

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 9 June 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 31 March 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 three previous quarters
- This was despite concern growing that further spreading of COVID-19 would lead to new restrictions and lockdowns across the world
- However, with leading economic indicators suggesting a recovery is well underway, and the passing of another large fiscal stimulus package in the US, investors continue to favour risk assets and asset class performance is demonstrative of this positive sentiment

#### **Performance Monitoring Report**

- Over the three months to 31 March, the Fund's total market value increased by £57.2m to £2,179.0m
- Fund Performance over 3 months, 12 months and 3 years; +2.9%, +23.3% and +7.1% p.a. respectively
- Fund Performance ahead of Composite benchmark over 3 months and 1 year but behind Composite benchmark over 3 years
- 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.

### **RECOMMENDATIONS**

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

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	<p><b>Economic and Market Update</b> 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:</p> <ul style="list-style-type: none"><li>• <b>Economic and Market Background</b> – an overview of markets in the quarter, including commentary on key economic indicators</li><li>• <b>Equity Market Review</b> – information on the performance of equity markets during the quarter and key drivers of markets</li><li>• <b>Bond Market (Fixed Income) Review</b> – provides an update on bond yield movements and interest rates for the period</li><li>• <b>Currencies, Commodities and Alternatives Review</b> – 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</li></ul>
1.02	<p>The year started with optimism over vaccine roll-outs, the end of a contentious US election season, and the UK finally making its transition out of the EU. However, there was reason for concern over relentless Covid-19 spread leading to new restrictions and lockdowns across the world as well as fears of vaccine resistant variants. Investors however remain buoyed by the actions of central banks globally, and the bounce effect of increasingly positive economic data. This led to another strong quarter of strong returns from "risk" assets such as equities.</p> <p>US and UK Equities were amongst the strongest performers in the quarter, both returning 5.2% (in the case of the US this is the return denominated in GBP).</p> <p>Government Bond yields across the major developed markets rose over the quarter, reflective of the prevalent 'risk on' sentiment.</p> <p>Sterling continued to strengthen against the Dollar, Euro and Yen and was the strongest performing G10 currency.</p> <p>Commodities markets, with the exception of Gold, continued their strong performance in the quarter. Energy markets, led by Oil, had a particularly strong return with the temporary outage of the Suez Canal providing support in addition to positive demand sentiment as the global economic recovery continues to take place.</p>
1.03	<p><b>Performance Monitoring report</b> Over the 3 months to 31 March 2021, the Fund's total market value increased by £57.2m to £2,179.0m.</p> <p>The Total Fund has also increased in value by £370.5m in the year to 31 March 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>

- The first of these is the assumed return that the Actuary includes within the triennial valuation - **Actuarial Target**. 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 Consumer Price Index (CPI +1.75% p.a.)
- The second performance measure is the overall assessment of potential return when the Fund reviews and sets its investment strategy – **Strategic Target**. (This is currently CPI +3.4% p.a.)
- The final target is the composite benchmark – **Total Benchmark**. 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.

The performance against the total benchmark is shown on Page 6 of the report, and repeated below:

	2021 Q1 (%)	1 Yr (%)	3 Yrs (%)
<b>Total Clwyd Pension Fund</b>	<b>2.9</b>	<b>23.3</b>	<b>7.1</b>
Total Benchmark	2.7	19.3	7.7

On this occasion, the report does not contain the performance data relating to the actuarial and strategic targets. However, these figures will be provided verbally at the 9<sup>th</sup> June 2021 PFC meeting with the data relating to these targets once again included as standard going forward.

1.05	<p>The strongest absolute returns over the quarter came from the WPP Global Opportunities portfolio and the Cash and Risk Management Framework (CRMF). WPP Global Opportunities returned 6.4% and the CRMF returned 6.1%.</p> <p>In the 12 months to 31 March 2021 the best returns came from Emerging Markets Equity (Core) and the CRMF, with returns of 54.5% and 52.4% respectively.</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 has 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 In-house Private Markets assets are now around 3% under target weight. 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 designed to mitigate the Fund's Interest Rate and Inflation Risks.</p>
4.02	<p>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):</p> <ul style="list-style-type: none"> <li>• Governance risk: G2</li> <li>• Funding and Investment risks: F1 - F6</li> </ul>
4.03	<p>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.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 - Economic and Market Update – 31 March 2021</p> <p>Appendix 2 – Performance Monitoring Report – 31 March 2021</p>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Economic and Market Update and Investment Strategy and Manager Summary 31 December 2020.</p> <p><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</p>

7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <ul style="list-style-type: none"> <li>(a) <b>Absolute Return</b> – The actual return, as opposed to the return relative to a benchmark.</li> <li>(b) <b>Annualised</b> – Figures expressed as applying to 1 year.</li> <li>(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.</li> <li>(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.</li> <li>(e) <b>Money-Weighted Rate of Return</b> – The rate of return on an investment including the amount and timing of cash flows.</li> <li>(f) <b>Relative Return</b> – 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.</li> <li>(g) <b>Three-Year Return</b> – The total return on the fund over a three year period expressed in percent per annum.</li> <li>(h) <b>Time-Weighted Rate of Return</b> – The rate of return on an investment removing the effect of the amount and timing of cash flows.</li> <li>(i) <b>Yield (Gross Redemption Yield)</b> – 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.</li> </ul> <p><b>A comprehensive list of investment terms can be found via the following link:</b></p> <p><a href="https://www.schroders.com/en/uk/adviser/tools/glossary/">https://www.schroders.com/en/uk/adviser/tools/glossary/</a></p>