as hypocrites. What I want to comment specifically on is the new Act, the United Nations Convention on the Rights of the Child, the UNCRC being incorporated into Scots Law. On page 137 of today's papers, we are reminded of our requirement not to act 'ultra vires' and for those who didn't do Latin it requires for us not to act beyond the law. So we are not allowed to do things which are illegal. And the one thing that I would like to ask is if our investing principles, which would allow us to invest in General Dynamics, are at variance with the newly-enacted CRC which gives children the right to life. It's a pretty low bar, a right to life, but I think by investing in this company we may be in breach of our requirement to ensure that we don't in any circumstances infringe that right. So I don't want to say more than that but really I want to be sure we are not acting ultra vires by continuing to hold shares in that company.

48.52

Cllr Bremner: Thank you very much chair. I hadn't actually intended on contributing to this item but I felt that I really wanted to after hearing Cllr. Jarvie and the manner in which his contribution was made. I heard also Cllr. Lobban said 'history is history' and that's a fair enough statement and I understand that but right now we are the custodians of history. We are at that point where now, at this point in history, we can shape it so that our community legacy can look back on us and say, or see, if we will be held in high regard or whether they will be looking to pull statues of us down and chuck them in the river in a few decades time. That now, as part of history, we shape the legacy of our community in the here and now. If we were back in the days of the slave trade would we in hindsight still enact the same kind of thing? As Cllr. Thompson said, our considerations in terms of investment are diverse, they are more diverse than many members of our communities or the pension fund would probably appreciate. And to tell me that we take no cognisance whatsoever of where our investment goes, if I understood Cllr. Saggars correctly, is quite frankly, to me, irresponsible. And that's as far as my language in respect of this discussion will go. We aren't making snap decisions here that I am aware of, that's the point I agree with Cllr. Lobban. We're not here making snap decisions that I'm aware of, we're making considerations and should be doing so with a fair amount of great tolerance. It's a responsible committee. We have responsible members I would

like to think. We are elected not to only represent the people. We are also here to consider how that reflects with our decision-making and to do that responsibly. There are many of the pension fund members who may not be happy if we don't challenge or consider our investment strategy on their behalf and on behalf of the contributions they make. Who are we to sit back and say that we can't represent them, it should be all down to the fund managers and their understanding on how best to invest the funds? They certainly all wouldn't be of a consideration...(chair interrupts) We are here to consider the investment strategy of important funds. Further discussion on this, not seeking a snap decision, would be, as far as I am concerned, very welcome. And a responsible one, not influenced heavily by external groups but by ourselves. We may not live in a perfect world but you know something, we can certainly aspire to that surely.

49.49

Cllr Carmichael: Thank you chair. We have discussed this every year for the 18 years I have been on the council and the pensions committee. We took legal advice at one time, we engaged counsel, and I think we should be reminded of that. I think we then challenged it again. We have been through this. Our first duty is to our pensioners. Our first duty is to ensure we have enough funds in to cover the liabilities for the long term. I don't think we are the experts. I understand if you have strong views, you want to promote them and you would like us to agree with them. But on this committee here we are here to ensure that our liabilities are covered. And that's our first and last duty. And we engage managers who really are experts in their jobs, and get paid rather a lot of money, and we take their advice. And I think that's what we have to listen to. I hear your personal views, but I don't think on this particular committee personal views should override what we have, our fiduciary duties. Thank you.

51.25

Cllr McWilliam: Good afternoon Cllr Gale and thank you for allowing me to speak, I'm not a member of your committee, indeed I'm not sure I've ever attended your committee before. It's just not an area of the council and its operations that I've had much prior dealing with. I've listened with great interest, I've also received a number of representations from groups in the community who have concerns, which I believe are legitimate about some of the investments held by the council's fund. I have heard all of the arguments which have been very well put and some have been put really very passionately. I'm left wondering after hearing some of the contributions what the point of having a pensions committee is at all. There surely has to be some level of democracy involving the fund so I don't wish to take up much of your committee's time, but I would like to ask the question, given that I am so unfamiliar with the previous dealings of this committee, can you give me, or perhaps any other member of the committee give me, any recent examples of where the committee has made a request of the fund manager to shift an investment to either take an investment out or to invest in a particular stock as a result of public representations through the democratic process? That's what we are here for, to represent the views of our constituents, so I would be very interested to know of any recent examples where the fund has been affected in that way as a result of the wishes of the people we serve? Thanks very much indeed Cllr. Gale.

53.22

Cllr Gale: Thanks for that. What I can say to you is that the investment sub-committee regularly discusses investment with the fund managers, we get regular reports from them and they are... we

take their advice and we offer our suggestions and directions of travel in terms of investment. I'm happy if anyone else would like to respond to that or Cllr. Thompson, have you got any points you would like to make on that?

