

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 29 November 2017
Report Subject	Investment Strategy and Manager Summary
Report Author	Clwyd Pension Fund 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 2017.

From an Investment Strategy perspective, the Total Equity, Total Multi Asset Credit, the Managed Account Platform and the Tactical Allocation Portfolio produced positive returns and outperformed their composite targets. The In-house assets achieved a positive return, but underperformed their composite target. Key facts covered in the report are as follows:

- Over the 3 months to 30 September 2017, the Fund's total market value increased by £15.0m to £1,757,395,109.
- Funding level information has not been provided. However liability roll forwards are now based on the discount rate methodology on the CPI basis.
- Over the quarter, total Fund assets returned 1.4% in line with the composite target which also returned 1.4%.

The benchmarks are reflective of the new strategic weightings although full implementation of the strategy is on going.

There was mixed performance amongst the Fund's investment managers in terms of outperforming or underperforming their respective targets during the quarter.

RECOMMENDATIONS

1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 September 2017.
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

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Investment Strategy and Manager Summary 30 September 2017</p> <p>Over the 3 months to 30 September 2017, the Fund's total market value increased by £15.0m to £1,757, 395,109.</p> <p>Total Fund assets returned 1.4% over the quarter, matching the composite target which also returned 1.4%.</p> <p>Over the one year period, Total Fund assets returned 9.2%, compared with a composite target of 8.1%.</p> <p>Over the last three years, Total Fund assets returned 10.0% p.a., compared with a composite target of 9.3% p.a.</p> <p>The strongest absolute returns over the quarter came from the Equity allocation and the Managed Account Platform.</p> <p>The Fund's asset portfolio is broadly within the new strategic ranges set for the asset classes as agreed in the recent strategy review. However there are a number of deviations which are being addressed as part of the recent Private Credit manager appointments</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 Fund's investment consultant has undertaken the manager search for the appointment of a Private Credit manager. An appointment was made in respect of a European Private Credit manager in April whilst the process to appoint a North American Private Credit manager concluded in October 2017.</p> <p>The Smart Beta allocation, which will be managed by BlackRock, is to be concluded by mid November 2017.</p>
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	<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>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>

5.00	APPENDICES
5.01	Appendix 1 – Investment Strategy and Manager Summary 30 September 2017.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Investment Strategy and Manager Summary 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> <p>(a) Absolute Return – The actual return, as opposed to the return relative to a benchmark.</p> <p>(b) Annualised – Figures expressed as applying to 1 year.</p> <p>(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.</p> <p>(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.</p>

- (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>