

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 5 th September 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 30 June 2018.

Most equity markets have been positive over the quarter and recovered most if not all of the ground lost in the first quarter of 2018. However volatility remains a factor in markets, with markets being affected by the monetary tightening policies in the US, and the trade tensions between the US and China. Political uncertainty in a number of areas and the potential impact of Brexit are also having an impact.

The economic backdrop is continuing to hold firm in developed markets, with more and more signs that we are entering a new and later phase of the market cycle.

Rising US interest rates, the potential ending of European quantitative easing (QE) and a robust global corporate earnings season indicate that the short term noise and aggressive corrections seen in the US and UK equity markets in Q1 appear to be temporary setbacks rather than capitulation. Strong economic fundamentals remain despite the political backdrop and the expected stress of trade wars.

There were positive returns across most equity markets in the period, with the exception of Emerging and Frontier markets. The US market increased by 10% in the quarter; UK equities also showed strong performance returning 9.2%. Commodities markets had a positive quarter increasing by 7.7%, whereas Bond markets were all negative.

RECOMMENDATIONS

1	To note and discuss the Economic and Market Update 30 June 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	Economic and Market Update 30 June 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: <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 30 June 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update Period Ending 31 March 2018.</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 held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.</p> <p>A comprehensive list of investment terms can be found via the following link:</p> <p>http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf</p>