

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday 11 th February 2020
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 31 December 2019

Key points to note:

Economy and Markets

- Positive returns across markets in quarter, and strong positive returns for calendar year.
- US/China trade war key driver for markets, although in December a trade started to look more likely.
- Brexit and new Prime Minister, and General Election remained key issues for UK and Europe.
- Since the end of 2019, the Coronavirus, now declared a global health emergency by the World Health Organisation, has affected markets in the short term.

Clwyd Fund Strategy and Performance

- Over the three months to 31 December 2019, the Fund's total market value increased by £3.8m to £2,000m.
- Fund Performance over 3 months, 12 months and 3 years; +0.5%, +11.6% and +6.5% respectively.
- Equities 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 31 December 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 31 December 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 nine months of 2019. The year produced, perhaps unexpected, positive returns from equities. The “rebound rally” after the market falls in the final quarter of 2018, and the relaxed policies from global central banks have helped.</p> <p>The US-China trade war was a continuing driver for markets for most of 2019, although in December phase one of a trade deal was agreed.</p> <p>In the UK, the subject of Brexit dominated the year, and it was not until the General election result in December gave the UK some certainty, volatility calmed within markets. The UK exited the European Union on 31 January, and the process of negotiating a trade deal now becomes the priority for politicians.</p>
1.03	<p>The outlook for markets appeared to be more positive in early 2020, although the outbreak of the Coronavirus in China has caused global concern, and it remains to be seen what the longer term impact will be. We anticipate that there will be shorter term volatility, particularly in the Emerging Markets.</p>

	<p>The Committee will be aware that this a fast-moving situation and a further update will be given at the meeting. The diversification within the Fund's Investment Strategy is designed to help manage some of the volatility that situations such as this create.</p>
1.04	<p>Investment Strategy and Manager Summary 31 December 2019</p> <p>Over the 3 months to 31 December 2019, the Fund's total market value increased by £3.8m to £2,000.3m, giving an overall increase of £216.2m since the start of the year.</p> <ul style="list-style-type: none"> • Total Fund assets returned 0.5% over the quarter, behind the composite target which returned 0.8%. • Over the one-year period, Total Fund assets returned 11.6%, outperforming the composite target of 8.9%. • Over the last three years, Total Fund assets returned 6.5% p.a., ahead of the composite target of 6.4% p.a. <p>The strongest absolute returns over the quarter came from the Fund's Equity investments and the Tactical Allocation portfolio. Equities returned 2.5%, and the Tactical Allocation portfolio 1.6%. Within the Equity Portfolio Emerging Markets(Core) were the strongest performer returning 5.4% in the quarter. In the Tactical Allocation portfolio there was continued strong performance from the Diversified Growth Funds which returned 2.4% 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 review of the Fund's Strategic Asset Allocation revised the strategic weights within the portfolio, and these will be take effect from 1 April 2020.</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>The review of the Fund's Strategic Asset Allocation resulted in some changes which will be implemented in the coming months. 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 – 31 December 2019 Appendix 2 - Investment Strategy and Manager Summary – 31 December 2019</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update and Investment Strategy and Manager Summary 30 September 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> <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:

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