



## Clwyd Pension Fund

Committee Report:

Investment Strategy and Manager Summary: Quarter 1 2015



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# 1 Impact on Clwyd Pension Fund Strategy

## Overall

- The Fund's total market value increased by £33.9m over the first quarter of 2015 to £1,376,502,264.
- As at 31 December 2014, the Fund's liabilities were valued at £2,043 million, resulting in a funding position of 66%. As at 31 March 2015, the value of the Fund's liabilities had increased by £92million to £2,135 million, resulting in a funding position of 64%.
- Over the last 3 months, total Fund assets returned 3.3% compared with a composite target of 3.3%.
- The most notable returns were from the Equity Assets which returned 6.8% as equities experienced strong gains across most markets. GTAA Assets generated the lowest return, detracting -3.2% over the quarter.
- In relative terms, the Fund produced a return in line with its target as Real and Bond assets added to performance but Equities and GTAA detracted in relative terms:
  - » Real Assets, which returned 2.6%, outperformed their target by 2.3%, largely due to the Timber / Agriculture portfolio generating a return of 11.0% and outperforming its target by 9.6%. The Wellington Commodities also added to total Fund's relative performance due to being underweight during a quarter when commodity returns continued to fall. The Property assets underperformed the market and slightly offset some of these gains.
  - » Bond Assets added to total Fund performance as the Stone Harbor LIBOR Multi-Strategy Fund outperformed its target by 0.2%.
  - » Total Equity Assets returned 6.8% over the period, but detracted from total Fund performance as the overall strategy underperformed the composite target by 0.6%. This was mainly due to exiting from Asia Pacific equities in early March, immediately before the Asia Pacific equity index experienced a rally. The performance of the Emerging Market Equity Funds was also below their target.
  - » GTAA Assets produced a negative return of -3.2% and detracted 0.4% from total Fund performance over the period. BlackRock GASL was the main contributor as the fund returned -12.4%.
  - » Alpha Seeking Assets produced a modest return of 0.8%. In relative terms, gains made in the SSARIS portfolio were offset by the Private Equity and Opportunistic portfolios underperforming their respective targets.

## Equities

- Developed equity markets were positive over the first quarter of 2015. Japan and Continental Europe were the strongest markets over the period, returning 16.4% and 10.8% respectively. Japanese equities ended the year with the strongest growth, increasing by 27.1% although US equities were also very strong and advanced 26.4% over the year.
- UK equities experienced the lowest growth of the developed markets, returning just 4.7% over the quarter and 6.6% over the last 12 months.
- Emerging Markets equities were up by 7.4% over the quarter and Frontier Markets equities were up by a modest 2.0%. The recovery in the Emerging Markets was a result of the continuing Quantitative Easing in Japan and the initiation of QE in Europe which overflowed into these markets coupled with an easing of tensions in the Ukraine and a rally in the price of oil from the year-end low.
- The Fund's total Equity Assets returned 6.8% over the quarter, which was behind their target by 0.6%. All equity funds delivered positive absolute returns, but only two funds outperformed their respective targets. The redemption from Aberdeen's Asia Pacific (ex Japan) Fund detracted from total return as the exit was made immediately before a rising Asia Pacific equity market. Global equities added 0.2% to total performance and offset some of the relative underperformance made elsewhere in the equity portfolio.

## Bonds

- Bond markets were generally positive over the quarter. UK bonds had a solid quarter of growth, with long gilts increasing by 4.1%, index-linked gilts increasing by 3.3% and long-dated corporate bonds increasing by 5.2%.
- Elsewhere, global bonds returned 3.2%, Emerging Market debt returned 2.0%, High Yield bonds returned 5.4% and Leveraged Loans returned 2.4%.
- Total Bonds Assets generated 0.6% over the quarter, ahead of their target by 0.2%. Outperformance was predominantly a result of having a broad exposure across credit markets which all produced positive returns. Global Rates added 0.2% and Emerging Market Debt added 0.1% to total strategy performance, however, stock selection in Investment Grade Credit (which accounts for around 63% of the Bond portfolio) was neutral.
- The fall in commodity prices negatively impacted security selection in oil producing and oil exploration companies in EMD, High Yield and Investment Grade markets. Price stability, albeit a volatile form of stability, has allowed credit concerns surrounding Venezuela and Russia to subside. Adding to this, a lull in the political tensions over the Ukraine, has allowed the Russian Rouble to benefit the Emerging Market Debt positions.

