



Clwyd Pension Fund

Committee Report:

Investment Strategy and Manager Summary Q1 2014



Contents

1	Impact on Clwyd Pension Fund Strategy	3
2	Strategic Asset Allocation Information.....	5
3	Strategic Asset Class Performance	6
4	Manager Summary.....	7
5	Manager Performance to 31 March 2014.....	8
	Appendix 1: Summary of Mandates	9

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1 Impact on Clwyd Pension Fund Strategy

Overall

- The Fund performed in line with its benchmark over the quarter, with a return of 1.2%. Each asset class produced a modest positive return apart from the GTAA assets. The largest contributors in absolute terms were bonds and alpha-seeking assets.
- In relative terms, the Fund's equities, bonds and alpha-seeking assets each added around 0.2% to the relative performance, which was offset by a contribution of around -0.6% from GTAA.
- In terms of asset allocation, the Fund was slightly underweight to GTAA assets (9.6% weight versus benchmark of 12.0%), which helped relative performance in a quarter in which GTAA produced the poorest returns. Other positions were close to the benchmark and had a negligible effect on relative performance.

Equities

- Equities were reasonably benign over the first quarter. Markets fell in January and then recovered, giving an overall small positive return.
- UK equities were marginally negative over the quarter, ending their positive run which was due to improved business confidence, earnings and falling employment.
- Overseas equities (with the exception of Japan) were positive, with emerging market equities marginally negative as they continued to be affected by sentiment from slowing growth and a weakening of domestic and export demand in China. Japanese equities fell back following a run of strong performance.
- The Fund's absolute equity performance was affected by this environment, producing an overall return of 1.0%, however this was higher than the benchmark return of 0.3%.
- The Fund's developed equities generally performed better than those in the emerging and frontier markets. In the developed world, overweight holdings to technology and consumer stocks in the US and Europe, together with financial stocks in the Asia Pacific (ex Japan) region helped the Fund outperform.
- The Fund's emerging market stocks were impacted negatively by its exposure to Russian stocks, which fell sharply over the quarter.
- Frontier Markets continued to perform significantly well, however the Fund's assets in this area did not due to underweight allocation in UAE and Qatar (which outperformed) and an overweight allocation to Nigeria (which underperformed).

Fixed Interest

- Bond markets generally performed well as they were seen as a 'safe haven' during the crisis in Ukraine.
- The Fund's bonds produced a strong performance in absolute terms and outperformed their benchmark, contributing positively to the relative performance of the Fund.
- The Fund's allocation to Investment Grade Credit added the most value against the benchmark. In addition, modest growth in US and European high yield and emerging market debt (in particular Brazil) were beneficial.
- Detractors were in the Emerging Markets, in particular the allocation to Russia affected overall returns on the back of the growing tensions in Crimea. The Fund also suffered marginally in the loans sector.

GTAA

- The underweight allocation to GTAA, compared to its strategic allocation of 12%, benefited the Fund in a quarter in which the overall GTAA return was negative in absolute terms.
- However, the GTAA's underperformance relative its absolute benchmark was the largest negative component over the quarter, contributing -0.6%, or around -£6.9m, to the Fund's relative performance.
- The main reason for the negative return was the short exposures. In developed market equities, short exposures in the financial and consumer cyclical sectors together with the wrong country views within these sectors adversely affected performance. Within fixed income, short exposure to German Bunds and UK Gilts also affected performance.
- Credit across all sectors was reasonably positive for the majority of GTAA assets, along with allocations to hedge funds, particularly in the equity market neutral equities and long/short fixed income strategies.

Real Assets

- Each of the Real asset classes (property, infrastructure, timber and commodities) produced positive absolute returns over the quarter. However, each sector apart from timber underperformed relative to their respective benchmark and contributed -0.1% to the Fund's overall relative return.
- The UK property market continued its positive performance, driven by strong capital growth and positive rental yields. City offices provided the largest source of return, with commercial property in the rest of the UK also showing signs of a recovery and growth.
- Commodities were positive overall in Q1, this was led by agriculture as concerns over poor weather conditions such as drought in Brazil boosted the sector and the precious metal sectors as Gold rose as tensions developed in the Ukraine.

Alpha Seeking Assets

- The Alpha Seeking assets produced the highest absolute return of the five asset class groupings, as Private Equity performed well and the in-house funds produced a double-digit return.
- Overall, they added 0.2% to the Fund's relative performance.
- Hedge Fund performance was modest, but generally positive. Event Driven contributed the most due to increasing levels of corporative activity in which the fund could capitalise. In particular, from positions in construction businesses that are undergoing restructuring. Fixed Income strategies also contributed due to a low duration approach and investing in sectors that will benefit from rising interest rates. Emerging Market strategies detracted, affected by speculation and actual tapering of QE by the Federal Reserve.

