

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday 7 October 2020
Report Subject	Economic Update, Investment Strategy and Manager Summary
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of the Economic Update, Investment Strategy and Manager Summary is to give Committee Members an economic and market update for the quarter, and to summarise the performance of the Fund's investment strategy and its investment managers.

Due to the timing of the meeting, the information to the end of September 2020 is not yet available, so this report covers the quarter ending 30 June 2020. The Fund's Consultants, Mercer, will give a verbal update at the meeting.

Key points to note for the quarter ended 30 June 2020:

Economy and Markets

- February and March saw significant volatility in markets, however this quarter saw positive returns as markets rebounded
- Unprecedented global monetary and fiscal stimuli drive market recovery
- Significant COVID-19 related uncertainty remains, and will continue to affect markets in coming months.
- The US election, ongoing tensions between US and China and Brexit will continue to impact markets in addition to COVID-19

Clwyd Fund Strategy and Performance

- Over the three months to 30 June 2020, the Fund's total market value increased by £155.1m to £1,963.7m. This followed on from falls in the previous quarter of £191.7m
- Fund Performance over 3 months, 12 months and 3 years; +8.2%, +0.3% and +4.3% respectively.
- Equities and the Multi-Asset Credit portfolio were best performers over the quarter.

RECOMMENDATIONS

1.	To discuss and comment on the Market and Economic update for the quarter ended 30 June 2020, which effectively sets the scene for the Investment Strategy and Manager Performance summary.
2.	To discuss and comment on the Investment Strategy and Manager Performance summary for the quarter ended 30 June 2020.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Economic and Market Update</p> <p>The economic and market update for the quarter from the Fund's Investment Consultant is attached at Appendix 1. The report contains the following sections:</p> <ul style="list-style-type: none">• Market Background – contains key financial markets data for the period under review, including performance of selected markets including equities, bonds inflation and currencies.• Economic Statistics – contains key economic statistics during the period under review, including Gross Domestic Product (GDP) Growth, Inflation Employment and Manufacturing.• Market Commentary – provides detailed commentary on the economic and market performance of major global regions and financial markets.
1.02	<p>The quarter saw a strong rebound in markets after the falls of the previous quarter. Monetary and Fiscal stimulus packages put in place globally drove confidence and toward the end of the quarter the easing of lockdown restrictions were seen as positive signs for the economy.</p> <p>In recent weeks, markets have seen some return to volatility over the potential for a “Second Wave” of virus cases, and the outcome remains very uncertain.</p> <p>In addition to the overriding COVID-19 concerns there are other factors including the US Election, the ongoing friction between the US and China and Brexit which have the potential to have significant impact on the future direction of the economy.</p>

1.03	The outlook for markets remains very uncertain, and fast moving. The Fund's Consultant will update the Committee on the latest views at the meeting.
1.04	<p>Investment Strategy and Manager Summary 30 June 2020</p> <p>Over the 3 months to 30 June 2020, the Fund's total market value increased by £155.1m to £1,963.7m; recovering a significant proportion of the value lost in the first quarter of 2020. In total, the Fund's value has fallen by £36.6m in the six months to the end of June. Despite the recovery seen in the quarter, the falls seen in the previous quarter have affected the Fund's longer term performance:</p> <ul style="list-style-type: none"> • Total Fund assets returned 8.2% over the quarter, ahead of the composite target, which returned 6.8%. • Over the one-year period, Total Fund assets returned 0.3%, underperforming the composite target of 2.9%. • Over the last three years, Total Fund assets returned 4.3% p.a., ahead of the composite target of 5.2% p.a. <p>The strongest absolute returns over the quarter came from the Fund's Equity investments and the Multi-Asset Credit (MAC) portfolio. Equities returned 20.4%, and the MAC portfolio 9.2%. Within the Equity Portfolio Emerging Markets (Core) were the strongest performer returning 25.2% in the quarter. The Tactical Allocation portfolio also performed strongly, driven by the Best Ideas portfolio, which returned 9.3% in the quarter.</p> <p>The Fund's asset portfolio is broadly within the strategic ranges set for the asset classes. These strategic ranges were revised as a result of the recent review of the Fund's Investment Strategy. Due to market volatility seen in the early months of the year the Fund's transition to the new Investment Strategy was delayed, and took place over the summer. As such, the Fund will begin reporting against the new benchmark with effect from 1 October.</p>
1.05	<p>As the Committee will be aware Officers and the Fund's consultant reviewed the Fund's Investment Strategy in light of the impact of COVID-19 and concluded that it remained appropriate for the longer term, and the risk management tools that the Fund has in place should prove beneficial in any periods of volatility.</p> <p>The global outlook remains uncertain and the potential for a "Second Wave" of COVID-19 infections and the resultant lockdowns remain a significant risk for Global economies.</p> <p>The Officers and Advisers are regularly monitoring the portfolio and remain content with its current positioning.</p>

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	<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	<p>Appendix 1 - Economic and Market Update – 30 June 2020</p> <p>Appendix 2 - Investment Strategy and Manager Summary – 30 June 2020</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update and Investment Strategy and Manager Summary 31 March 2020.</p> <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund 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>

- (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:

<https://www.schroders.com/en/uk/adviser/tools/glossary/>