## GTAA

- Total GTAA assets returned -3.2%, behind their target of +1.0%. Pyrford (+2.9%) and BlueCrest (+2.6%) both delivered returns above their targets, however this positive performance was offset by the BlackRock GASL Fund returning -12.4% and underperforming its target by 13.6%.
- Fixed income and commodity strategies within the GASL Fund were the most detrimental to the total GTAA strategy. All commodity sectors, particularly metals, hurt the strategy. Equity-based strategies were particularly beneficial across the portfolios as European and Japanese equities rallied and Emerging Markets rebounded. Credit exposure was positive for Pyrford and BlueCrest portfolios, particularly the US, Europe, EMD and High Yield allocations.

## Real Assets

- Total Real Assets returned 2.6%, ahead of their composite target by 1.3%. Outperformance was mainly due to the return from the In-House Timber / Agriculture portfolio and the underweight allocation to commodities.
- Despite a slowing in performance levels from Q4 2014, the In-House Property portfolio provided a return of 2.3% compared to a market return of 3.0% over Q1 2015. Overall this detracted 0.1% from total Fund relative return. Office and industrials were the leading sectors, particularly Offices in Central London, while the retail sector continues to lag behind.
- Infrastructure assets produced positive absolute returns throughout the period and also outperformed their target.
- Commodities endured a challenging quarter, with negative returns in three of the four sectors. However, Wellington's Commodities Fund returned -5.0%, and outperformed its target by 0.5%.
- Timber/Agriculture generated a strong return of 11.0%, ahead of its target by 9.6% and contributing the majority of the outperformance for the Real Assets portfolio.

## Alpha Seeking Assets

- Total Alpha Seeking Assets returned 0.8%, below its target by 0.4%. Private equity was the leading detractor as the portfolio underperformed by 1.2%. The hedge fund portfolio produced positive returns over the period with each fund ahead of its respective target.

## 2 Strategic Asset Allocation – 31 March 2015

### Allocation by underlying asset class

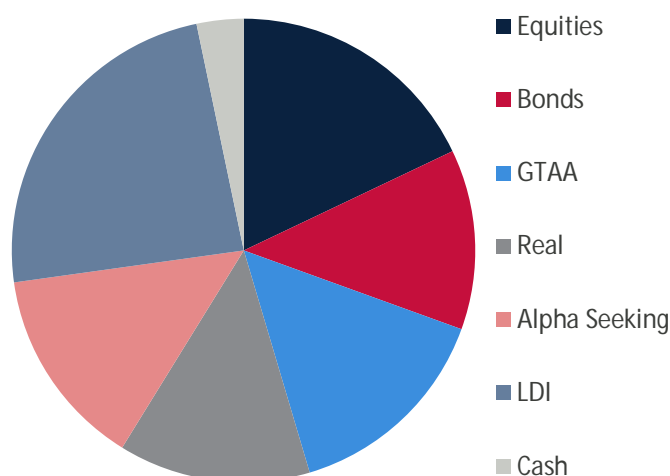
Asset Class	31 March 2015 Valuation £	Weight %	Strategic Benchmark <sup>^</sup> %
Developed Market Equities	153,338,780	11.1	16.5
Emerging and Frontier Market Equities	93,652,925	6.8	7.5
Global Tactical Asset Allocation (GTAA)	205,266,332	14.9	12.0
Bonds	172,749,552	12.5	15.0
Fund of Hedge Funds	48,753,822	3.5	5.0
Property	100,991,199	7.3	7.0
Commodities	24,962,403	1.8	4.0
Private Equity	133,489,663	9.7	8.0
Infrastructure	31,983,323	2.3	2.0
Timber / Agriculture	26,453,668	1.9	2.0
Opportunistic	10,611,718	0.8	2.0
LDI	329,100,505	23.9	19.0
Cash	45,148,374	3.3	0.0
<b>TOTAL CLWYD PENSION FUND</b>	<b>1,376,502,264</b>	<b>100.0</b>	<b>100.0</b>