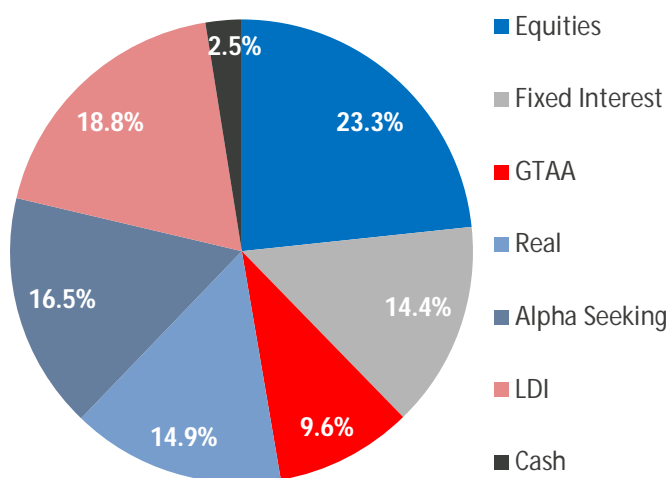
2 Strategic Asset Allocation Information

Allocation by underlying asset class

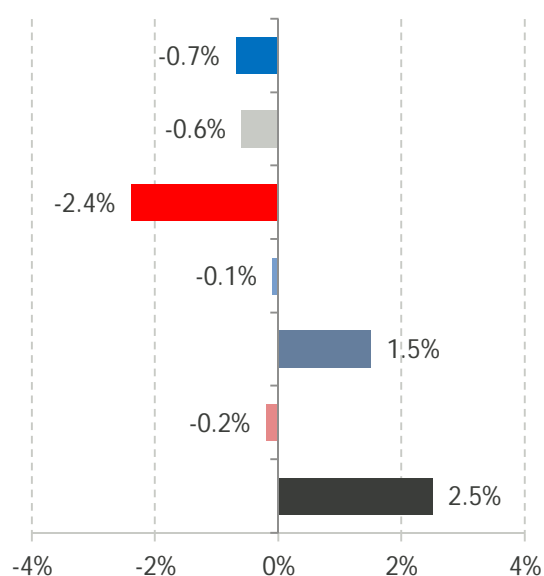
Asset Class	31 March 2014	Weight	Strategic Benchmark*
	Valuation £	%	%
Developed Market Equities	198,319,805	16.4	17.0
Emerging Market Equities	83,023,164	6.9	7.0
Fixed Interest	174,002,369	14.4	15.0
Global Tactical Asset Allocation (GTAA)	115,487,047	9.6	12.0
Property	98,264,246	8.1	7.0
Commodities	32,084,444	2.7	4.0
Infrastructure	28,978,370	2.4	2.0
Timber / Agriculture	20,851,182	1.7	2.0
Private Equity	138,753,505	11.5	8.0
Fund of Hedge Funds	48,393,118	4.0	5.0
Opportunistic	12,628,581	1.0	2.0
LDI	227,459,382	18.8	19.0
Cash	31,945,576	2.5	0.0
TOTAL CLWYD PENSION FUND	1,210,190,791	100.0	100.0

* Strategic benchmark based on past weights and is to be reviewed later in 2014 as part of a strategic review.

Asset Allocation as at 31 March 2014



Deviation from Strategic Benchmark



3 Strategic Asset Class Performance

Performance of the total Fund and strategic asset classes

Manager / Fund / Benchmark	3 Months %	12 Months %	3 Years % p.a.
Total Equities*	1.0	-0.7	4.0
Composite Benchmark*	0.3	-1.8	2.3
<i>Relative</i>	0.7	1.1	1.7
Total Fixed Interest	3.4	-0.7	7.1
Composite Benchmark	2.1	-2.6	5.5
<i>Relative</i>	1.2	2.0	1.6
Total Alternatives - Real Assets	2.5	2.5	n/a
Composite Benchmark	3.2	6.0	n/a
<i>Relative</i>	-0.7	-3.4	n/a
Total Alternatives - Alpha Seeking Assets	3.8	6.3	n/a
Composite Benchmark	2.6	10.6	n/a
<i>Relative</i>	1.2	-3.9	n/a
Total GTAA	-4.0	-4.2	n/a
Composite Benchmark	0.8	3.2	n/a
<i>Relative</i>	-4.7	-7.2	n/a
Total ex Alternatives and GTAA	1.0	2.0	6.3
Composite Benchmark	0.5	1.4	5.5
<i>Relative</i>	<i>0.5</i>	<i>0.6</i>	<i>0.8</i>
Total ex GTAA	1.7	2.8	5.3
Composite Benchmark	1.3	3.7	6.0
<i>Relative</i>	<i>0.4</i>	<i>-0.9</i>	<i>-0.7</i>
Total Clwyd Pension Fund	1.2	2.1	4.7
Composite Benchmark	1.2	3.7	5.7
<i>Relative</i>	<i>-0.1</i>	<i>-1.5</i>	<i>-0.9</i>

