



Clwyd Pension Fund

Committee Report:

Investment Strategy and Manager Summary Q2 2014



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1 Impact on Clwyd Pension Fund Strategy

Overall

- The Fund's total market value increased by £25.8m over the second quarter of 2014 to £1,255,739,300.
- The Fund produced a positive absolute return but underperformed its benchmark by 0.4% over the quarter, with a return of 2.2% compared to the benchmark of 2.6%.
- Each asset class grouping produced a modest positive return, ranging from 0.5% from the alpha-seeking assets to 3.3% for the real assets and 4.0% for LDI.
- In relative terms, the underperformance can be attributed as follows: alpha-seeking assets detracted around 0.3%, equities detracted 0.2% but bond stock selection added 0.1%.
- In terms of asset allocation, because the returns from each asset class were bunched closely together, there was no significant impact of any over- or under-weight positions. The Fund was slightly overweight to alpha-seeking assets (16.5% weight at the beginning of the quarter versus benchmark of 15.0%), which marginally detracted from total Fund performance by around 0.03% due to the relatively low return from this asset class.

Equities

- All of the major global equity market regions were modestly positive over the quarter. Equities continued their recovery during the first two months of the quarter before falling back. Although data releases were generally encouraging for equity markets, global events held back returns towards the end of the quarter.
- The highest returns were in Frontier Markets (+9.3%) and Emerging Markets (+5.0%), the best of the Developed Markets was Japan (+4.3%), boosted by reform proposals announced by Prime Minister Shinzo Abe. Europe ex UK equities, which have enjoyed a strong run over the last 12 months, were broadly flat at 0.3% for the quarter.
- UK equities increased by 2.2% over the quarter as the UK economy witnessed its strongest calendar quarter in four years. Positive UK economic growth which has been driven by increases in household spending and business investments coupled with a strengthening labour market.
- Overseas equities returned 2.6% overall, with emerging market equities the leading region (+5.0%), rebounding on the back of improving Chinese PMI which rose to a six-month high in June. European (ex UK) equities were less positive, returning 0.3% as disappointing corporate earnings and below expectation GDP figures indicated a slowdown in growth.
- The Fund's total equity return was 2.3%, behind the benchmark of 3.1%.
- The main reason for the underperformance was the Fund's global equity managers, in particular where there was hedge fund exposure. Equity hedge funds began to significantly de-risk their portfolios, which caused some indiscriminate selling and exacerbated stock moves.
- The Fund's emerging and frontier markets equities performed better than developed markets equities. Emerging market assets were ahead of their benchmark by 1.0% over the quarter. Investments in technology stocks related to major western brands added the main value over the period (core portfolio). However, losses were made in the information technology and healthcare sectors in domestically-oriented stocks (local portfolio).
- Frontier Markets continued to perform significantly well (and as an 'off-benchmark' position added to the Fund's relative performance), however the Fund's assets underperformed their own benchmark by 5.5% over the quarter. The Fund was affected by the underweight allocation to Qatar and the United Arab Emirates. A reclassification of these countries as Emerging Markets in June triggered a market rally by investors and index funds in anticipation of the impending upgrade. The benefits of this were not entirely captured as a result.

Fixed Interest

- Bond markets performed well as they continued to be seen as a 'safe haven' to some extent.
- The Fund's fixed interest assets produced a strong performance in absolute terms and outperformed their benchmark, contributing positively to the relative performance of the Fund.
- Stabilised growth in the emerging markets caused Emerging Market Debt to perform well, to which the Fund was exposed. Fears of deflation in Europe together with the expectation that interest rates will be held lower for longer and the general easing of liquidity conditions also helped credit outperform.

GTAA

- The GTAA assets produced 1.5% and outperformed their composite benchmark of 1.1%
- Short positions within UK and US and long positioning across developed market non-eurozone Europe contributed to the performance. Exposure to emerging markets and, in particular, currency strategies within these countries added to performance. Strategies which followed market trends also performed well.