<sup>^</sup> The strategic benchmark represents the benchmark from the previous investment strategy; this will be updated in the Q2 2015 report after the transition to the new strategy has been further implemented.

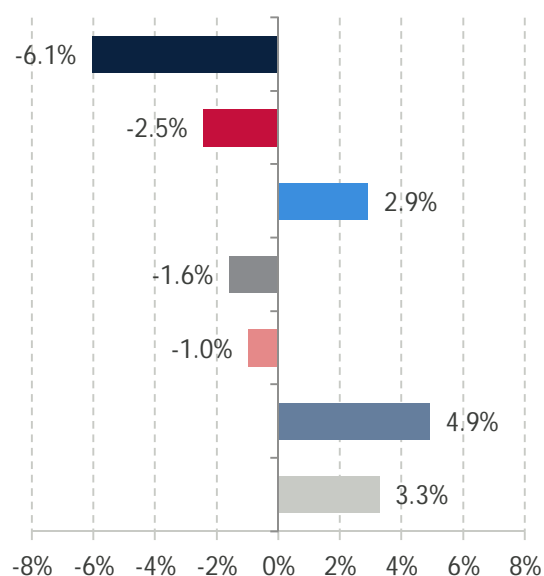
### Points to note

- Allocation to LDI has risen by 0.9% over the quarter and is 4.9% overweight relative to its strategic benchmark.
- In March, Aberdeen's Asia Pacific Equity Fund was sold and reinvested into Investec Diversified Growth (£60m) and Pyrford Diversified Growth (£25m); £15 million also transferred to Investec Global Equity from the Trustee bank account.

### Strategic Asset Allocation as at 31 March 2015\*



### Deviation from Strategic Benchmark\*



\*Strategic asset class categorisation to be updated in Q2 2015 report to reflect the new strategy.

## Performance of the strategic asset classes and total Fund to 31 March 2015

Asset Class	3 Months %	12 Months %	3 Years % p.a.
<b>Total Equities</b>	6.8	13.5	9.9
Composite Target	7.4	16.2	11.3
<i>Relative</i>	<i>-0.6</i>	<i>-2.7</i>	<i>-1.4</i>
<b>Total Bonds</b>	0.6	-0.9	2.3
Composite Target	0.4	1.5	1.4
<i>Relative</i>	<i>0.2</i>	<i>-2.4</i>	<i>0.9</i>
<b>Total GTAA</b>	-3.2	4.0	0.6
Composite Target	1.0	4.8	5.4
<i>Relative</i>	<i>-4.2</i>	<i>-0.8</i>	<i>-4.8</i>
<b>Total Alternatives - Real Assets</b>	2.6	7.2	4.5
Composite Target	0.3	2.9	3.6
<i>Relative</i>	<i>2.3</i>	<i>4.3</i>	<i>0.9</i>
<b>Total Alternatives - Alpha Seeking Assets</b>	0.8	5.8	5.5
Composite Target	1.3	5.3	5.3
<i>Relative</i>	<i>-0.5</i>	<i>0.5</i>	<i>0.2</i>
<b>Total ex Alternatives, GTAA and LDI</b>	<b>4.5</b>	<b>8.0</b>	<b>7.7</b>
<b>Composite Target</b>	<b>4.6</b>	<b>10.3</b>	<b>8.3</b>
<i>Relative</i>	<i>-0.1</i>	<i>-2.3</i>	<i>-0.6</i>
<b>Total ex GTAA and LDI</b>	<b>3.2</b>	<b>7.3</b>	<b>6.7</b>
<b>Composite Target</b>	<b>2.9</b>	<b>7.6</b>	<b>6.9</b>
<i>Relative</i>	<i>0.3</i>	<i>-0.3</i>	<i>-0.2</i>
<b>Total ex LDI</b>	<b>2.3</b>	<b>6.9</b>	<b>6.0</b>
<b>Composite Target</b>	<b>2.6</b>	<b>7.2</b>	<b>6.7</b>
<i>Relative</i>	<i>-0.3</i>	<i>-0.3</i>	<i>-0.7</i>
<b>Total Clwyd Pension Fund</b>	<b>3.3</b>	<b>14.2</b>	<b>8.3</b>
<b>Composite Target</b>	<b>3.3</b>	<b>13.7</b>	<b>8.8</b>
<i>Relative</i>	<i>0.0</i>	<i>0.5</i>	<i>-0.5</i>

