

Clwyd Pension Fund Monitoring Report Quarter to 30 June 2024

Steve Turner

September 2024



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- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

Steve Turner







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Overview



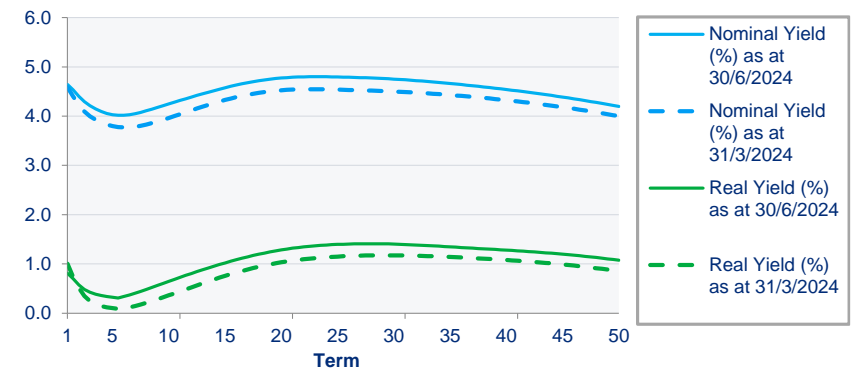
Executive Dashboard

Page 8	Asset Allocation	Page 9	Investment Performance
<p>Assets are predominately in line with their strategic target weights. Risk Management Framework and Local/Impact are the most underweight (-3.7% and -2.1% respectively). The actual overall exposure to equities is closer to the target position when allowing for synthetic equities.</p>	<p>Signal Previous Qtr  Current Qtr </p>	<p>The Fund returned -0.1% over the quarter against a benchmark of 1.6%. Over the one year, three year and five year periods to 30 June 2024, the Fund returned 9.5%, 3.0% p.a. and 5.5% p.a. against a benchmark of 13.1%, 4.4% p.a. and 6.4% p.a., respectively. The WPP Sustainable Active Equity Fund was a key contributor to the underperformance, underperforming its benchmark over the 3 month and 1 year period by 2.5% and 8.4%, respectively. See page 10 and 14 for more detail.</p>	<p>Signal Previous Qtr  Current Qtr </p>
<p>Asset Allocation vs Ranges Local/Impact is marginally outside the strategic target range.</p>		<p>Performance vs Target The one, three and five year performances are behind the benchmark performance.</p>	
Page 15	Manager Research	Additional Comments	
<p>No significant news to report over the quarter.</p>	<p>Signal Previous Qtr  Current Qtr </p>	<p>Over the quarter, the Fund received £37m from the MAN Group Hedge Fund allocation as part of the termination process. The proceeds were used to support liquidity needs and to top up the WPP Sustainable Active Equity Fund post quarter end. The final proceeds of the termination are expected to be received in August 2024.</p> <p>In addition, the allocation to Strategic Cash and Liquidity is being reviewed.</p>	

