

CLWYD PENSION FUND CEM BENCHMARKING BRIEFING PAPER

August 2016

CEM BENCHMARKING

SUMMARY OF RESULTS

This briefing paper has been prepared for the Advisory Panel meeting of 16th August 2016. It is a high level summary of the results for the Clwyd Pension Fund CEM Benchmarking analysis that was undertaken earlier in the year.

- The work undertaken by CEM is widely recognised across LGPS and they worked with most of the pools in collating the data for this survey.
- The CEM Benchmarking report covers the period 2014/15.
- Investment returns are for the calendar year ending December 2014 and investment costs collated are for the periods of the LGPS financial years ending March 2013, 2014 and 2015.
- The survey universe included a large number of overseas pension funds not just LGPS. Out of the 407 pension funds in the universe 194 are public funds but there is no breakdown of the country of these funds.
- The survey is a snap shot of one year in isolation but the information does highlight some important comparisons with the other participants in the survey.

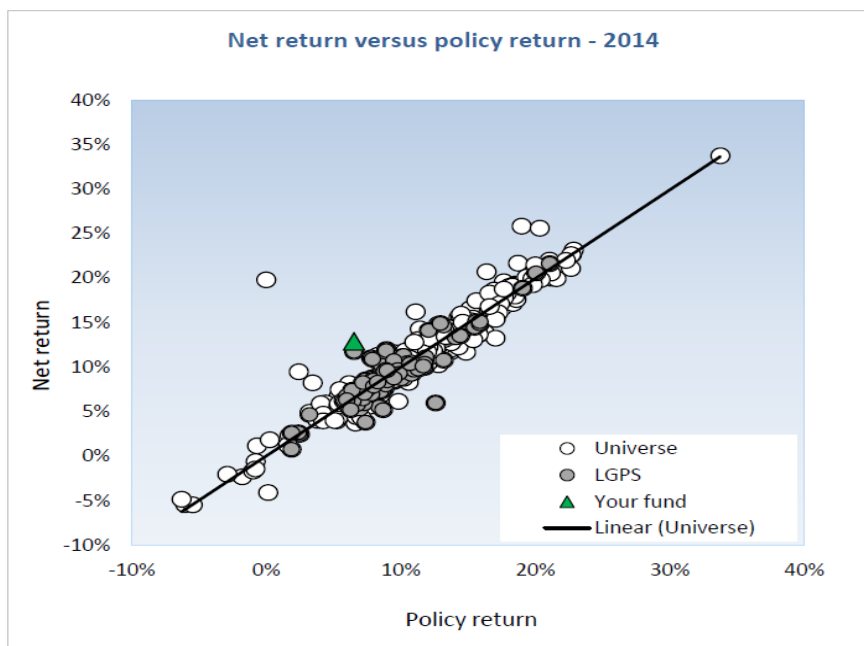
Summary of Clwyd Pension Fund Results

Performance

Year to 2014		Universe				
	Clwyd	10 th %	Quartile 1	Median	Quartile 3	90 th %
Net Total Fund Return	11.7%	5.6%	7.6%	10.9%	14.0%	17.8%
Policy Return	6.5%	6.0%	7.8%	11.0%	14.1%	17.6%
Net Value Add	5.2%	-1.4%	-0.8%	-0.1%	0.6%	1.4%

- Clwyd Pension Fund returned 11.7% versus the survey median of 10.9% however was below the upper quartile return of 14.0%.
- The Policy return is the return that would have been achieved by investing in the strategy passively.
- The Net Value Add is the difference between the Fund return and the Policy Return.
- Clwyd have a Net value Add of 5.2% which is greater than the 90th percentile i.e. top decile of 1.4%. The median net value add was -0.1%. Comparing the total fund returns with the policy returns indicates that the majority of participants in the survey are predominantly passively invested or not achieving returns in excess of the index.
- Active management has been beneficial to Clwyd Pension Fund.

Page 14 of the report, shown below for reference, plots the correlation between net returns and policy returns. It also highlights those LGPS from the wider universe. The majority of LGPS are scattered closely along the Linear (Universe) suggesting they are either passively investing or not receiving as great a benefit from active management than Clwyd. There are a number of LGPS funds that gained a net return greater than Clwyd however these appear to be outliers. The majority of LGPS fund returns form a cluster below the return achieved by Clwyd.



Source: 2016 CEM Benchmarking Inc

Risk

Year to 2014	Clwyd	Universe				
		10 th %	Quartile 1	Median	Quartile 3	90 th %
Volatility	6.4%	6.7%	7.9%	9.0%	10.3%	11.4%

- Asset risk is the expected volatility of the schemes investment strategy.
- The volatility figure of 6.4% is 2.6% below the median volatility and is below the 10th percentile. This is a positive result.
- From a risk perspective the Clwyd strategy has a much lower volatility than the sample which will be a direct benefit from diversification within the portfolio.

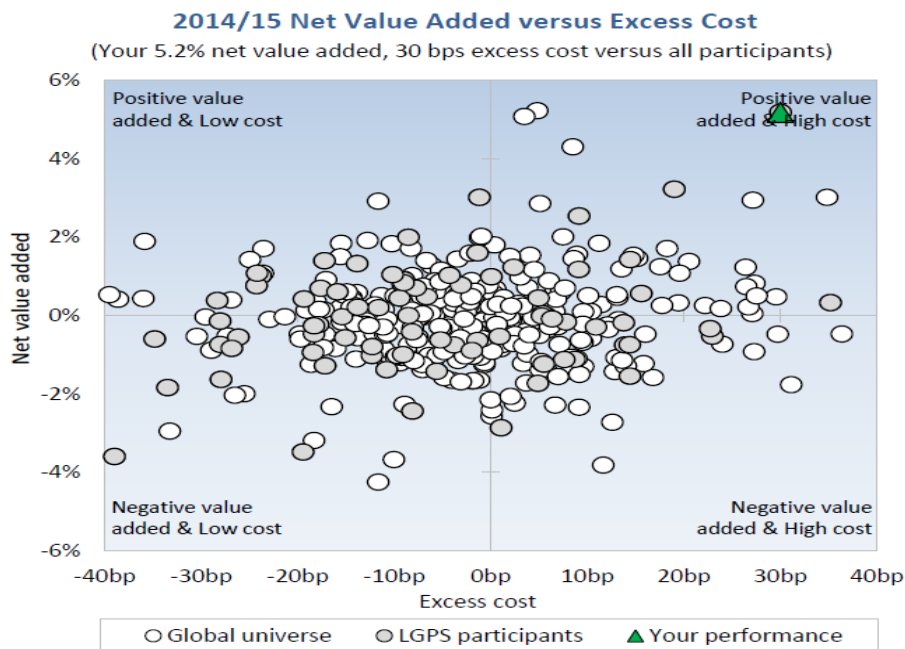
Investment Costs

2014/15	Clwyd	Universe				
		10 th %	Quartile 1	Median	Quartile 3	90 th %
Cost bps	116.1	26.9	36.0	49.2	70.9	99.0

- Clwyd's costs were significantly greater than the median of 49.2 and at the very high end of the sample universe.
- Costs increased from 110.3 bps in 2012/13 to 116.1 bps in 2014/15.
- Higher management fees arise from alternative strategies such as fund of fund hedge funds and active management fees.
- There have been a number of strategic changes made to the portfolio over the periods under review. Some of the costs would likely be in relation to advisory costs in terms of recommending strategic changes and their implementation.

Summary

- In terms of costs, relative to the sample universe, Clwyd do not compare favourably, but it is expected that pooling will have an impact in reducing fees.
- The absolute return relative to the whole universe was at or around median. However the return exceeds a significant number of the returns of the LGPS in the survey.
- Clwyd has benefited from active management.
- The Clwyd investment strategy has significantly lower volatility than the universe a direct benefit of diversification within it.
- Clwyd achieves a very high 'Net Value Add' relative to the LGPS universe and this should provide satisfaction as to what the asset strategy is actually delivering to the Fund relative to the peer group. This is illustrated in the chart on page 27 which is shown below for reference.
- From the information supplied we are unable to isolate the other 7 Welsh funds for direct comparison purposes.



Source: 2016 CEM Benchmarking Inc

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