

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday 1 September 2021
<b>Report Subject</b>	Economic and Market update and Performance Monitoring report
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

The purpose of this report is to update the Committee on the Economy and Markets, and the Performance of the Fund's investments.

The reports cover periods ending 30 June 2021, and are attached as appendices to this report.

Key points to note:

#### Economy and Markets

- The quarter saw continued positive returns across major equity markets, building on the strong performance seen in the four previous quarters
- The COVID-19 impact was putting pressure on supply chains globally and commodities were also in high demand due to pent up demand
- Geo-political events are still causing significant concern with recent developments in Afghanistan and concerns over Russia and China affecting some markets

#### Performance Monitoring Report

- Over the three months to 30 June, the Fund's total market value increased by £147.4m to £2,326.4m
- Fund Performance over 3 months, 12 months and 3 years; +6.4%, +19.0% and +8.1% p.a. respectively
- Fund Performance is ahead of Composite benchmark over 3 months and 1 year but marginally behind Composite benchmark over 3 years
- The Fund performance is comfortably ahead of the Strategic target and both Actuarial targets over all periods
- All asset classes broadly in line with strategic target weight

Performance of the Fund's assets are monitored and reviewed monthly by the Fund's Officers and advisers. Given the position is always changing, a verbal update will be given to the Committee at the meeting.

## RECOMMENDATIONS

1. That the performance of the Fund over periods to the end of June 2021 are noted along with the Economic and Market update which effectively sets the scene.

## REPORT DETAILS

### 1.00 INVESTMENT AND FUNDING RELATED MATTERS

#### 1.01 Economic and Market Update

The economic and market update for the quarter from the Fund's Investment Consultant is attached at Appendix 1. The report contains the following key sections:

- **Economic and Market Background** – an overview of markets in the quarter, including commentary on key economic indicators
- **Equity Market Review** – information on the performance of equity markets during the quarter and key drivers of markets
- **Bond Market (Fixed Income) Review** – provides an update on bond yield movements and interest rates for the period
- **Currencies, Commodities and Alternatives Review** – provides an update on the performance of Sterling against other currencies as well as highlighting movements in major commodity and alternatives asset classes for the period

1.02

The quarter was another generally positive one, with most major markets seeing positive returns. That is not to say that there are concerns in a number of areas:

- Pressure on supply chains due to COVID-19 related transport disruption
- Inflation concerns in some areas, albeit most commentators felt that this was more due to the COVID-19 effect in the previous year
- Geopolitical events in Russia, China and more recently in Afghanistan are affecting some of the positivity seen in markets

Strong returns (+7.3%) were seen in Global equities over the quarter, with UK equities also performing well; returning +5.6%.

In the UK Government Bond yields fell after increases in the previous quarter, resulting in returns of more than +3.0% for the period.

Sterling remained relatively flat against major currencies during the period, after recent gains.

Commodities markets, continued their strong performance in the quarter. Energy markets, led by Oil, had a particularly strong returns.

