

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 February 2019
<b>Report Subject</b>	Investment Strategy and Manager Summary
<b>Report Author</b>	Clwyd Pension Fund Manager

### **EXECUTIVE SUMMARY**

The purpose of the Investment Strategy and Manager Summary is to update Committee Members on the performance of the Fund's investment strategy and performance of the Fund's investment managers.

The report covers the quarter ending 31 December 2018.

From an Investment Strategy perspective, the In-House portfolios and the Private Credit portfolios were the only areas that produced positive absolute returns. In contrast the Equity portfolio, Best Ideas and LDI portfolios suffered significant falls due to ongoing market volatility. Key facts covered in the report are as follows:

- Over the 3 months to 31 December 2018, the Fund's total market value decreased by £102.7m to £1,784,066,451
- Funding level information has not been provided. However liability roll forwards are now based on the discount rate methodology on the CPI basis.
- Over the quarter, total Fund assets returned -5.1% behind the composite target which returned -2.3%.

The benchmarks are reflective of the new strategic weightings, although commitments to Private Credit will take some time to be fully invested.

There was mixed performance amongst the Fund's investment managers in terms of outperforming or underperforming their respective targets during the quarter.

## RECOMMENDATIONS

1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 31 December 2018.
2	That the Committee considers the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

## REPORT DETAILS

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	<p><b>Investment Strategy and Manager Summary 31 December 2018</b></p> <p>Over the 3 months to 31 December 2018, the Fund's total market value decreased by £102.7m to £1,784,066,451.</p> <p>Total Fund assets returned -5.1% over the quarter, underperforming the composite target which returned -2.3%.</p> <p>Over the one year period, Total Fund assets returned -1.4%, compared with a composite target of 2.2%.</p> <p>Over the last three years, Total Fund assets returned 8.8% p.a., ahead of the composite target of 8.6% p.a.</p> <p>The strongest absolute returns over the quarter came from the In-House assets, which was the only segment of the Fund that produced positive returns in total. In addition, the Private Credit portfolio (which forms part of the credit segment) also performed well in relative and absolute terms.</p> <p>The Fund's asset portfolio is broadly within the new strategic ranges set for the asset classes as agreed in the recent strategy review. The largest overweight position is within the LDI portfolio which is being reviewed as part of the wider assessment of the Fund's risk management strategy.</p>
1.02	<p>At this time, there are no immediate concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates.</p> <p>As reported at the last meeting, as part of the Funds Strategic Asset Allocation review scheduled for 2019, individual manager mandates will be reviewed. The Fund will need to be conscious of the plans of the Wales Pension Partnership when assessing its investment managers, as the costs of transitioning to new management arrangements ahead of any potential move to the Pool could be significant.</p> <p>This work will take place with the Fund's investment consultant in conjunction with the 2019 Actuarial Valuation.</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 designed to mitigate the Fund's Interest Rate and Inflation Risks.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Investment Strategy and Manager Summary 31 December 2018

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Investment Strategy and Manager Summary 30 September 2018.</p> <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>A list of commonly used terms are as follows:</p> <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 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:**

<http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf>