

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Tuesday, 8 November 2016
<b>Report Subject</b>	Investment Strategy and Manager Summary
<b>Report Author</b>	Pension Finance Manager

### **EXECUTIVE SUMMARY**

The purpose of the Investment Strategy and Manager Summary is to update Committee Members on the performance of the Fund's investment strategy and performance of the Fund's investment managers.

The report covers the quarter ending 30 September 2016.

The Fund experienced a strong quarter from an Investment Strategy perspective, with positive returns from all strategic asset classes except the Managed Account Platform. Key facts covered in the report are as follows:

- Over the 3 months to 30 September 2016, the Fund's total market value increased by £106.3m to £1,586,595,093.
- Funding level information has not been provided. The previous liability roll forwards were based on the discount rate methodology from the 2013 Actuarial Valuation. The methodology has changed to a CPI basis for the 2016 Actuarial Valuation, the results of which have yet to be finalised.
- Over the quarter, total Fund assets returned 8.1% compared with a composite target of 5.7%.

The Fund's investment strategy was reviewed (on a light touch basis) and the initial results (covering the Fund's assets excluding the Flightpath/De-Risking framework) presented to Committee in September 2016.

A number of the Fund's investment managers outperformed their respective targets during the quarter. There was particularly strong performance from the Fund's "Best Ideas" portfolio.

## RECOMMENDATIONS

1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 September 2016.
2	That the Committee considers the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

## REPORT DETAILS

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	<p><b>Investment Strategy and Manager Summary 30 September 2016</b></p> <p>Over the 3 months to 30 September 2016, the Fund's total market value increased by £106.3m to £1,586,595,093.</p> <p>Total Fund assets returned 8.1% over the quarter, compared with a composite target of 5.7%.</p> <p>Over the one year period, Total Fund assets returned 17.4%, compared with a composite target of 15.4%.</p> <p>Over the last three years, Total Fund assets returned 10.5% p.a., compared with a composite target of 9.5% p.a.</p> <p>The strongest returns over the quarter came from the Equity allocation and the "Best Ideas" portfolio assets.</p> <p>The Fund's asset portfolio was within the existing strategic ranges set for all asset classes, except Multi-Asset Credit, during the period. However the Multi-Asset Credit allocation is close to the proposed new strategic weight.</p>
1.02	<p>At this time, there are no concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates.</p> <p>The strategic allocation and mandates will change following the implementation of the 2016 Investment Strategy Review.</p> <p>The Fund's investment consultant will be reviewing the mandate specification for each of the manager positions as part of the planned light touch review of investment strategy later in 2016. This is to ensure that the structure of the mandates remain appropriate to serve the needs of the Fund going forward. Meetings with the managers have been arranged for November 2016.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk.</p> <p>Funding and Investment Risks (F4)</p> <p>Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.</p> <p>Funding and Investment Risks (F3)</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Investment Strategy and Manager Summary 30 September 2016

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Investment Strategy and Manager Summary 30 June 2016.</p> <p><b>Contact Officer:</b> Debbie Fielder, Pension Finance Manager  <b>Telephone:</b> 01352 702259  <b>E-mail:</b> <a href="mailto:debbie.a.fielder@flintshire.gov.uk">debbie.a.fielder@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>A list of commonly used terms are as follows:</p> <p>(a) <b>Absolute Return</b> – The actual return, as opposed to the return relative to a benchmark.</p>

- (b) **Annualised** – Figures expressed as applying to 1 year.
- (c) **Duration** – The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
- (d) **Market Volatility** – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.
- (e) **Money-Weighted Rate of Return** – The rate of return on an investment including the amount and timing of cashflows.
- (f) **Relative Return** – The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark.
- (g) **Three-Year Return** – The total return on the fund over a three year period expressed in percent per annum.
- (h) **Time-Weighted Rate of Return** – The rate of return on an investment removing the effect of the amount and timing of cashflows.
- (i) **Yield (Gross Redemption Yield)** – The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

**A comprehensive list of investment terms can be found via the following link:**

<http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf>