

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 28 November 2018
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 2018.

Over the last three months, equities have broadly maintained their positive momentum from the second quarter. Nonetheless, it certainly hasn't been a clean sweep this time around. We have seen a divergence of returns as developed market stocks, with the exception of the UK market, topped the performance tables; whilst emerging markets, both debt and equity, have come under continued pressure.

Similar themes have dominated the direction of travel this quarter. Global economic growth continues at a robust rate; corporate balance sheets remain fairly healthy and earnings growth remains supportive of valuations. However, political rhetoric has remained elevated over protectionist trade policies, whilst currency volatility has rapidly increased and unsettled markets throughout. Moreover, in Europe, Italian politics have failed to appease tensions and provide the much needed unity across the European bloc ahead of Brexit next year.

There were positive returns across most equity markets in the period, with the exception of the UK and Frontier markets. The North American market increased by 8.5% in the quarter, and was the main driver behind the 6.7% return in developed overseas markets. Japanese equities also showed strong performance returning 5.0%. Commodities markets were broadly neutral during the quarter but have returned 20.9% over the last twelve months. With rising yields, bond markets showed negative returns.

Sterling continued to weaken against the US dollar and the Euro, although strengthened against the Yen during the quarter.

RECOMMENDATIONS

1	To note and discuss the Economic and Market Update 30 September 2018.
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	<p>Economic and Market Update 30 September 2018</p> <p>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:</p> <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 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update Period Ending 30 June 2018.</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>