

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4 September 2019
Report Subject	Economic Update, Investment Strategy and Manager Summary
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the Economic Update, Investment Strategy and Manager Summary is to give Committee Members an economic and market update for the quarter, and to summarise the performance of the Fund's investment strategy and its investment managers.

The report covers the quarter ending 30 June 2019.

Key points to note:

Economy and Markets

- Strong returns across all markets in quarter. In the first six months of 2019, May was the only negative month for equities.
- US/China trade war still key driver for markets.
- Brexit and new Prime Minister are key issues for UK and Europe.

Clwyd Fund Strategy and Performance

- Over the three months to 30 June 2019, the Fund's total market value increased by £91.1m to £1,957.3m.
- Fund Performance over 3 months, 12 months and 3 years; +4.2%, +6.0% and +9.5% p.a. respectively.
- Best Ideas, Equities and LDI were the best performers over the quarter.

RECOMMENDATIONS

1.	To discuss and comment on the Market and Economic update for the quarter ended 30 June 2019, which effectively sets the scene for the Investment Strategy and Manager Performance summary.
2.	To discuss and comment on the Investment Strategy and Manager Performance summary for the quarter ended 30 June 2019.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Economic and Market Update</p> <p>The economic and market update for the quarter from the Fund's Investment Consultant is attached at Appendix 1. The report contains the following sections:</p> <ul style="list-style-type: none">• Market Background – contains key financial markets data for the period under review, including performance of selected markets including equities, bonds inflation and currencies.• Economic Statistics – contains key economic statistics during the period under review, including Gross Domestic Product (GDP) Growth, Inflation Employment and Manufacturing.• Market Commentary – provides detailed commentary on the economic and market performance of major global regions and financial markets.
1.02	<p>The quarter saw strong returns across most markets, and when this is added to the market rally in the first quarter of 2019, it ensured that markets recovered from the lows reached in the final quarter of 2018. Whilst the trend has been a positive one over the three and six month periods there remains volatility within markets and the positive sentiment remains fragile.</p> <p>The US-China trade war is having far reaching ramifications, with global growth slowing and companies starting to revise earnings down.</p> <p>In the UK, despite avoiding a 'no-deal' Brexit on 12 April, there still appears no obvious resolution to the negotiations. The lack of progress ultimately led to the resignation of the Prime Minister. This continuing uncertainty led to falls in the value of Sterling against all currency majors.</p>
1.03	<p>The outlook for markets remains uncertain, as the fragile nature of the positive sentiment could mean that any number of factors could have an impact. The market is pricing in looser monetary policy in the coming months, with expectations of two rate cuts in the US before the end of 2019.</p>
1.04	<p>Investment Strategy and Manager Summary 30 June 2019</p> <p>Over the 3 months to 30 June 2019, the Fund's total market value increased by £91.1m to £1,957,295,075; combined with a rise of £82.1m in the first quarter, gives an overall increase of £173.2m since the start of the year. This has more than made up for the falls in value the portfolio saw in the final quarter on 2018.</p> <ul style="list-style-type: none">• Total Fund assets returned 4.2% over the quarter, outperforming the composite target which returned 3.0%.

	<ul style="list-style-type: none"> Over the one year period, Total Fund assets returned 6.0%, compared with a composite target of 6.1%. Over the last three years, Total Fund assets returned 9.5% p.a., ahead of the composite target of 8.4% p.a. <p>The strongest absolute returns over the quarter came from the LDI portfolio and the Fund's Equity assets. LDI returned 7.6%, and the total equity portfolio returned 5.3%. In addition, there was strong absolute and relative performance from the Tactical Allocation Portfolio over the quarter, with a return of 4.0% compared to the benchmark return of 1.6%. This was due mainly to strong performance from the Best Ideas portfolio which returned 5.7% over the quarter.</p> <p>The Fund's asset portfolio is broadly within the strategic ranges set for the asset classes as agreed in the strategy review. As previously reported the Private Credit portfolio will take some time to get to the target weight due to the nature of the asset class. The largest overweight position is the LDI portfolio which is being reviewed as part of the wider assessment of the Fund's risk management strategy.</p>
1.05	<p>At this time, there are no immediate concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates.</p> <p>As reported at the last meeting, as part of the Funds Strategic Asset Allocation review scheduled for later in 2019, individual manager mandates will be reviewed. The Fund will need to be conscious of the plans of the Wales Pension Partnership when assessing its investment managers, as the costs of transitioning to new management arrangements ahead of any potential move to the Pool could be significant.</p> <p>This work will take place with the Fund's investment consultant in conjunction with the 2019 Actuarial Valuation.</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	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.

	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.
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5.00	APPENDICES
5.01	Appendix 1 - Economic and Market Update - 30 June 2019 Appendix 2 - Investment Strategy and Manager Summary - 30 June 2019

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update and Investment Strategy and Manager Summary 30 June 2019. Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk

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> <p>(e) Money-Weighted Rate of Return – The rate of return on an investment including the amount and timing of cashflows.</p> <p>(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.</p> <p>(g) Three-Year Return – The total return on the fund over a three year period expressed in percent per annum.</p> <p>(h) Time-Weighted Rate of Return – The rate of return on an investment removing the effect of the amount and timing of cashflows.</p>

- (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>