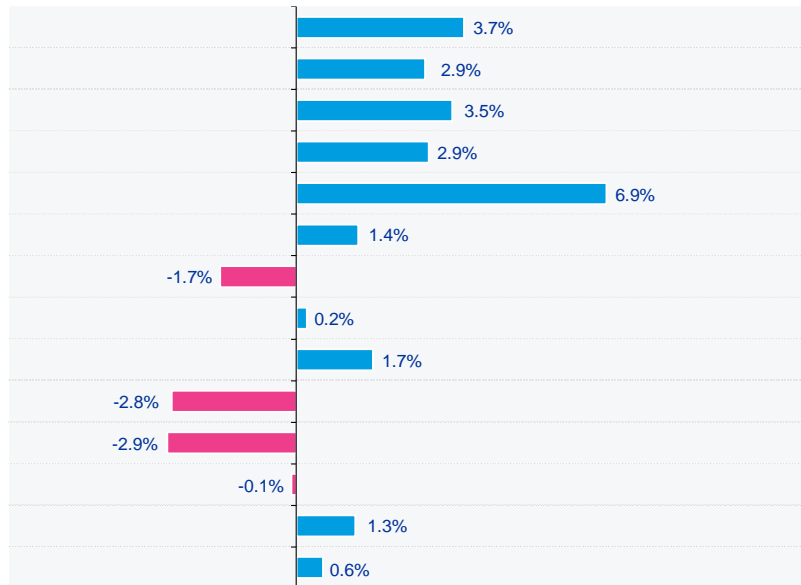
Market Conditions

Yield / Spread	Values at (%)		Change (%)		
	30/06/2024	31/03/2024	3M	12M	3Y
Over 5 Year Index-Linked Gilts Yield	1.16	0.92	0.24	0.32	3.39
Over 15 Year Fixed Interest Gilts Yield	4.57	4.34	0.22	0.20	3.35
Over 10 Year Non-Gilts Yield	5.60	5.30	0.28	-0.34	3.36
Over 10 Year Non-Gilts Spread	1.10	1.05	0.05	-0.32	-0.01

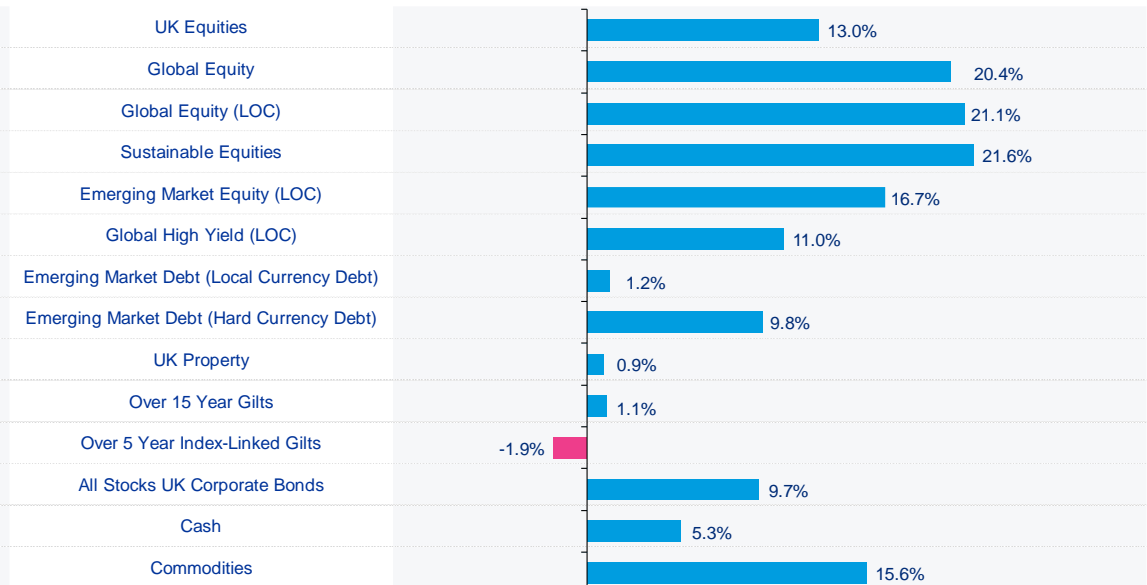
Exchange Rates	£1 is worth		Appreciation (%)		
	30/06/2024	31/03/2024	3M	12M	3Y
US Dollar (\$)	1.264	1.263	0.07	-0.57	-2.92
Euro (€)	1.179	1.170	0.84	1.21	0.41
100 Japanese Yen (¥)	2.033	1.912	6.36	10.64	9.87



3 months to 30/06/2024



12 months to 30/06/2024



Source: Refinitiv. All returns are shown in sterling unless otherwise stated. Local currency returns (LOC) are an approximation of a currency hedged return.