53.53

Cllr. Thompson: Chair, can I offer a very brief comment as the chair of the committee which regularly meets with the investment managers? We meet investment managers at every meeting of the ISC and part of those discussions are around the investments within the portfolio and we regularly challenge them on individual investments. It's their decision as to how they act not the sub-investment committee's, but we do challenge them.'

5.21

Cllr. Nicolson: Thank you chair, a very interesting discussion. I just want to make a couple of points. First of all in regards to councillor Andrew. We are here because we are appointed by our community. That is why we are here. And we are here to make the decisions. In relation to the fund managers, it keeps coming up, there is no question at all in any way about the fund managers. What they are doing and how they are doing things in taking things forward is excellent and there shouldn't be any negativity in some of the points that are being made in relation to that. From my perspective, they are really good managers and the fund backs that. It's not personal views I have, it's from my community and that's the way I am taking it forward. Cllr Andrew, it's not political whims, you said you've got no interest? Well, I'm surprised at comments like that because that's why we are here to take interest, to make decisions. And I would say hear, hear to Cllr. Raymond's points that he indicated. And I take on board the point that Cllr. Ben made in relation to the Highland Charter for Responsible Investment and the point about establishing an advisory body. Yes, that's a fair point but there are others within that Charter that we could take on board and take forward. And I will be suggesting that our ESG is too weak and we should look at it. And my final point chair, is there's so much discussion on this, as a committee today, can we not delay the decision on this report before us? Because you can see there's plusses and minuses from different members here as such, it's a major topic, and at the end of the day we are here to do the best for our members. But we are also here to care for the world that we live in and that's politically, from my perspective, I'm not a member of a political party, I'm not a member of CND, or anything like that, but I must listen to my community and listen to what they are saying. And all they are saying to us is, find the middle ground. We can't expect you to fully take on board 100% ESGs etc., but we expect you to be moving forward to safeguard the climate that we live in, the SGs that we take on board. But we are moving forward and we need to move forward a wee bit more. So is there a possibility chair, that this report before us is left for further discussion and presented back to us at a later date? Thank you chair.

57.42

Cllr Gale: Thank you Cllr. Nicolson, all relevant points. What I would say is that we're here just to approve this particular Statement of Investment Principles today but that there also will be time to review these things, so nothing is fixed in what we are doing. We can always come back and look at things and I think ,from going from item 17.2 on this particular report, there is going to be a responsible investment policy statement, a workshop to be held for the pension committee during 2021. And I think that is really relevant to what we are able to do, so we are going to review that at

that particular time. I've got one more person wanting to speak, Cllr. Jarvie and this will be the last person.

58.26

Cllr Jarvie: Yes, chairman, hopefully you can direct my question to the correct person to answer. And it's on some of the comments that I've heard. As far as I'm aware I'm here as a committee member, as a pension trustee, as a quasi-trustee as it is, and that is to ensure an appropriate return in taking account of all factors and ensuring long-term liquidity of the pension fund for all those who are members of it. That is what I understand my role here to be, much like planning, it is separate, you leave your personal views, as challenging as it may be, at the door.

But when I've heard comments from some members today of 'you're here' and 'take a stand' and to 'reflect the council's decision-making in other bodies', 'we're here to represent our communities' and as the last speaker said, 'we're here to care for the world that we live in', well this is more than applicable to any other council meeting, it's certainly not something I'm aware of being the case here. I certainly in my statement reflected entirely upon the legal judgements as Cllr. Siggers also did and indeed for anyone here who is a member of the committee, I do have the full text of the Martin v Edinburgh case, which upon becoming a member of this committee I called up this court service to ask for a full copy of the judgement and do have that in my office and more than happy to provide a copy to anyone. But chair, could you direct my question to the right person, of exactly what we are here for? And to address some of the comments made by some members because it's certainly not what I understand but I'm happy to stand corrected if that's the case.

1.00.25

Cllr Gale: Thank you Cllr Jarvie. Well as far as I am concerned, we are here to fulfil our duties as trustees of the pension fund. But the debate that has taken place has been really useful and as there have been many varying views across the whole debate and I think it's excellent that this committee can come together and discuss these views in a civil fashion. There has been some language that I have been concerned about but generally speaking, there has been a lot of respect shown for members and their views, and I will try to take them all on board. From my perspective, we have certainly a fiduciary duty to ensure that the fund is fit for purpose and fulfils our commitments to our members. But we also have an ethical duty as well, and we can't split the two things up, I'm afraid. I think the way things have gone over the last three years, we have had an excellent return for our investments and it's in no small way to our fund managers. Also to the investment sub-committee that is so well-chaired by Cllr. Thompson. So what I think, where we are at the moment, we are in a strong position. I think we have got a workshop coming up this year to discuss responsible investment and I think that's where we should take this forward from that point. And I would like to move at this point to approve the Statement of Investment Principles as they stand at the moment. Can I have agreement on that please? (Agreed.) Thank you members. It's been a very useful debate.'

1.02 Ends