Source: WM Performance Services

*Weighted average of individual funds held on 31 March 2014 and their strategic benchmarks, calculated by JLT

4 Manager Summary

Manager	Fund	31 March 2014			3 Yr Performance vs Objective*	
		Valuation £'000	Weight %	Strategic Weight %		
●	Duet	Global Opportunities	49,954	4.1	5.0	Target not met
●	Investec	Global Free Enterprise	71,768	5.9	5.0	Target met
●	Aberdeen	Asia Pacific ex Japan Equities	76,598	6.3	7.0	Target not met
●	Wellington	Emerging Market Equities (Core)	36,508	3.0	7.0	Target met
●	Wellington	Emerging Market Equities (Local)	37,722	3.1		
n/a	Aberdeen	Frontier Markets Equities	8,793	0.7	-	n/a
Total Equity Assets			281,343	23.2	24.0	
●	Stone Harbor	LIBOR Multi-Strategy Portfolio	174,002	14.4	15.0	Target met
Total Fixed Interest Assets			174,002	14.4	15.0	
●	BlackRock	GASL	50,922	4.2	6.0	Target not met
●	Bluecrest	AIIBLue Ltd	32,032	2.6	3.0	Target not met
●	Pyrford	Global Total Return	32,533	2.7	3.0	Target not met
Total GTAA Assets			115,487	9.6	12.0	
●	In-House	Property	98,264	8.1	7.0	Target met
●	In-House	Infrastructure	28,978	2.4	2.0	Target met
●	In-House	Timber / Agriculture	20,851	1.7	2.0	Target not met
●	Wellington	Commodities	32,084	2.7	4.0	Target not met
Total Real Assets			180,178	14.9	15.0	
●	Pioneer	Fund of Hedge Funds	1,539	0.1		Target not met
●	SSARIS	Fund of Hedge Funds	24,477	2.0	5.0	Target not met
●	Liongate	Fund of Hedge Funds	22,377	1.8		Target not met
●	In-House	Private Equity	138,754	11.5	8.0	Target not met
n/a	In-House	Opportunistic	12,629	1.0	2.0	n/a
Total Alpha Seeking Assets			199,775	16.5	15.0	
n/a	Insight	LDI assets	227,459	18.8	19.0	n/a
n/a	Trustee	Cash	31,946	2.6	0.0	n/a
TOTAL CLWYD PENSION FUND			1,210,191	100.0	100.0	

Note: 'n/a' against the objective is for funds that have been in place for less than three years.

* Performance objectives are to be reviewed as part of a strategic review later in 2014.

● Fund has met or exceeded its performance objective ● Fund has underperformed its performance objective