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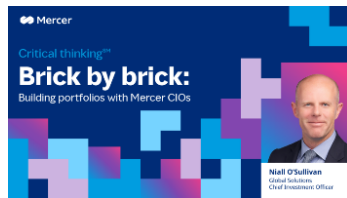
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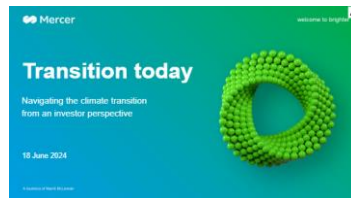
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Dynamic Asset Allocation - Q3 2024

UK Economic Outlook

UK equities had a strong quarter as the FTSE 100 outperformed global equities (in GBP terms). Global markets were buoyed by the continued moderation in inflation, a resilient economy and positive momentum in corporate earnings. Growth outperformed value by a wide margin while small caps underperformed. Despite falling into a technical recession at the end of last year, the UK economy rebounded strongly in the first quarter of 2024 with real GDP rising 0.7% quarter-on-quarter.¹ This was driven by growth in real disposable income for households as headline inflation hit the central bank's 2% target. That being said, April GDP numbers were a little more disappointing as growth was unchanged on a month-on-month basis.

¹ Office of National Statistics, quarter on quarter growth

Dynamic Asset Allocation (DAA) Positioning

Equities

In terms of UK equities, valuations are attractive, however, we believe they are attractive for a good reason and given mixed outlook for the UK economy we prefer to take risk elsewhere in the equity universe. We remain overweight Emerging Market (EM) equities versus developed market (DM) equities. Economic growth has proven to be more resilient in EM. Policy stimulus in China coupled with ex-China EM central banks easing policy should bolster real household income and boost consumption growth, in turn supporting corporate earnings growth. We expect EM earnings to outpace developed market counterparts over the coming years. We are neutral on small cap equities. With lower pricing power and a lower portion of profitable corporates, small cap equities are more susceptible to a higher-for-longer case, thereby seeing steeper negative earnings revisions. As such, we view the pessimistic sentiment and cheap valuations in small cap equities as justified.

Growth Fixed Income

We retain a favorable view on Emerging Market Debt (EMD) Local Currency (LC) from a tactical perspective. We view it as attractive, expecting yields to decline further as central banks continue a gentle rate cutting cycle. Furthermore, we expect EM currencies to strengthen as central banks cut rate to support growth with inflation back towards target. We are underweight Global High Yield to fund other positions within growth fixed income. Delinquencies from consumer and corporate bankruptcies have been picking up, although from very low levels. As monetary policy conditions remain tight in the developed world it could weigh on corporate balance sheets, especially for companies that are highly levered.

Defensive Fixed Income

From a positioning standpoint, we retain our overweight position in UK gilts. Valuations remain attractive as Gilts sold off more than other developed market government bonds. Bond prices should rise as the Bank of England embarks on an easing cycle while growth remains weak and core inflation falls further towards target. We retain our underweight real gilts vs nominal gilts, expecting the so-called break-even inflation rates to narrow further as inflation rates come down.

Source: Mercer. For illustrative purposes only. As at June 2024.

*Latest change made on 5 June 2024.

A constrained portfolio is one that is limited to core asset classes and cannot go underweight cash. Tracking error is the relative risk of the DAA positions. All assets are unhedged.

