

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 27 September 2016
Report Subject	Investment Strategy and Manager Summary
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

The purpose of the Investment Strategy and Manager Summary is to update Committee Members on the performance of the Fund's investment strategy and performance of the Fund's investment managers.

The report covers the quarter ending 30 June 2016.

The Fund experienced a strong quarter from an Investment Strategy perspective, with positive returns from all strategic asset classes except the Managed Account Platform. Key facts covered in the report are as follows:

- Over the 3 months to 30 June 2016, the Fund's total market value increased by £97.8m to £1,480,291,434.
- As at 30 June 2016, the value of the Fund's liabilities had increased by £201 million to £2,455 million, resulting in a funding level of 60% - this is a slight decrease in the funding level from 31 March 2016 which was at 61%.
- Over the quarter, total Fund assets returned 5.3% compared with a composite target of 4.7%.

The Fund's investment strategy is currently under review (on a light touch basis) as part of the Actuarial Valuation Process. (Agenda item 9)

A number of the Fund's investment managers outperformed their respective targets during the quarter. There was particularly strong performance from the Fund's In-House portfolio.

RECOMMENDATIONS

1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 June 2016.
2	That the Committee considers the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Investment Strategy and Manager Summary 30 June 2016</p> <p>Over the 3 months to 30 June 2016, the Fund's total market value increased by £97.8m to £1,480,291,434.</p> <p>Total Fund assets returned 5.3% over the quarter, compared with a composite target of 4.7%.</p> <p>Over the one year period, Total Fund assets returned 7.1%, compared with a composite target of 7.7%.</p> <p>Over the last three years, Total Fund assets returned 7.3% p.a., compared with a composite target of 8.4% p.a.</p> <p>The strongest returns over the quarter came from the Equity allocation and the Best Ideas portfolio assets.</p> <p>The Fund's asset portfolio was within the strategic ranges set for all asset classes, except Multi-Asset Credit, during the period.</p>
1.02	<p>At this time, there are no 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 Fund's investment consultant is currently reviewing the mandate specification for each of the manager positions as part of the light touch review of investment strategy. This is to ensure that the structure of the mandates remain appropriate to serve the needs of the Fund going forward.</p>

2.00 RESOURCE IMPLICATIONS

2.01	None directly as a result of this report.
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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	Appendix 1 – Investment Strategy and Manager Summary 30 June 2016.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Investment Strategy and Manager Summary 31 March 2016.</p> <p>Contact Officer: Debbie Fielder, Pension Fund Manager Telephone: 01352 702259 E-mail: debbie.a.fielder@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:

<http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf>