

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday, 16 February 2017
Report Subject	Economic and Market Update
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide Committee Members with an economic and market update for the quarter.

This report covers the period ending 31 December 2016.

The economic and market environment during the fourth quarter was dominated by the election of US President Donald Trump. Key contributors driving sentiment include:

- A weaker Sterling
- An environment of higher inflation expectations
- Rising Commodities prices

Despite the continued uncertainty in markets surrounding the implementation of Donald Trump's policies all Equity markets produced positive returns with returns to the Sterling investor boosted by the weaker currency. Emerging Markets Equity was the worst performer suffering from a strengthening US Dollar and rising rates in US fixed income markets. UK Government bond yields began to rise on the back of rising inflation expectations leading to capital value falls in UK fixed income assets.

RECOMMENDATIONS

1	To note and discuss the Economic and Market Update 31 December 2016.
2	To note how the information in the report effectively "sets the scene" for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund's asset portfolio.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Economic and Market Update 31 December 2016 The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee. The report contains the following sections:</p> <ul style="list-style-type: none">• Market Background – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies.• Economic Statistics – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing• Market Commentary – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).
2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.
3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.
4.00	RISK MANAGEMENT
4.01	None.
5.00	APPENDICES
5.01	Appendix 1 – Economic and Market Update Period Ending 31 December 2016
6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update Period Ending 30 September 2016.

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7.00 GLOSSARY OF TERMS

7.01

A list of commonly used terms are as follows:

- (a) **Absolute Return** – The actual return, as opposed to the return relative to a benchmark.
- (b) **Annualised** – Figures expressed as applying to 1 year.
- (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.
- (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.
- (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>