Real Assets

- Each of the Real asset classes (property, infrastructure, timber and commodities) produced positive absolute returns over the quarter. Overall, the in-house assets were broadly in line with their benchmark as property underperformed but the other three asset classes outperformed their respective benchmarks.
- The UK property market continued its positive performance, driven by strong capital growth and positive rental yields. Offices and industrials were the leading sectors whilst retail has continued to trail. Properties in outer London and industrials in the South-East were the strongest performing markets.
- Commodities were positive overall in Q2, this was led by energy and industrial metals. Agriculture had a poor quarter, reversing their performance in the previous quarter which had been boosted by poor weather conditions such as drought in Brazil.

Alpha Seeking Assets

- The Alpha Seeking assets produced the lowest absolute return of the five asset class groupings, as the opportunistic portfolio and some hedge funds produced negative returns.
- Overall, they detracted 0.3% to the Fund's relative performance.
- The hedge fund underperformance was driven by negative performance from macro strategies and relative underperformance from event driven and credit long/short strategies.
- The Fund's Private Equity holding also underperformed, producing a return of 0.7% versus its benchmark of 3.5%.

2 Strategic Asset Allocation – 30 June 2014

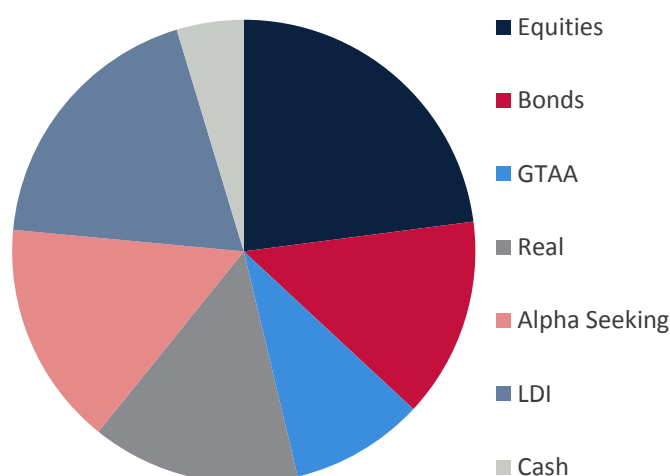
Allocation by underlying asset class

Asset Class	30 June 2014 Valuation £	Weight %	Strategic Benchmark %
Developed Market Equities	201,494,967	16.0	17.0
Emerging Market Equities	86,664,676	6.9	7.0
Global Tactical Asset Allocation (GTAA)	117,259,369	9.3	12.0
Bonds	175,463,989	14.0	15.0
Fund of Hedge Funds	48,511,018	3.9	5.0
Property	97,554,905	7.8	7.0
Commodities	33,247,946	2.6	4.0
Private Equity	136,337,001	10.9	8.0
Infrastructure	28,439,171	2.3	2.0
Timber / Agriculture	23,315,754	1.9	2.0
Opportunistic	12,125,624	1.0	2.0
LDI	236,622,407	18.8	19.0
Cash	58,702,472	4.7	0.0
TOTAL CLWYD PENSION FUND	1,255,739,300	100.0	100.0

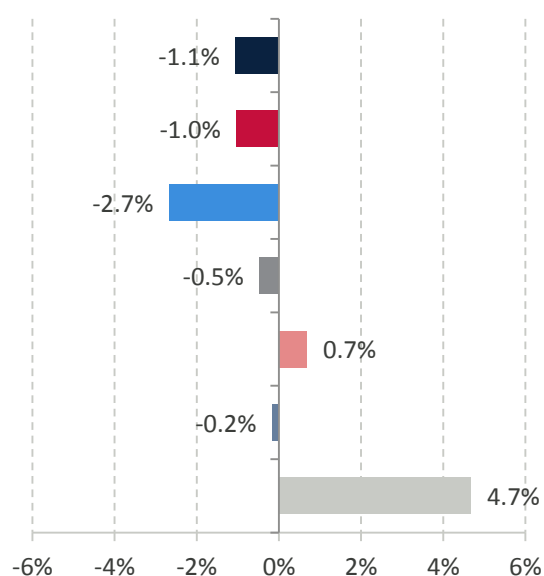
Points to note

- There are no significant matters to note.