Strategy Monitoring

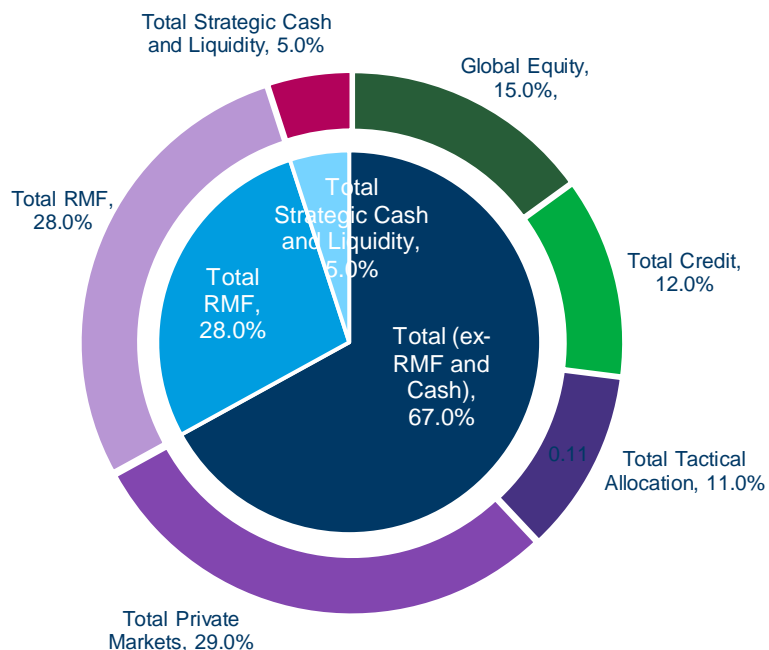


Asset Allocation

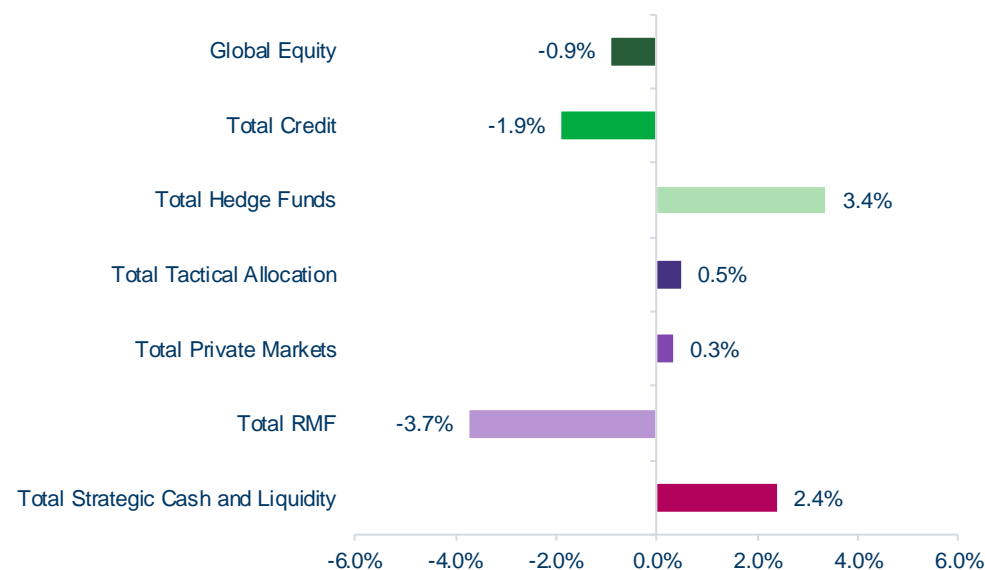
	31/03/2024 Market Value (£M)	Net cashflow (£M)	Investment Growth/ Decline (£M)	30/06/2024 Market Value (£M)	31/03/2024 Allocation (%)	30/06/2024 Allocation (%)	30/06/2024 B'mark (%)	30/06/2024 B'mark Range (%)
Total	2,475.2	-12.2	-2.6	2,460.5	100.0	100.0	100.0	--
Total (ex-RMF and Cash)	1,696.9	-17.8	2.6	1,681.7	68.6	68.4	67.0	--
Total RMF	652.9	-50.0	-6.2	596.7	26.4	24.3	28.0	10.0 - 35.0
Total Strategic Cash and Liquidity	125.5	55.5	1.0	182.0	5.1	7.4	5.0	2.5 - 7.5

Source: Investment Managers and Mercer.
Figures may not sum to total due to rounding.