Source: JLT Employee Benefits

- Manager benchmarks and target objectives were reviewed during the quarter, and a number have now been revised (please see Appendix 1 for details). These are shown for all of the time periods detailed in this report.

## 3 Manager Summary – 31 March 2015

Manager	Fund	31 March 2015					3 Yr Performance vs Objective
		Valuation £	Weight %	Strategic Weight %			
				Prev	New		
●	Duet	Global Opportunities*	50,001,810	3.6	5.0	-	Target not met
●	Investec	Global Strategic Equity	103,336,970	7.5	5.0	8.0	Target met
n/a	Aberdeen	Asia Pacific ex Japan Equities	-	-	6.5	-	n/a
●	Wellington	Emerging Market Equities (Core) <sup>#</sup>	40,761,730	3.0	6.5	6.5	Target not met
●	Wellington	Emerging Market Equities (Local) <sup>#</sup>	43,510,787	3.2			Target met
n/a	Aberdeen	Frontier Markets Equities <sup>#</sup>	9,380,408	0.7	1.0	2.5	n/a
<b>Total Equity Assets</b>			<b>246,991,705</b>	<b>17.9</b>	<b>24.0</b>		
●	Stone Harbor	LIBOR Multi-Strategy Portfolio	172,749,552	12.5	15.0	15.0	Target met
<b>Total Bond Assets</b>			<b>172,749,552</b>	<b>12.5</b>	<b>15.0</b>		
●	BlackRock	GASL	50,330,334	3.7	6.0		Target not met
●	Bluecrest	AIIBLue Ltd <sup>+</sup>	34,415,059	2.5	3.0		Target met
●	Pyrford	Global Total Return	59,973,417	4.4	3.0	19.0 <sup>1</sup>	Target not met
n/a	Investec	Diversified Growth	60,547,521	4.4	-		n/a
<b>Total GTAA Assets</b>			<b>205,266,332</b>	<b>14.9</b>	<b>12.0</b>		
●	In-House	Property	100,991,199	7.3	7.0	7.0	Target not met
●	In-House	Infrastructure	31,983,323	2.3	2.0	2.0	Target met
●	In-House	Timber / Agriculture	26,453,668	1.9	2.0	2.0	Target not met
●	Wellington	Commodities	24,962,403	1.8	4.0	-	Target not met
<b>Total Real Assets</b>			<b>184,390,593</b>	<b>13.4</b>	<b>15.0</b>		
n/a	Pioneer	Fund of Hedge Funds* <sup>#</sup>	1,612,737	0.1			n/a
●	SSARIS	Fund of Hedge Funds*	25,165,762	1.8	5.0	9.0 <sup>2</sup>	Target not met
●	Liongate	Fund of Hedge Funds <sup>+</sup>	21,975,323	1.6			Target not met
●	In-House	Private Equity	133,489,663	9.7	8.0	8.0	Target met
n/a	In-House	Opportunistic	10,611,718	0.8	2.0	2.0	n/a
<b>Total Alpha Seeking Assets</b>			<b>192,855,203</b>	<b>14.0</b>	<b>15.0</b>		
n/a	Insight	LDI assets	329,100,505	23.9	19.0	19.0	n/a
n/a	Trustee	Cash	45,148,374	3.3	-	-	n/a
<b>TOTAL CLWYD PENSION FUND</b>			<b>1,376,502,264</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

