

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 20 February 2019
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 December 2018.

Over the last three months, global markets have suffered a significant sell-off, driven largely by two on-going themes. The first of these was the end and reversal of loose monetary policy, combined with the speed at which the US Federal Reserve intended to raise interest rates. The second issue which has been underlying market sentiment for several months was the prospect of slower growth in the global economy, exacerbated by the trade tensions between the US and China.

In the UK the FTSE All-Share fell more than 10% in the quarter, resulting in its worst annual return since the global financial crisis ten years previous. Whilst the UK equity market has been broadly in line with other developed markets globally, the UK remains firmly under the Brexit cloud, which has seen increased volatility. US stocks were also hit at the start of the quarter in what turned out to be a very difficult month for investors, so bad it is now referred to as 'Red October'.

Elsewhere there was a similar story: Japan was the worst equity market falling 12.4%, and whilst Emerging Market equities suffered less, they still ended the quarter down 3.9%, and 7.6% down for the year.

2018 proved to be a disappointing year for investors in all asset classes, and looking ahead we still see signs of continued volatility, although we are not currently seeing any signs that we are about to enter a recessionary period. The current economic cycle is the longest since the First World War, and whilst there have been signs of slowdown in parts of the world, leading indicators are still not suggesting a global recession is imminent.

RECOMMENDATIONS

1	To note and discuss the Economic and Market Update 31 December 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 December 2018</p> <p>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 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update Period Ending 30 September 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>