Since the end of the quarter volatility has returned to some markets due to

	a number of factors, and as a result the Committee will be given a verbal update at the meeting.																								
1.03	<p><b>Performance Monitoring report</b> Over the 3 months to 30 June 2021, the Fund's total market value increased by £147.4m to £2,326.4m.</p> <p>This means that the Total Fund has increased in value by £204.6m in the calendar year 2021.</p>																								
1.04	<p>It is appropriate to measure performance at a Total Fund level by comparing to a number of different targets:</p> <ul style="list-style-type: none"> <li>• The first of these is the assumed return that the Actuary includes within the triennial valuation - <b>Actuarial Target</b>. This is the most crucial target as actual performance needs to be ahead of this to ensure that the Fund maintains, or improves its funding level. This currently set at CPI (Consumer Price Index) +1.75% p.a. for past service liabilities and CPI + 2.25% for future service liabilities.</li> <li>• The second performance measure is the overall assessment of potential return when the Fund reviews and sets its investment strategy – <b>Strategic Target</b>. (This is currently CPI +3.4% p.a.)</li> <li>• The final target is the composite benchmark – <b>Total Benchmark</b>. This is a composite of each of the individual manager benchmarks, weighted by strategic target allocation. For most investment managers the benchmark does not include an expectation of outperformance, with the exception of Wellington Emerging Market equities and WPP Global Opportunities equity.</li> </ul> <p>The performance against all benchmarks is shown on Page 6 of the report, and repeated below:</p> <table border="1"> <thead> <tr> <th></th> <th>Quarter (%)</th> <th>1 Yr (%)</th> <th>3 Yrs (%)</th> </tr> </thead> <tbody> <tr> <td><b>Total</b></td> <td><b>6.4</b></td> <td><b>19.0</b></td> <td><b>8.1</b></td> </tr> <tr> <td>Total Benchmark</td> <td>4.4</td> <td>16.6</td> <td>8.3</td> </tr> <tr> <td>Strategic Target (CPI +3.4% p.a.)</td> <td>1.4</td> <td>5.5</td> <td>5.5</td> </tr> <tr> <td>Actuarial Target – Past Service Liabilities (CPI +1.75% p.a.)</td> <td>1.0</td> <td>3.9</td> <td>3.9</td> </tr> <tr> <td>Actuarial Target – Future Service Liabilities (CPI +2.25% p.a.)</td> <td>1.1</td> <td>4.4</td> <td>4.4</td> </tr> </tbody> </table> <p>The table shows strong outperformance by the Fund against all measures over 3 months and 1 year, and outperformance against all except the total composite benchmark over 3 years.</p>		Quarter (%)	1 Yr (%)	3 Yrs (%)	<b>Total</b>	<b>6.4</b>	<b>19.0</b>	<b>8.1</b>	Total Benchmark	4.4	16.6	8.3	Strategic Target (CPI +3.4% p.a.)	1.4	5.5	5.5	Actuarial Target – Past Service Liabilities (CPI +1.75% p.a.)	1.0	3.9	3.9	Actuarial Target – Future Service Liabilities (CPI +2.25% p.a.)	1.1	4.4	4.4
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1.05	<p>The strongest absolute returns over the quarter came from the Cash and Risk Management Framework (CRMF) and Private Markets. The CRMF returned +9.3% and Private markets returned +7.9%.</p> <p>Within Private Markets the strongest returns were seen in the Private Equity and Local/Impact portfolios with returns of +13.8% and +13.7% respectively.</p>																								

	<p>It is also positive to note the strong performance seen in the BlackRock ESG Equity portfolio in the quarter (+7.2%).</p> <p>In the 12 months to 30 June 2021 the best returns came from the CRMF, Total Equity and the Tactical Allocation (Best Ideas) portfolio. The CRMF returned +37.5%, with Total Equity and the Tactical Allocation portfolio returning +24.9% and +18.0% respectively.</p> <p>It is also pleasing to note the performance of the Fund's two portfolios managed by the Wales Pension Partnership (WPP). The Global Opportunities Equity portfolio has returned 27.1% over 12 months against its target return of 27.0%. The WPP Multi-Asset Credit has a shorter track record but has also outperformed its benchmark by 0.7% over 3 months by returning +1.7%.</p> <p>The performance of individual managers is shown in the report and is regularly reviewed by Officers and advisers, and at this stage there are no concerns that need addressing, however all positions are being monitored closely.</p>
1.06	<p>The transition of assets in the summer of 2020 brought most asset classes in line with the target strategic weights. Due to strong performance of listed equities in the quarter Global and Emerging Market equity remain marginally overweight. As a result the Private Markets assets are now nearly 4% under target weight, although this is well within the agreed strategic tolerance, and a work plan is in place to bring this in line over the next couple of years. All other asset classes are well within the agreed strategic ranges.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
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</p>

	designed to mitigate the Fund's Interest Rate and Inflation Risks.
4.02	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): <ul style="list-style-type: none"> <li>• Governance risk: G2</li> <li>• Funding and Investment risks: F1 - F6</li> </ul>
4.03	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a strengthening pound.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - Economic and Market Update – 30 June 2021 Appendix 2 – Performance Monitoring Report – 30 June 2021

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Economic and Market Update and Investment Strategy and Manager Summary 31 March 2021.  <b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund <b>Telephone:</b> 01352 702264 <b>E-mail:</b> philip.latham@flintshire.gov.uk

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	A list of commonly used terms are as follows: <p>(a) <b>Absolute Return</b> – The actual return, as opposed to the return relative to a benchmark.</p> <p>(b) <b>Annualised</b> – Figures expressed as applying to 1 year.</p> <p>(c) <b>Duration</b> – The weighted average time to payment of cash flows (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) <b>Market Volatility</b> – 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 cash flows.
- (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 cash flows.
- (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 cash flows.

**A comprehensive list of investment terms can be found via the following link:**

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