Note: 'n/a' against the objective is for funds that have been in place for less than three years. Objectives have been revised as part of a strategic review.  
 \* Duet, SSARIS and Pioneer valuations are lagged by 1 month. + BlueCrest and Liongate valuations are based on estimates provided by the manager.  
 # Wellington Emerging Markets Core and Local, Aberdeen Frontier Markets and Pioneer valuations have been converted to Sterling using the WM/Reuters closing price exchange rates for the respective dates.

1) Total Tactical Portfolio 2) Managed Account including Managed Futures and Fund of Hedge Funds

● Fund has met or exceeded its performance target

● Fund has underperformed its performance target

## Manager performance to 31 March 2015

Manager / Fund			3 months %		12 months %		3 years % p.a.		3 yr Performance vs Objective
			Fund	Target	Fund	Target	Fund	Target	
●	Duet	Global Opportunities	0.2	1.2	-0.5	5.1	1.8	5.2	Target not met
●	Investec	Global Strategic Equity	9.9	7.8	20.9	21.1	17.9	16.3	Target met
●	Wellington	Emerging Markets (Core)	6.1	7.7	11.7	14.3	2.0	4.4	Target not met
●	Wellington	Emerging Markets (Local)	6.9	8.0	15.3	15.5	7.9	5.0	Target met
n/a	Aberdeen	Frontier Markets	7.0	2.3	6.7	10.3	n/a	n/a	n/a
<b>Total Equity Assets</b>			<b>6.8</b>	<b>7.4</b>	<b>13.5</b>	<b>16.2</b>	<b>9.9</b>	<b>11.3</b>	
●	Stone Harbor	LIBOR Multi-Strategy	0.6	0.4	-0.9	1.5	2.3	1.4	Target met
<b>Total Bond Assets</b>			<b>0.6</b>	<b>0.4</b>	<b>-0.9</b>	<b>1.5</b>	<b>2.3</b>	<b>1.4</b>	
●	BlackRock	GASL	-12.4	1.2	-1.2	5.1	-4.8	5.2	Target not met
●	Bluecrest	AIIBLue Ltd	2.6	1.1	7.4	4.6	5.5	4.7	Target met
●	Pyrford	Global Total Return	2.9	0.8	7.2	5.2	4.6	6.7	Target not met
n/a	Investec	Diversified Growth	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total GTAA Assets</b>			<b>-3.2</b>	<b>1.0</b>	<b>4.0</b>	<b>4.8</b>	<b>0.6</b>	<b>5.4</b>	
●	In-House	Property	2.3	3.0	14.4	18.5	8.8	11.6	Target not met
●	In-House	Infrastructure	3.4	1.3	11.1	5.6	11.4	5.7	Target met
●	In-House	Timber / Agriculture	11.0	1.4	13.8	5.6	3.8	5.6	Target not met
●	Wellington	Commodities	-5.0	-5.5	-22.0	-22.1	-12.1	-11.3	Target not met
<b>Total Real Assets</b>			<b>2.6</b>	<b>0.3</b>	<b>7.2</b>	<b>2.9</b>	<b>4.5</b>	<b>3.6</b>	
●	SSARIS	Fund of Hedge Funds	3.0	0.9	1.5	3.6	3.2	3.6	Target not met
●	Liongate	Fund of Hedge Funds	1.8	1.3	-1.8	5.6	0.8	5.7	Target not met
●	In-House	Private Equity	0.2	1.3	7.4	5.6	6.7	5.7	Target met
n/a	In-House	Opportunistic	1.1	1.3	8.9	5.6	n/a	n/a	n/a
<b>Total Alpha Seeking Assets</b>			<b>0.8</b>	<b>1.3</b>	<b>5.8</b>	<b>5.3</b>	<b>5.5</b>	<b>5.3</b>	
n/a	Insight	LDI Portfolio	6.7	6.7	44.7	44.7	n/a	n/a	n/a
<b>Total (ex Alternatives, GTAA and LDI)</b>			<b>4.5</b>	<b>4.6</b>	<b>8.0</b>	<b>10.3</b>	<b>7.7</b>	<b>8.3</b>	
<b>Total (ex GTAA and LDI)</b>			<b>3.2</b>	<b>2.9</b>	<b>7.3</b>	<b>7.6</b>	<b>6.7</b>	<b>6.9</b>	
<b>Total (ex LDI)</b>			<b>2.3</b>	<b>2.6</b>	<b>6.9</b>	<b>7.2</b>	<b>6.0</b>	<b>6.7</b>	
<b>TOTAL CLWYD PENSION FUND</b>			<b>3.3</b>	<b>3.3</b>	<b>14.2</b>	<b>13.7</b>	<b>8.3</b>	<b>8.8</b>	