Strategic Asset Allocation as at 30 June 2014



Deviation from Strategic Benchmark



3 Strategic Asset Class Performance

Performance of the total Fund and strategic asset classes to 30 June 2014

Manager / Fund / Benchmark	3 Months %	12 Months %	3 Years % p.a.
Total Equities	2.3	7.1	5.7
Composite Benchmark	3.1	9.3	6.3
<i>Relative</i>	<i>-0.9</i>	<i>-2.2</i>	<i>-0.6</i>
Total Fixed Interest	0.8	4.0	7.0
Composite Benchmark	0.1	1.4	4.8
<i>Relative</i>	<i>0.7</i>	<i>2.6</i>	<i>2.2</i>
Total Alternatives - Real Assets	3.3	6.2	3.0
Composite Benchmark	3.4	12.3	5.2
<i>Relative</i>	<i>-0.1</i>	<i>-6.1</i>	<i>-2.2</i>
Total Alternatives - Alpha Seeking Assets	0.5	3.5	3.3
Composite Benchmark	2.8	11.7	11.7
<i>Relative</i>	<i>-2.3</i>	<i>-8.2</i>	<i>-8.4</i>
Total GTAA	1.5	-0.5	0.2
Composite Benchmark	1.1	4.5	4.6
<i>Relative</i>	<i>0.4</i>	<i>-5.0</i>	<i>-4.4</i>
Total ex Alternatives, GTAA and LDI	1.8	6.3	6.0
Composite Benchmark	2.0	6.8	5.9
<i>Relative</i>	<i>-0.2</i>	<i>-0.5</i>	<i>0.1</i>
Total ex GTAA and LDI	1.8	5.7	5.0
Composite Benchmark	2.5	8.7	6.8
<i>Relative</i>	<i>-0.7</i>	<i>-3.0</i>	<i>-1.8</i>
Total ex LDI	1.8	5.1	4.5
Composite Benchmark	2.3	8.2	6.5
<i>Relative</i>	<i>-0.5</i>	<i>-3.1</i>	<i>-2.0</i>
Total Clwyd Pension Fund	2.2	5.3	4.6
Composite Benchmark	2.6	8.3	6.6
<i>Relative</i>	<i>-0.4</i>	<i>-3.0</i>	<i>-2.0</i>

Source: JLT Employee Benefits

4 Manager Summary – 30 June 2014

Manager	Fund	30 June 2014				
		Valuation £	Weight %	Strategic Weight %	3 Yr Performance vs Objective*	
●	Duet	Global Opportunities	49,227,432	3.9	5.0	Target not met
●	Investec	Global Free Enterprise	73,599,238	5.9	5.0	Target met
●	Aberdeen	Asia Pacific ex Japan Equities	78,668,297	6.3	7.0	Target not met
●	Wellington	Emerging Market Equities (Core)	38,732,374	3.1	7.0	Target not met
●	Wellington	Emerging Market Equities (Local)	38,805,330	3.1		Target met
n/a	Aberdeen	Frontier Markets Equities	9,126,973	0.7	-	n/a
Total Equity Assets			288,159,643	22.9	24.0	
●	Stone Harbor	LIBOR Multi-Strategy Portfolio	175,463,989	14.0	15.0	Target met
Total Fixed Interest Assets			175,463,989	14.0	15.0	
●	BlackRock	GASL	51,537,208	4.1	6.0	Target not met
●	Bluecrest	AlIblue Ltd	32,788,896	2.6	3.0	Target not met
●	Pyrford	Global Total Return	32,933,265	2.6	3.0	Target not met
Total GTAA Assets			117,259,369	9.3	12.0	
●	In-House	Property	97,554,905	7.8	7.0	Target not met
●	In-House	Infrastructure	28,439,171	2.3	2.0	Target met
●	In-House	Timber / Agriculture	23,315,754	1.9	2.0	Target not met
●	Wellington	Commodities	33,247,946	2.6	4.0	Target not met
Total Real Assets			182,557,776	14.5	15.0	
●	Pioneer	Fund of Hedge Funds	1,266,380	0.1		Target not met
●	SSARIS	Fund of Hedge Funds	24,461,138	1.9	5.0	Target not met
●	Liongate	Fund of Hedge Funds	22,783,501	1.8		Target not met
●	In-House	Private Equity	136,337,001	10.9	8.0	Target not met
n/a	In-House	Opportunistic	12,125,624	1.0	2.0	n/a
Total Alpha Seeking Assets			196,973,643	15.7	15.0	
n/a	Insight	LDI assets	236,622,407	18.8	19.0	n/a
n/a	Trustee	Cash	58,702,472	4.7	0.0	n/a
TOTAL CLWYD PENSION FUND			1,255,739,300	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

