

CLWYD PENSION FUND COMMITTEE	
Date of Meeting	Wednesday, 15 th June 2022
Report Subject	Economic and Market update and Performance Monitoring report
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to update the Committee on the Economy and Markets, and the Performance of the Fund's investments. The reports cover periods ending 31 March 2022, and are attached as appendices to this report.

Key points to note:

Economy and Markets

- Global equity markets contracted over the first quarter of 2022, with markets selling off due to monetary tightening and the ongoing crisis in Ukraine following the invasion by Russia.
- Commodity markets were the only asset class to produce positive absolute returns over the quarter as equity and bond markets struggled to navigate the ongoing uncertainty.
- Inflation continued to rise in the UK with CPI reaching 7%, driven primarily by rising energy prices.
- The Bank of England raised the base rate by 25 basis points twice over the quarter, to 0.75%, whilst the US Federal Reserve raised the Fed funds rate by 25 basis point to 0.5%. (Both have since raised rates even further).
- Global bond yields rose sharply over the quarter, more so in the US than the UK and Europe.

Performance Monitoring Report

- Over the three months to 31 March 2022, the Fund's total market value decreased by £27.5m to £2,457.1m.
- Fund Performance over 3 months, 12 months and 3 years; -0.9%, +13.3% and +9.9% p.a. respectively.
- Fund Performance is ahead of Composite benchmark over all periods, and ahead of the Strategic target and Actuarial targets over the 12 month and 3 year period.
- All asset classes are broadly in line with strategic target weight, with Cash and Risk Management Framework slightly overweight (+2.5%) and private markets marginally underweight (-3.0%).

Performance of the Fund is reviewed monthly by the Fund's Officers and advisers.

RECOMMENDATIONS

- | | |
|----|---|
| 1. | That the performance of the Fund over periods to the end of March 2022 and the Economic and Market update, which effectively sets the scene, are noted. |
|----|---|

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Economic and Market Update The economic and market update for the quarter from the Fund's Investment Consultant is attached at Appendix 1. The report contains the following key sections:</p> <ul style="list-style-type: none">• Economic and Market Background – an overview of markets in the quarter, including commentary on key economic indicators• Equity Market Review – information on the performance of equity markets during the quarter and key drivers of markets• Bond Market (Fixed Income) Review – provides an update on bond yield movements and interest rates for the period• Currencies, Commodities and Alternatives Review – provides an update on the performance of Sterling against other currencies as well as highlighting movements in major commodity and alternatives asset classes for the period
1.02	<p>The first quarter of 2022 was dominated by Russia's invasion of Ukraine and central bank policy. This led to large movements in asset prices and elevated levels of volatility.</p> <p>Notwithstanding, 2022 started on a positive note. Most developed countries elected not to re-introduce far reaching pandemic-related restrictions, which supported demand. Although inflation came in at elevated levels, a combination of improving supply chains and moderate monetary tightening was expected to bring it under control.</p> <p>The invasion of Ukraine and subsequent spike in commodity markets completely changed this narrative. Central banks were forced to accelerate this pace of tightening even as growth expectations were dialled down.</p> <p>Commodity markets were the only asset class to produce positive absolute returns over the quarter (+36.9%) as equity (-2.4%) and bond (-3.9%) markets struggled to navigate the ongoing uncertainty.</p> <p>Sterling depreciated against the US Dollar and Euro, but appreciated against the Yen.</p> <p>A verbal update will be provided to Committee on market movements since the writing of this report.</p>
1.03	<p>Performance Monitoring report Over the 3 months to 31 March 2022, the Fund's total market value decreased by £27.5m to £2,457.1m.</p> <p>The Total Fund has increased in value by £278.1m in 12 months to 31 March 2022.</p>
1.04	<p>It is appropriate to measure performance at a Total Fund level by comparing to a number of different targets:</p>

- The first of these is the assumed return that the Actuary includes within the triennial valuation - **Actuarial Target**. This is the most crucial target as actual performance needs to be ahead of this to ensure that the Fund maintains, or improves its funding level. This currently set at CPI (Consumer Price Index) +1.75% p.a. for past service liabilities and CPI + 2.25% for future service liabilities.
- The second performance measure is the overall assessment of potential return when the Fund reviews and sets its investment strategy – **Strategic Target**. (This is currently CPI +3.4% p.a.)
- The final target is the composite benchmark – **Total Benchmark**. This is a composite of each of the individual manager benchmarks, weighted by strategic target allocation.

The performance against all benchmarks is shown on Page 6 of the report, and repeated below:

	Quarter (%)	1 Yr (%)	3 Yrs (%)
Total	-0.9	13.3	9.9
Total Benchmark	-1.0	9.1	8.9
Strategic Target (CPI +3.4% p.a.)	1.3	5.5	5.5
Actuarial Target – Past Service Liabilities (CPI +1.75% p.a.)	0.9	3.8	3.8
Actuarial Target – Future Service Liabilities (CPI +2.25% p.a.)	1.1	4.3	4.3

The table shows strong outperformance by the Fund against all measures over 1 year and 3 years.

1.05

The strongest absolute returns over the quarter came from the Tactical Allocation Portfolio and Private Markets. The Tactical Allocation Portfolio returned +8.1% and Private Markets returned +4.3%.

Within Private Markets the strongest returns were seen in Property, Private Equity and Infrastructure portfolios with returns of +5.0%, +4.9% and +4.7%, respectively.

Hedge Funds also generated marginal positive returns over the quarter, returning +0.4%.

In the 12 months to 31 March 2022, the best returns came from the Tactical Allocation (Best Ideas) Portfolio, Private Markets and Cash and Risk Management Framework (CRMF). The Tactical Allocation portfolio returned +20.3%, with Private Markets and CRMF returning +26.4% and +17.9%, respectively.

The performance of individual managers is shown in the report and is regularly reviewed by Officers and advisers, and at this stage there are no concerns that need addressing, however all positions are being monitored closely.

1.06	Private Markets remain slightly underweight to the target position but well within the agreed strategic tolerance. Within Private Markets, allocations to Infrastructure and Local/Impact remain slightly underweight.
------	--

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>
4.02	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.03	<p>The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a strengthening pound.</p>

5.00	APPENDICES
5.01	<p>Appendix 1 - Economic and Market Update – 31 March 2022</p> <p>Appendix 2 – Performance Monitoring Report – 31 March 2022</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update and Investment Strategy and Manager Summary 31 March 2022.</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 cash flows (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 cash flows.</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 cash flows.</p> <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 cash flows.</p> <p>A comprehensive list of investment terms can be found via the following link:</p> <p>https://www.schroders.com/en/uk/adviser/tools/glossary/</p>