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



# Appendix 1: Summary of Mandates

Manager	Fund	Mandate	Performance Objective (Net of Fees)	Strategic Weight	Tactical Range
Duet	Global Opportunities	Unconstrained Global Equities	3 Month LIBOR Index +4.5% per annum	5.0%	+/-1%
Investec	Global Strategic Equity	Unconstrained Global Equities	MSCI AC World NDR Index +2.5% per annum	5.0%	+/-1%
Aberdeen	Asia Pacific ex Japan	Asia Pacific ex Japan Equities	MSCI AC Pacific (ex Japan) Index +2.75% per annum	6.5%	+/-1%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% per annum	6.5%	+/-1%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% per annum		
Aberdeen	Frontier Markets	Frontier Markets Equities	MSCI Frontier Equities Index +1.5% per annum	1.0%	-
Stone Harbor	LIBOR Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index +1.0% per annum <sup>(1)</sup>	15.0%	+/- 2%
BlackRock	GASL	Global Tactical Asset Allocation	3 Month LIBOR Index +4.5% per annum	6.0%	+/- 1%
BlueCrest	AllBlue Ltd	Global Tactical Asset Allocation	3 Month LIBOR Index +4.0% per annum	3.0%	+/- 1%
Pyrford	Global Total Return	Global Tactical Asset Allocation	UK Retail Price Index +4.4% per annum	3.0%	+/- 1%
Investec	Diversified Growth	Global Tactical Asset Allocation	UK Consumer Price Index +4.6% per annum	-	-
SSARIS	Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR Index +3.0% per annum	5.0%	+/- 3%
Liongate	Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR Index +5.0% per annum		
In-House	Private Equity	Private Equity	3 Month LIBOR Index +5.0% per annum	8.0%	
In-House	Opportunistic	Opportunistic	3 Month LIBOR Index +5.0% per annum	2.0%	
In-House	Property	Property	IPD Balanced Funds Weighted Average	7.0%	
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% per annum	2.0%	+/- 3%
In-House	Timber / Agriculture	Timber / Agriculture	3 Month LIBOR Index +5.0% per annum	2.0%	
Wellington	Commodities	Commodities	S&P GSCI Equal Weighted (Hedged) +1.0% per annum	4.0%	
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%	

Notes: Manager benchmarks and target objectives were reviewed during the quarter, and a number have now been revised.

<sup>1</sup>FTSE A Gilts All Stocks Index until 31 March 2014.

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