Manager performance to 30 June 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	-2.0	1.9	-0.5	8.0	0.7	8.0	Target not met
●	Investec	Global Free Enterprise	1.6	2.4	15.9	9.1	11.0	8.0	Target met
●	Aberdeen	Asia Pacific ex Japan	2.7	3.5	-2.1	4.5	2.3	2.0	Target not met
●	Wellington	Emerging Markets (Core)	6.1	4.0	2.9	1.7	-1.9	-2.0	Target not met
●	Wellington	Emerging Markets (Local)	2.9	4.0	-0.4	1.7	2.9	-2.2	Target met
n/a	Aberdeen	Frontier Markets	3.8	9.3	-1.9	21.2	n/a	n/a	n/a
Total Equity Assets			2.3	3.1	7.1	9.3	5.7	6.3	
●	Stone Harbor	LIBOR Multi-Strategy	0.8	0.1	4.0	1.4	7.0	4.8	Target met
Total Bond Assets			0.8	0.1	4.0	1.4	7.0	4.9	
●	BlackRock	GASL	1.2	0.1	-5.7	0.4	-3.6	0.4	Target not met
●	Bluecrest	AllBlue Ltd	2.4	2.4	6.7	10.0	4.2	10.0	Target not met
●	Pyrford	Global Total Return	1.2	1.8	1.5	7.8	3.2	8.0	Target not met
Total GTAA Assets			1.5	1.1	-0.5	4.5	0.2	4.6	
●	In-House	Property	3.3	5.1	7.5	17.6	5.1	8.9	Target not met
●	In-House	Infrastructure	2.2	1.9	5.8	8.0	9.2	7.9	Target met
●	In-House	Timber / Agriculture	4.4	1.9	-1.9	7.9	-0.1	7.9	Target not met
●	Wellington	Commodities	3.6	2.1	8.8	7.5	-4.4	-4.6	Target not met
Total Real Assets			3.3	3.4	6.2	12.3	3.0	5.2	
●	Pioneer	Fund of Hedge Funds	1.8	0.1	-2.4	0.4	4.7	0.4	Target not met
●	SSARIS	Fund of Hedge Funds	-1.3	1.9	2.3	8.0	1.2	8.0	Target not met
●	Liongate	Fund of Hedge Funds	1.8	1.9	7.9	8.0	0.2	8.0	Target not met
●	In-House	Private Equity	0.7	3.5	3.0	15.0	4.5	15.0	Target not met
n/a	In-House	Opportunistic	-1.4	1.9	4.6	7.9	0.0	8.0	n/a
Total Alpha Seeking Assets			0.5	2.8	3.5	11.7	3.3	11.7	
n/a	Insight	LDI Portfolio	4.0	4.0	n/a	n/a	n/a	n/a	n/a
Total (ex Alternatives, GTAA and LDI)			1.8	2.0	6.3	6.8	6.0	5.9	
Total (ex GTAA and LDI)			1.8	2.5	5.7	8.7	5.0	6.8	
Total (ex LDI)			1.8	2.3	5.1	8.2	4.5	6.5	
TOTAL CLWYD PENSION FUND			2.2	2.6	5.3	8.3	4.6	6.6	