Benchmark Asset Allocation as at 30 June 2024



Deviation from Benchmark Asset Allocation

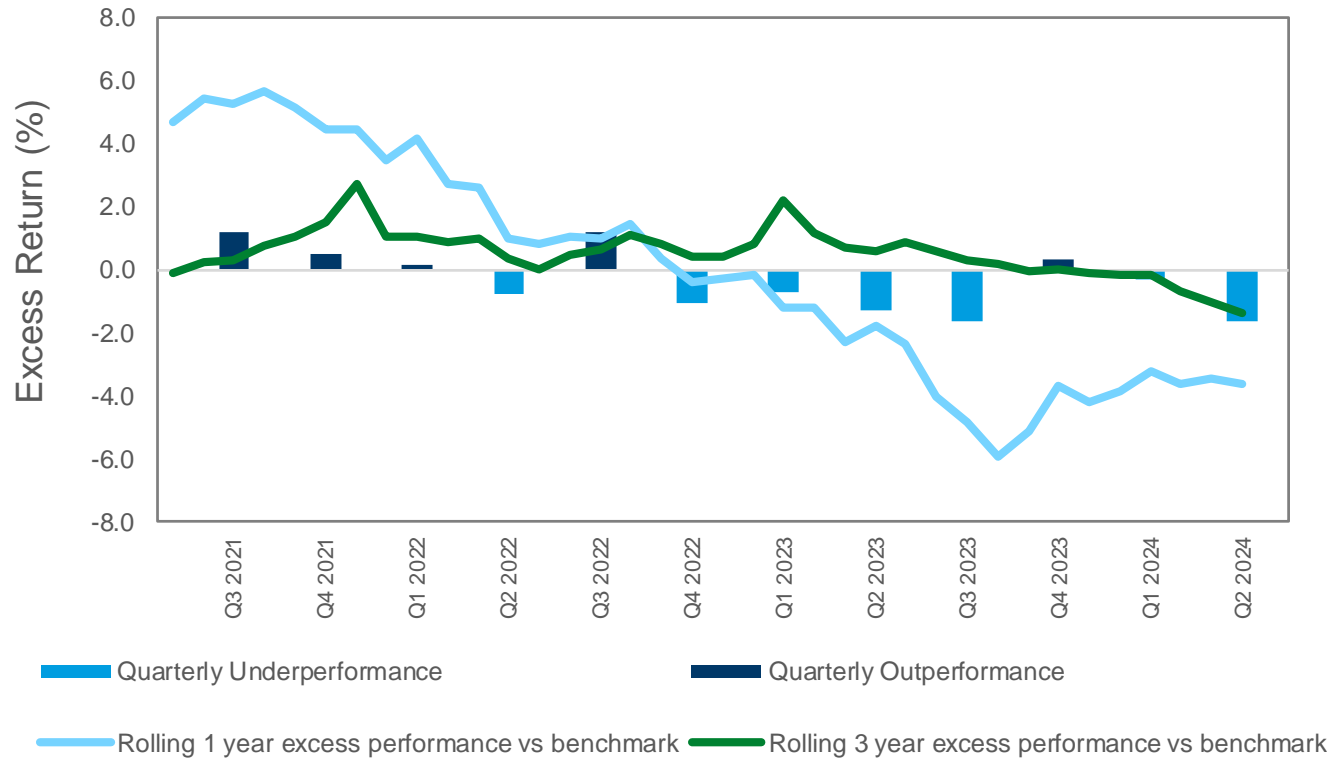


Investment Performance

Fund and benchmark returns (%)	3 Mth	1 Yr	3 Yrs (p.a.)	5 Yrs (p.a.)
Total	-0.1	9.5	3.0	5.5
Total Benchmark	1.6	13.1	4.4	6.4

Figures shown are net of fees and based on performance provided by the Investment Managers, Mercer estimates and Refinitiv.

Relative Performance



Investment Performance

With the exception of Q4 2023, the Fund has underperformed the benchmark in each quarter since Q3 2022 and has shown negative relative performance compared to the benchmark over the rolling 1-year and 3-year periods. A key reason for this can be attributed to the WPP Sustainable Active Equity Fund, which has underperformed its target return of benchmark +2.0% over the 1-year period ending 30 June 2024 (14.0% vs 22.4%). Russell have provided the below explanation for the recent underperformance of the Sustainable Equity Fund:

“Our observations on the performance of the Sustainable Active Equity Fund are somewhat limited given that it is still relatively new (less than one year old as of 30th June 2024). The fund has lagged the market benchmark (MSCI ACWI) partly as a function of the broader active management environment (e.g. market concentration headwinds) but also in sympathy with the experience of sustainability-oriented strategies specifically. The median sustainability specialist is behind the market benchmark by as much as -8.5% (gross) for the 1-year period ending 30th June 2024 based on Russell universe data. Relative to expectations, Mirova and Wellington have performed well whilst Neuberger Berman is below expectations. Artemis was also meaningfully below expectations and this strategy was cut to a de minimis position in early 2024 (before formal termination at a later date) after a rank downgrade. Given the return objectives of the fund, we continue to manage it with close attention to its factor exposures against the market benchmark, limiting a number of the biases strongly apparent within the sustainable universe. The fund is well positioned to deliver its sustainability objectives, and net zero specifically, using the agreed assessment framework (NZIF).”

