

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
Report Subject	Economic and Market Update
Report Author	Clwyd Pension Fund 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 March 2018.

Most markets have suffered falls during the quarter, with few exceptions. The only equity market that was positive in the period was Frontier Markets which rose +1.4%. A number of factors have influenced the market in the quarter, such as the potential trade war between the US and China, the potential for rising interest rates, the US political situation and the progress of the Brexit negotiations. Market volatility has picked up in most asset classes, and whilst not consistent, is likely to a sign of things to come in 2018. Despite this volatility, however, the global economic conditions appear reasonably robust. There were a number of key driving factors in the quarter:

- Rising Oil prices
- Subdued inflation
- Markets have priced in Interest rate rises in the UK and US, albeit timing is uncertain

During the quarter markets started with an upwards trajectory, with positive returns being seen in most markets in January, however this was reversed in February and March, with most markets suffering falls. Property showed marginally positive returns during the quarter driven by rental income. Emerging Market Debt and Senior Secured Loans were the only other areas appreciating in the period. Property was the best performing segment of the market with a return of +1.9%.

Over the 12 months to end of March, despite the sell off in February and March, there were only two markets that showed negative performance; Hedge Funds and High Yield Debt which were down -5.4% and -4.9% respectively. Over the year Frontier Market Equity and Emerging Market Equity were the best performing areas at +13.7% and +11.8% respectively.

Since 1 April developed markets have recovered somewhat from the volatility seen in February and March. UK equity markets have been the best performer returning +9.4% for the quarter to the end of May, and US equity markets have also risen more than 8%. Emerging market equity has lagged developed markets, having risen +0.7% to the end of May. Frontier market equities and Emerging Market debt have performed less well, returning -7.9% and -5.2% respectively. The Fund's Investment Consultant will update the Committee verbally at the meeting.

RECOMMENDATIONS

1	To note and discuss the Economic and Market Update 31 March 2018
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 March 2018 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.
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3.00 CONSULTATIONS REQUIRED / CARRIED OUT

3.01	None directly as a result of this report.
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4.00	RISK MANAGEMENT
4.01	None.

5.00	APPENDICES
5.01	Appendix 1 – Economic and Market Update Period Ending 31 March 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update Period Ending 31 December 2017.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@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> <p>(e) Money-Weighted Rate of Return – The rate of return on an investment including the amount and timing of cashflows.</p> <p>(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.</p> <p>(g) Three-Year Return – The total return on the fund over a three year period expressed in percent per annum.</p> <p>(h) Time-Weighted Rate of Return – The rate of return on an investment removing the effect of the amount and timing of cashflows.</p> <p>(i) Yield (Gross Redemption Yield) – The return expected from a bond if</p>

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>