5 Manager Summary – 30 September 2014

Manager	Fund	30 September 2014			3 Yr Performance vs Objective*	
		Valuation £	Weight %	Strategic Weight %		
●	Duet	Global Opportunities	49,451,862	3.8	5.0	Target not met
●	Investec	Global Free Enterprise	76,277,073	5.9	5.0	Target met
●	Aberdeen	Asia Pacific ex Japan Equities	81,886,378	6.3	7.0	Target not met
●	Wellington	Emerging Market Equities (Core)	39,244,135	3.0	7.0	Target not met
●	Wellington	Emerging Market Equities (Local)	40,613,431	3.1		Target met
n/a	Aberdeen	Frontier Markets Equities	9,800,010	0.8	-	n/a
Total Equity Assets			297,272,889	22.9	24.0	
●	Stone Harbor	LIBOR Multi-Strategy Portfolio	174,820,180	13.9	15.0	Target met
Total Fixed Interest Assets			174,820,180	14.9	15.0	
●	BlackRock	GASL	59,005,253	4.5	6.0	Target not met
●	Bluecrest	AlIBlue Ltd	33,259,885	2.6	3.0	Target not met
●	Pyrford	Global Total Return	33,162,737	2.6	3.0	Target not met
Total GTAA Assets			125,427,875	9.7	12.0	
●	In-House	Property	102,784,484	7.9	7.0	Target not met
●	In-House	Infrastructure	29,599,490	2.3	2.0	Target met
●	In-House	Timber / Agriculture	24,734,754	1.9	2.0	Target not met
●	Wellington	Commodities	30,215,790	2.3	4.0	Target not met
Total Real Assets			187,334,518	14.4	15.0	
●	Pioneer	Fund of Hedge Funds	1,373,244	0.1		Target not met
●	SSARIS	Fund of Hedge Funds	24,484,309	1.9	5.0	Target not met
●	Liongate	Fund of Hedge Funds	22,748,993	1.8		Target not met
●	In-House	Private Equity	136,794,483	10.5	8.0	Target not met
n/a	In-House	Opportunistic	12,863,179	1.0	2.0	n/a
Total Alpha Seeking Assets			198,264,209	15.3	15.0	
n/a	Insight	LDI assets	262,051,455	20.2	19.0	n/a
n/a	Trustee	Cash	52,609,337	4.1	0.0	n/a
TOTAL CLWYD PENSION FUND			1,297,780,463	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