We would broadly agree with Russell’s comments about the challenging performance of sustainability-oriented strategies. Nevertheless, the level of underperformance over the year to 30 June 2024 is relatively material, which should be subject to further close monitoring. Having said this we would always recommend investors analyse active manager performance over longer periods than just 12 months, and investors should look to give managers at least 3 years before drawing any meaningful conclusions.

Additionally, components of the Private Markets allocation, such as Property (-15.4% vs 0.9%), Local/Impact (0.9% vs 10.5%), and Timber/Agriculture (2.3% vs 10.5%), have also underperformed their respective benchmarks over the 1-year period.. These assets are also benchmarked against an absolute return style benchmark (private debt) and a market reference rate with an excess spread target (SONIA +5% p.a.) for performance measurement. Therefore, the performance will appear further weakened against these types of benchmarks during this period. It should also be noted that over the three years period the Fund’s allocation to Local/Impact has returned 16.3% p.a. versus an 8.0% p.a. benchmark, so we are not unduly concerned by short period of muted performance.

Despite the relative underperformance, the Fund’s funding level remains strong and has strengthened since the last actuarial valuation, as at March 2022, the funding level on the solvency basis was 105%, as at June 2024, this had been estimated at an improved level of 108%.

Investment Manager Summary



Manager Allocation

	Investment Manager	31/03/2024 Market Value (£M)	Net cashflow (£M)	Investment Growth/Decline (£M)	30/06/2024 Market Value (£M)	31/03/2024 Allocation (%)	30/06/2024 Allocation (%)	30/06/2024 B'mark (%)	30/06/2024 B'mark Range (%)
Total		2,475.2	-12.2	-2.6	2,460.5	100.0	100.0	100.0	--
Total (ex-RMF and Cash)		1,696.9	-17.8	2.6	1,681.7	68.6	68.4	67.0	--
Total Equity		344.5	-1.1	2.8	346.2	13.9	14.1	15.0	10.0 - 20.0
Global Equity		344.5	-1.1	2.8	346.2	13.9	14.1	15.0	10.0 - 20.0
WPP Sustainable Active Equity	Russell	344.5	-1.1	2.8	346.2	13.9	14.1	15.0	10.0 - 20.0
Total Credit		251.5	-6.7	3.1	248.0	10.2	10.1	12.0	10.0 - 14.0
WPP Multi-Asset Credit	Russell	251.5	-6.7	3.1	248.0	10.2	10.1	12.0	10.0 - 14.0
Total Hedge Funds		121.1	-37.0	-1.1	83.0	4.9	3.4	-	-
Hedge Funds	Man Group	121.1	-37.0	-1.1	83.0	4.9	3.4	-	-
Total Tactical Allocation		283.3	-	-0.5	282.7	11.4	11.5	11.0	9.0 - 13.0
Tactical Asset Allocation	Various	283.3	-	-0.5	282.7	11.4	11.5	11.0	9.0 - 13.0
Total Private Markets		696.4	27.0	-1.6	721.8	28.1	29.3	29.0	15.0 - 37.0
Private Markets		659.8	9.3	-3.8	665.2	26.7	27.0	29.0	--
WPP Private Markets		36.7	17.7	2.2	56.6	1.5	2.3	--	--
Property	Various	113.6	-1.2	-4.5	107.9	4.6	4.4	4.0	2.0 - 6.0
Local / Impact	Various	142.8	5.3	-3.9	144.2	5.8	5.9	8.0	6.0 - 10.0
Timber/ Agriculture	Various	9.5	-0.5	0.0	9.0	0.4	0.4	--	--
Total Private Equity		219.7	10.4	4.1	234.3	8.9	9.5	8.0	6.0 - 10.0
Private Equity	Various	203.2	5.0	2.1	210.3	8.2	8.5	8.0	6.0 - 10.0
WPP Private Equity	Various	16.5	5.4	2.0	24.0	0.7	1.0		
Total Private Debt		62.6	8.3	0.5	71.4	2.5	2.9	3.0	1.0 - 5.0
Private Debt	Various	57.9	0.2	0.6	58.7	2.3	2.4	3.0	1.0 - 5.0
WPP Private Debt	Various	4.7	8.1	-0.0	12.8	0.2	0.5		
Total Infrastructure		148.3	4.6	2.1	155.0	6.0	6.3	6.0	4.0 - 8.0
Infrastructure	Various	132.8	0.4	1.9	135.2	5.4	5.5	6.0	4.0 - 8.0
WPP Infrastructure	Various	15.4	4.2	0.2	19.8	0.6	0.8		
Total RMF		652.9	-50.0	-6.2	596.7	26.4	24.3	28.0	10.0 - 35.0
Risk Management Framework	Insight	652.9	-50.0	-6.2	596.7	26.4	24.3	28.0	10.0 - 35.0

