

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday, 28 November 2019
Report Subject	Economic Update, Investment Strategy and Manager Summary
Report Author	Head of Clwyd Pension Fund

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 September 2019

Key points to note:

Economy and Markets

- Positive returns across most markets in quarter. Strong positive returns in year to date.
- US/China trade war still key driver for markets.
- Brexit and new Prime Minister, and General Election are key issues for UK and Europe.

Clwyd Fund Strategy and Performance

- Over the three months to 30 September 2019, the Fund's total market value increased by £39.2m to £1,996.5m.
- Fund Performance over 3 months, 12 months and 3 years; +2.0%, +5.4% and +7.5% respectively.
- In-House assets and Tactical Allocation portfolio were best performers over the quarter.

RECOMMENDATIONS

1.	To discuss and comment on the Market and Economic update for the quarter ended 30 September 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 September 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 the continuation of the positive returns seen in the first six months of 2019. Whilst the trend has been a positive one over the three months and the year to date the positive sentiment in markets remains fragile, and there have been periods of volatility.</p> <p>The US-China trade war is still impacting on the global economy and whilst has calmed in recent weeks always has the potential to re-ignite and cause further periods of volatility.</p> <p>In the UK, there is still only one subject dominating. The UK's exit from the European Union has continued to affect markets and whilst the exit date has been pushed back again to 31 January 2020, the outcome of the general election in December will clearly have a significant impact. 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.</p>

1.03	<p>Investment Strategy and Manager Summary 30 September 2019</p> <p>Over the 3 months to 30 September 2019, the Fund's total market value increased by £39.2m to £1,996.5m; combined with a rise of £173.2m in the first six months of 2019, gives an overall increase of £212.4m since the start of the year. This has now 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 2.0% over the quarter, outperforming the composite target which returned 1.7%. • Over the one year period, Total Fund assets returned 5.4%, in line with the composite target of 5.4%. • Over the last three years, Total Fund assets returned 7.5% p.a., ahead of the composite target of 7.0% p.a. <p>The strongest absolute returns over the quarter came from the Fund's In-House assets and the Tactical Allocation portfolio. In-House assets returned 2.0%, and the Tactical Allocation portfolio 1.9%. Within the In-House portfolio Private Equity was the strongest performer returning 4.0% in the quarter. In the Tactical Allocation portfolio there was continued strong performance from the Best Ideas portfolio which returned 3.1% in the quarter.</p> <p>The Fund's asset portfolio is broadly within the strategic ranges set for the asset classes. 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 within the LDI portfolio.</p> <p>The Fund's Strategic Asset Allocation is currently being formally reviewed and will consider the strategic overweight and underweight positions. There is a report elsewhere on today's agenda considering this.</p>
1.04	<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 which is being presented elsewhere on today's agenda, individual manager mandates will be reviewed. The Fund is 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>

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	<p>Appendix 1 - Economic and Market Update - 30 September 2019</p> <p>Appendix 2 - Investment Strategy and Manager Summary - 30 September 2019</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update and Investment Strategy and Manager Summary 30 June 2019.</p> <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund 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>

- (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:

<https://www.schroders.com/en/uk/adviser/tools/glossary/>