Manager performance to 30 September 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	0.5	2.0	-1.7	8.0	1.8	8.0	Target not met
●	Investec	Global Free Enterprise	3.6	3.0	19.1	11.2	20.3	15.0	Target met
●	Aberdeen	Asia Pacific ex Japan	4.1	2.1	5.9	6.1	8.8	9.8	Target not met
●	Wellington	Emerging Markets (Core)	1.3	1.9	4.3	4.5	6.3	6.1	Target not met
●	Wellington	Emerging Markets (Local)	4.7	1.9	12.6	4.5	9.7	6.0	Target met
n/a	Aberdeen	Frontier Markets	7.4	7.1	12.4	30.4	n/a	n/a	n/a
Total Equity Assets			3.2	2.3	9.5	9.6	12.0	12.7	
●	Stone Harbor	LIBOR Multi-Strategy	-0.4	0.1	3.4	1.0	5.7	2.1	Target met
Total Bond Assets			-0.4	0.1	3.4	1.0	5.7	2.1	
●	BlackRock	GASL	14.5	0.1	11.6	0.3	2.1	0.4	Target not met
●	Bluecrest	AllBlue Ltd	1.4	2.4	8.6	10.0	4.5	10.0	Target not met
●	Pyrford	Global Total Return	0.7	1.7	2.3	7.4	3.9	7.8	Target not met
Total GTAA Assets			7.0	1.1	8.2	4.4	3.2	4.6	
●	In-House	Property	3.5	4.7	11.2	19.7	5.8	9.9	Target not met
●	In-House	Infrastructure	2.2	2.0	8.6	8.0	9.0	8.0	Target met
●	In-House	Timber / Agriculture	5.5	2.0	8.4	8.0	2.1	7.9	Target not met
●	Wellington	Commodities	-9.1	-9.8	-5.4	-7.3	-4.1	-4.6	Target not met
Total Real Assets			1.3	0.0	7.4	8.9	3.9	5.4	
●	Pioneer	Fund of Hedge Funds	8.4	0.1	13.9	0.3	5.3	0.4	Target not met
●	SSARIS	Fund of Hedge Funds	0.1	2.0	3.4	8.0	1.9	8.0	Target not met
●	Liongate	Fund of Hedge Funds	-0.2	2.0	6.8	8.0	2.2	8.0	Target not met
●	In-House	Private Equity	5.2	3.6	10.8	15.1	6.1	15.0	Target not met
n/a	In-House	Opportunistic	4.5	2.0	14.1	7.9	6.0	8.0	n/a
Total Alpha Seeking Assets			3.9	2.8	9.6	11.7	5.1	11.7	
n/a	Insight	LDI Portfolio	10.7	10.7	n/a	n/a	n/a	n/a	n/a
Total (ex Alternatives, GTAA and LDI)			1.8	1.5	7.6	6.7	10.2	9.7	
Total (ex GTAA and LDI)			2.2	1.5	8.0	8.1	8.1	9.3	
Total (ex LDI)			2.8	1.4	8.0	7.6	7.5	8.7	
TOTAL CLWYD PENSION FUND			4.4	3.2	9.9	9.5	8.2	9.3	

Note: Performance shown is unaudited, calculated by JLT Employee Benefits based on data provided by the investment managers.



Appendix 1: Summary of Mandates

Manager	Fund	Mandate	Benchmark	Objective*	Strategic Weight	Tactical Range
Duet	Global Opportunities	Unconstrained Global Equities	Absolute Return	8-10% p.a. abs	5.0%	+/-1%
Investec	Global Free Enterprise	Unconstrained Global Equities	MSCI AC World Index	+3.0% p.a.	5.0%	+/-1%
Aberdeen	Asia Pacific ex Japan	Asia Pacific ex Japan Equities	MSCI AC Pacific (ex Japan) Index	+3.5% p.a.	7.0%	+/-1%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index	+2.5% p.a.	7.0%	+/-1%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index	+2.5% p.a.		
Aberdeen	Frontier Markets	Frontier Markets Equities	MSCI Frontier Equities Index	+3.0% p.a.	-	-
Stone Harbor	LIBOR Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index	Outperform	15.0%	+/- 2%
BlackRock	GASL	Global Tactical Asset Allocation	7 Day LIBID Index	15% p.a. abs	6.0%	+/- 1%
Bluecrest	AllBlue Ltd	Global Tactical Asset Allocation	Absolute Return	10-15% p.a. abs	3.0%	+/- 1%
Pyrford	Global Total Return	Global Tactical Asset Allocation	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		-
SSARIS	Fund of Hedge Funds	Fund of Hedge Funds	Absolute Return	8-10% p.a. abs	5.0%	-
Liongate	Fund of Hedge Funds	Fund of Hedge Funds	Absolute Return	8-10% p.a. abs		
In-House	Private Equity	Private Equity	Absolute Return	15.0% p.a. abs	8.0%	+/- 3%
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	S&P GSCI Equal Weighted (Hedged)	+2.0% p.a.	4.0%	
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	Outperform	19.0%	TBC

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