	Investment Manager	31/03/2024 Market Value (£M)	Net cashflow (£M)	Investment Growth/ Decline (£M)	30/06/2024 Market Value (£M)	31/03/2024 Allocation (%)	30/06/2024 Allocation (%)	30/06/2024 B'mark (%)	31/06/2024 B'mark Range (%)
Total Strategic Cash and Liquidity		125.5	55.5	1.0	182.0	5.1	7.4	5.0	2.5 - 7.5
Strategic Cash and Liquidity	Insight	88.4	20.0	1.0	109.4	3.6	4.4		
Trustee Bank Account	In-House	37.1	35.5	-	72.6	1.5	3.0	5.0	2.5 - 7.5

Source: Investment Managers and Mercer.

Figures may not sum to total due to rounding.

Net cashflows exclude the reinvestment of income.

Hedged Funds (Legacy) valuation includes the Liongate portfolios.

Manager Performance

Fund and benchmark returns (%)	Investment Manager	3 Mth	B'mark	1 Yr	B'mark	3 Yrs (p.a.)	B'mark (p.a.)	5 Yrs (p.a.)	B'mark (p.a.)
Total		-0.1	1.6	9.5	13.1	3.0	4.4	5.5	6.4
Total Equity		0.8	3.3	11.9	19.9	2.0	5.6	6.3	9.2
WPP Sustainable Active Equity	Russell	0.8	3.3	14.0	22.4	-	-	-	-
Total Credit		1.3	2.3	9.2	9.5	-0.1	7.0	1.7	5.2
WPP Multi-Asset Credit	Russell	1.3	2.3	9.2	9.5	-0.1	7.0	-	-
Total Hedge Funds		-1.1	2.2	6.3	8.9	4.0	6.5	3.9	5.5
Hedge Funds	Man	-1.1	2.2	6.3	8.9	4.0	6.5	3.9	5.5
Total Tactical Allocation		-0.2	1.5	7.8	5.9	5.9	7.1	6.8	6.2
Tactical Asset Allocation	Various	-0.2	1.5	7.8	5.9	6.0	7.1	6.7	6.1
Total Private Markets		-0.2	2.4	2.1	8.8	9.4	7.0	8.3	6.1
Private Markets		-0.6	2.4	1.7	8.8	9.3	7.0	8.2	6.1
WPP Private Markets		5.3	2.4	14.9	9.7	-	-	-	-
Property	Various	-3.9	1.7	-15.4	0.9	-5.2	1.2	-2.1	1.9
Local / Impact	Various	-2.7	2.5	0.9	10.5	16.3	8.0	-	-
Timber/ Agriculture	Various	0.1	2.5	2.3	10.5	10.2	8.0	5.4	7.0
Total Private Equity		1.8	2.5	7.8	10.5	13.3	8.0	13.3	7.0
Private Equity	Various	1.0	2.5	7.1	10.5	13.1	8.0	13.2	7.0
WPP Private Equity	Various	12.2	2.5	-	-	-	-	-	-
Total Private Debt		0.7	1.8	9.0	7.5	10.0	7.5	6.2	7.5
Private Debt	Various	1.0	1.8	9.2	7.5	10.1	7.5	6.2	7.5
WPP Private Debt	Various	-1.0	1.8	-	-	-	-	-	-
Total Infrastructure		1.4	2.5	8.8	10.5	15.4	8.0	8.9	7.0
Infrastructure	Various	1.4	2.5	8.6	10.5	15.2	8.0	8.8	7.0
WPP Infrastructure	Various	1.0	2.5	16.9	10.5	-	-	-	-
Total RMF		-0.7	-0.7	17.9	17.9	-6.0	-6.0	2.2	2.2
Risk Management Framework	Insight	-0.7	-0.7	17.9	17.9	-6.0	-6.0	2.2	2.2
Total Strategic Cash and Liquidity		1.3	1.3	5.5	5.3	3.0	2.9	1.9	1.8
Strategic Cash and Liquidity	Insight	1.3	1.3	-	-	-	-	-	-

