

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
Report Subject	Investment Strategy and Manager Summary
Report Author	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 March 2018.

From an Investment Strategy perspective, the quarter was a turbulent one with the majority of areas producing negative absolute returns. Only Total Credit and In-house assets produced positive absolute returns; although both areas failed to beat their benchmarks. The Managed Account platform had a return of 0% for the quarter, which was 1% below benchmark. Key facts covered in the report are as follows:

- Over the 3 months to 31 March 2018, the Fund's total market value decreased by £41m to £1,777,286,415.
- Over the quarter, total Fund assets returned -1.9% which was behind the composite benchmark by 1.4%.

The overall benchmark is reflective of the new strategic weightings although full implementation of the strategy is still on going.

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

Since the end of the quarter Global markets have recovered from the volatility in February and March, with developed equity markets showing returns of between +4.0% and +9.4% for the quarter to the end of May. The market value of the Clwyd Fund's assets has seen a similar recovery; at the end of April it was £1,822,214,157. The Fund's Investment Consultant will update the Committee verbally at the meeting.

RECOMMENDATIONS

1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 31 March 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

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Investment Strategy and Manager Summary 31 March 2018</p> <p>Over the 3 months to 31 March 2018, the Fund's total market value increased by £41.0m to £1,777,286,415.</p> <p>Total Fund assets returned -1.9% over the quarter, below the composite target which returned 0.5%.</p> <p>Over the one year period, Total Fund assets returned 4.3%, compared with a composite target of 4.8%.</p> <p>Over the last three years, Total Fund assets returned 8.1% p.a., compared with a composite target of 7.5% p.a.</p> <p>The strongest absolute returns over the quarter came from Total Credit and the In-house assets.</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. There are some deviations which have been addressed with the appointment of the two Private Credit managers; however this asset class will take some time to fully invest all of the committed capital.</p>

1.02	<p>At this time, there are no concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates.</p> <p>In addition, the Clwyd Pension Fund has committed to investing the majority of its assets through the Wales Pension Partnership, and as such any potential changes in investment management arrangements will need to be conscious of developments within the Pool. However should changes be required ahead of the Pool's timelines then the Fund may need to consider its options.</p>
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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	Appendix 1 – Investment Strategy and Manager Summary 31 March 2018.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Investment Strategy and Manager Summary 31 December 2017</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager</p>

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7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <ul style="list-style-type: none"> (a) Absolute Return – The actual return, as opposed to the return relative to a benchmark. (b) Annualised – Figures expressed as applying to 1 year. (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. (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. <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>