

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 29 November 2017
Report Subject	Economic and Market Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide Committee Members with an economic and market update for the quarter.

This report covers the period ending 30 September 2017.

Markets have continued to hit highs over the quarter and investors continue their search for the ever more elusive capital returns. Global investment conditions remain stable – with the International Monetary Fund’s outlook for global growth remaining unchanged at 3% in 2017. Other key contributors driving sentiment include:

- Stabilisation in global energy prices
- Subdued inflation
- Markets have priced in Interest rate rises in the UK and US, albeit timing is uncertain.

Over the quarter some of the clear political risk that markets have been facing over the last few years showed some signs of waning. Whilst markets may have got the election outcome that they desired from the German elections in September when Angela Merkel returned as Chancellor, this was not the emphatic victory that the EU needed from Germany. Political concern this quarter focussed on the Pacific Rim with North Korea’s missile testing causing International outrage.

There were positive returns across most markets in the period, with the exception of Hedge Funds and High Yield. Equity markets continued to rise with positive returns in all major markets; Emerging and Frontier markets lead the way returning 4.6% and 4.7% respectively. Commodities markets returned to positive territory after recent falls, and Bond markets were marginally positive with the exception of High Yield which suffered a marginal decline of -0.4% after positive returns in recent quarters.

RECOMMENDATIONS

1	To note and discuss the Economic and Market Update 30 September 2017.
2	To note how the information in the report effectively “sets the scene” for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund’s asset portfolio.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	Economic and Market Update 30 September 2017 The economic and market update for the quarter from the Fund’s Investment Consultant is attached and will be presented at Committee. The report contains the following sections: <ul style="list-style-type: none">• Market Background – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies.• Economic Statistics – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing• Market Commentary – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).
2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.
3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.
4.00	RISK MANAGEMENT
4.01	None.
5.00	APPENDICES
5.01	Appendix 1 – Economic and Market Update Period Ending 30 September 2017

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update Period Ending 30 June 2017.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>
7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <ul style="list-style-type: none"> (a) Absolute Return – The actual return, as opposed to the return relative to a benchmark. (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. <p>A comprehensive list of investment terms can be found via the following link:</p> <p>http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf</p>