Figures shown are net of fees and based on performance provided by the Investment Managers, Mercer estimates and Refinitiv. Total and Total Equity includes performance of terminated mandates.

Prior to 30 November 2020, performance for all portfolios and sub-totals/total was estimated based on MWRR approach.

Total hedge funds performance includes performance of the legacy Liongate portfolio.

Hedge funds, TAA and private markets portfolios performance has been estimated by Mercer. From 31 March 2024, Risk Management Framework performance has been estimated by Mercer.

Private Debt benchmark was revised to Absolute Return 7.5% p.a. in Q4 2020 and for all preceding periods.

Total Strategic Cash and Liquidity returns are of Insight ILF2. Longer term returns are for representative purpose only.

Appendix



Appendix A

Benchmarks

Name	Investment Manager	B'mark (%)	Performance Benchmark
Total		100.0	-
Total (ex-RMF and Cash)		67.0	-
Total Equity		15.0	MSCI AC World (NDR) Index +2.0% p.a.
WPP Sustainable Active Equity	Russell	15.0	MSCI AC World (NDR) Index +2.0% p.a.
Total Credit		12.0	SONIA +4.0% p.a.
WPP Multi-Asset Credit	Russell	12.0	SONIA +4.0% p.a.
Total Hedge Funds		--	SONIA +3.5% p.a.
Hedge Funds	Man	--	SONIA +3.5% p.a.
Total Tactical Allocation		11.0	UK Consumer Price Index +2.5% p.a.¹
Tactical Asset Allocation	Various	11.0	UK Consumer Price Index +2.5% p.a. ¹
Total Private Markets		29.0	Composite Weighted Index
Property	Various	4.0	MSCI UK Monthly Property Index
Private Equity	Various	8.0	SONIA +5.0% p.a.
WPP Private Equity	Various	8.0	SONIA +5.0% p.a.
Local / Impact	Various	8.0	SONIA +5.0% p.a.
Private Debt	Various	3.0	Absolute Return +7.5% p.a.
WPP Private Debt	Various	3.0	Absolute Return +7.5% p.a.
Timber/ Agriculture	Various	--	SONIA +5.0% p.a.
Infrastructure	Various	6.0	SONIA +5.0% p.a.
WPP Infrastructure	Various	6.0	SONIA +5.0% p.a.
Total RMF		28.0	Composite Liabilities & Synthetic Equity
Risk Management Framework	Insight	28.0	Composite Liabilities & Synthetic Equity
Total Strategic Cash and Liquidity		5.0	SONIA
Strategic Cash and Liquidity	Insight	5.0	SONIA
Trustee Bank Account	In-House		-

Figures may not sum to total due to rounding.

Performance benchmark for WPP Sustainable Active Equity portfolio include the outperformance target.

Risk Management Framework benchmark is assumed equal to fund performance for calculation purposes.

¹ UK Consumer Price Index +2.5% p.a. based on the 20 year breakeven inflation spot rate.



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