5 Manager Performance to 31 March 2014

Manager / Fund			3 months %		12 months %		3 years % p.a.		3 yr Performance vs Objective
			Fund	Bmark	Fund	Bmark	Fund	Bmark	
●	Duet	Global Opportunities	-0.2	1.9	2.3	8.0	1.5	8.0	Target not met
●	Investec	Global Free Enterprise	3.9	0.4	15.0	6.2	11.7	7.1	Target met
●	Aberdeen	Asia Pacific ex Japan	2.1	0.4	-9.1	-6.5	3.0	0.8	Target not met
●	Wellington	Emerging Markets	-2.0	-1.0	-9.5	-9.9	-0.8	-3.8	Target met
n/a	Aberdeen	Frontier Markets	-0.2	6.8	1.4	14.3	n/a	n/a	n/a
Total Equity Assets*			1.0	0.3	-0.7	-1.8	4.0	2.3	
●	Stone Harbor	Fixed Interest	3.4	2.1	-0.7	-2.6	7.2	5.5	Target met
Total Fixed Interest Assets			3.4	2.1	-0.7	-2.6	7.2	5.5	
●	BlackRock	GASL	-9.6	0.1	-9.7	0.4	-4.0	0.4	Target not met
●	Bluecrest	AllBlue Ltd	1.8	2.4	1.8	10.0	3.4	10.0	Target not met
●	Pyrford	Global Total Return	0.1	0.6	-0.4	2.5	3.2	3.1	Target not met
Total GTAA Assets			-4.0	0.8	-4.2	3.2	n/a	n/a	
●	In-House	Property	2.5	3.3	7.5	11.9	6.7	6.1	Target met
●	In-House	Infrastructure	0.9	1.9	9.3	8.0	10.1	8.0	Target met
●	In-House	Timber / Agriculture	2.4	1.9	-10.1	8.0	-1.4	8.0	Target not met
●	Wellington	Commodities	3.6	4.2	-6.4	-6.0	-5.9	-6.7	Target not met
Total Real Assets			2.5	3.2	2.5	6.0	n/a	n/a	
●	Pioneer	Fund of Hedge Funds	0.6	0.1	-2.4	0.4	4.5	0.4	Target not met
●	SSARIS	Fund of Hedge Funds	0.2	1.9	4.3	8.0	2.0	8.0	Target not met
●	Liongate	Fund of Hedge Funds	2.7	1.9	4.8	8.0	-1.3	8.0	Target not met
●	In-House	Private Equity	3.9	3.6	6.3	15.0	5.8	15.0	Target not met
n/a	In-House	Opportunistic	14.2	1.9	11.9	8.0	n/a	n/a	n/a
Total Alpha Seeking Assets			3.8	2.6	6.3	10.6	n/a	n/a	
n/a	Insight	LDI assets	0.5	n/a	n/a	n/a	n/a	n/a	n/a
Total LDI			0.5	n/a	n/a	n/a	n/a	n/a	

Source: WM Performance Services except * Weighted average of individual funds held on 31 March 2014 and their strategic benchmarks, calculated by JLT

Appendix 1: Summary of Mandates

Manager	Fund	Mandate	Benchmark	Objective*	Strategic Weight	Rebal Range
Duet	Global Opportunities	Unconstrained Global	Absolute Return	8-10% p.a. abs	5.0%	+/-1%
Investec	Global Free Enterprise	Unconstrained Global	MSCI AC World Index	+3.0% p.a.	5.0%	+/-1%
Aberdeen	Asia Pacific ex Japan Equities	Asia Pacific ex Japan	MSCI AC Pacific (ex Japan) Index	+3.5% p.a.	7.0%	+/-1%
Wellington	Emerging Market Equities (Core)	Emerging Markets Equities	MSCI Emerging Markets Free Index	+2.5% p.a.	7.0%	+/-1%
Wellington	Emerging Market Equities (Local)	Emerging Markets Equities	MSCI Emerging Markets Free Index	+2.5% p.a.		
Aberdeen	Frontier Markets Equities	Frontier Markets Equities	MSCI Frontier Equities Index	+3.0% p.a.	-	-
Stone Harbor	LIBOR Multi-Strategy Portfolio	Multi-Asset Fixed Income	1 Month Libor	Outperform	15.0%	+/-2%
BlackRock	GASL	GTAA	7 Day LIBID Index	15% p.a. abs	6.0%	+/-1%
Bluecrest	AllBlue Ltd	GTAA	Absolute Return	10-15% p.a. abs	3.0%	+/-1%
Pyrford	Global Total Return	GTAA	UK Retail Price Index	+5.0% p.a.	3.0%	+/-1%
Pioneer	Fund of Hedge Funds	Fund of Hedge Funds	7 Day LIBID Index	8-10% p.a. abs	5.0%	+/-3%
SSARIS	Fund of Hedge Funds	Fund of Hedge Funds	Absolute Return	8-10% p.a. abs		
Liongate	Fund of Hedge Funds	Fund of Hedge Funds	Absolute Return	8-10% p.a. abs		
In-House	Private Equity	Private Equity	Absolute Return	15% p.a. abs	8.0%	
In-House	Opportunistic	Opportunistic	Absolute Return	8-10% p.a. abs	2.0%	
In-House	Property	Property	IPD Balanced Funds Weighted Average	Outperform	7.0%	
In-House	Infrastructure	Infrastructure	Absolute Return	8-10% p.a. abs	2.0%	+/-3%
In-House	Timber / Agriculture	Timber / Agriculture	Absolute Return	8-10% p.a. abs	2.0%	
In-House	Commodities	Commodities	Equal Weighted GSAM Commodity Index	+2.0% p.a.	4.0%	
Insight	LDI	LDI	TBC	Outperform	19.0%	TBC

Note: * Performance objectives are to be reviewed as part of a strategic review later in 2014.

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