

# Clwyd Pension Fund Overview of risk management framework – Q3 2014

October 2014

Paul Middleman  
Adam Lane

# Clwyd Pension Fund

## Executive summary



= as per expectations



= to be kept under review

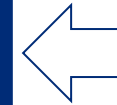


= action required



### Overall funding position

- Currently in line with the existing recovery plan
- Funding level below the first de-risking trigger



No action required



### Liability hedging mandate

- Insight in compliance with investment guidelines
- All triggers implemented as expected
- Performance in line with expectations



No action required



### Synthetic equity mandate

- Insight in compliance with investment guidelines
- Performance in line with expectations
- Maturity constraints as expected



No action required



### Collateral and counterparty position

- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.5% rise in yields and a 50% fall in equity markets before requiring further collateral



No action required



### LIBOR Plus Fund

- Fund is ahead of performance target net of fees since inception
- Management team stable and no change in manager rating
- Allocation of £50m (plus growth) remains appropriate



No action required

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## Update on market conditions

### Change in interest rates during 2014



### Change in inflation during 2014



Since December 2013, there has been a steep fall in interest rates whilst market rates of inflation have been much less volatile with only a slight decrease in yields.

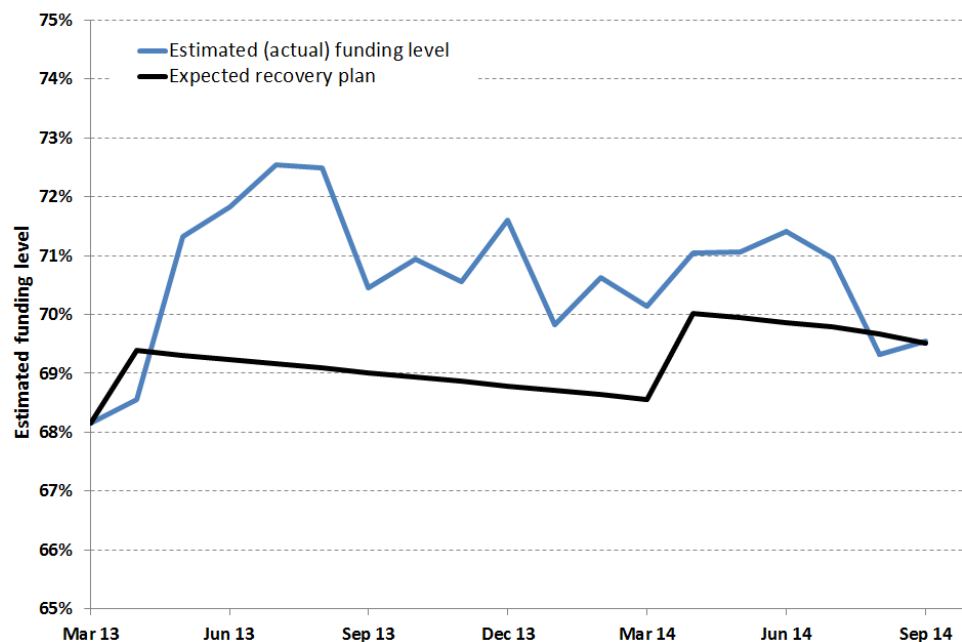
Interest rates fell significantly over August which led to an increase in the Funds deficit. The impact was mitigated to some extent by the Funds current hedging position.

Although yields increased over September, it was still a period of high volatility and the outlook remains uncertain. Yields are difficult to predict due to their influence from economic factors and rate predictions can influence money markets, causing unexpected results.

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## Funding level monitoring to 30 September 2014

### Estimated funding position since 31 March 2013



### Comments

The **black line** shows a projection of the funding level from the 31 March 2013 based on the assumptions (and contributions) outlined in the actuarial valuation.

The **blue line** shows an estimate of the progression of actual funding level from 31 March 2013. This shows that the Fund was on target with the funding plan at 30 September 2014.

At the 30 September 2014, we estimate that the funding level and deficit was as follows:

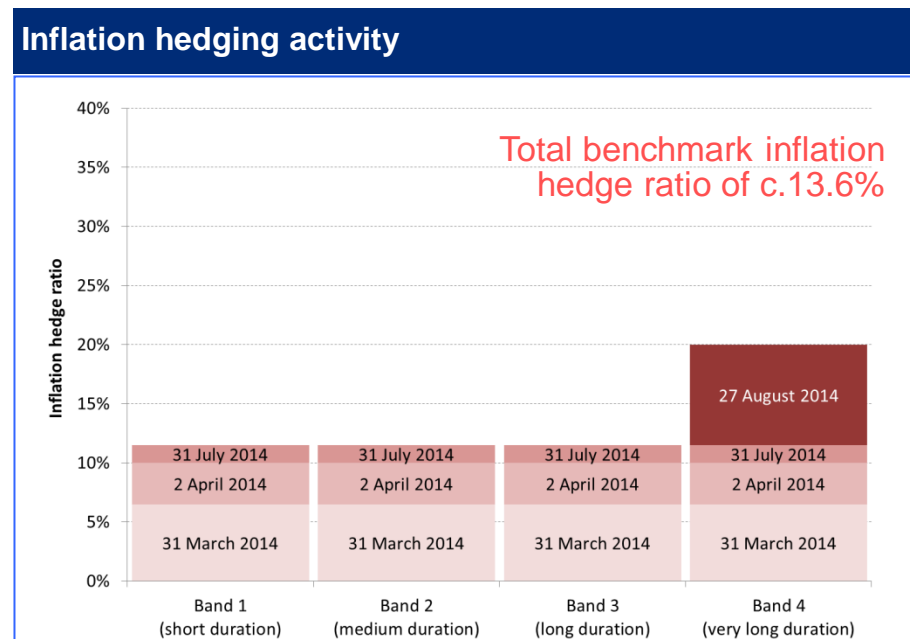
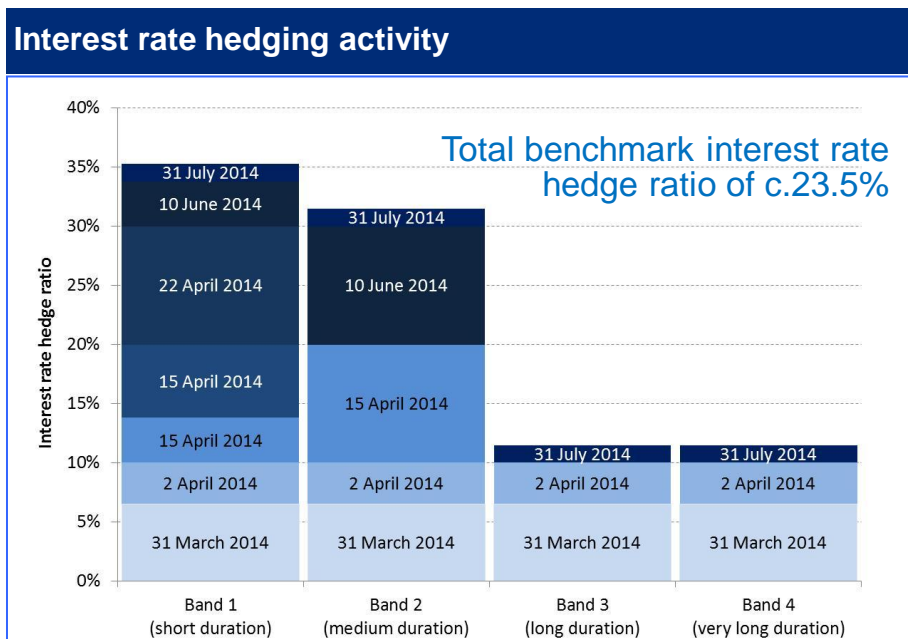
# 70% (£568m)

**Action:** No action required. The funding level is currently below the first funding level trigger which is set at 80% (please see the table below).

|                          | Funding level | Impact on strategic asset allocation                  | Change to the hedge ratio   |
|--------------------------|---------------|---|-----------------------------|
| <b>30 September 2014</b> | <b>70%</b>    | <b>No action</b>                                      | <b>No action</b>            |
| Funding level Trigger 1  | 80%           | Reduce the Insight equity exposure by 50%             | Increase hedge ratio to 40% |
| Funding level Trigger 2  | 85%           | Remove the Insight equity exposure                    | Increase hedge ratio to 50% |
| Funding level Trigger 3  | 90%           | Increase Insight allocation from 19% of assets to 25% | Increase hedge ratio to 60% |
| Funding level Trigger 4  | 95%           | Increase Insight allocation from 25% of assets to 30% | Increase hedge ratio to 70% |
| Funding level Trigger 5  | 100%          | Increase Insight allocation from 30% of assets to 35% | Increase hedge ratio to 80% |

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## Update on liability hedging (Source: Insight Investment)



Source: Insight (PV01) and Mercer (liability PV01 and calculation)

|                       | Date                | Band 1       | Band 2       | Band 3       | Band 4       |
|-----------------------|---------------------|--------------|--------------|--------------|--------------|
| <b>Start position</b> | <b>30 June</b>      | <b>33.8%</b> | <b>30%</b>   | <b>10%</b>   | <b>10%</b>   |
| Time Trigger 1        | 31 July             | 1.5%         | 1.5%         | 1.5%         | 1.5%         |
| -                     | -                   | -            | -            | -            | -            |
| <b>End position</b>   | <b>30 September</b> | <b>35.3%</b> | <b>31.5%</b> | <b>11.5%</b> | <b>11.5%</b> |

|                       | Date                | Band 1       | Band 2       | Band 3       | Band 4     |
|-----------------------|---------------------|--------------|--------------|--------------|------------|
| <b>Start position</b> | <b>30 June</b>      | <b>10%</b>   | <b>10%</b>   | <b>10%</b>   | <b>10%</b> |
| Time Trigger 1        | 31 July             | 1.5%         | 1.5%         | 1.5%         | 1.5%       |
| Trigger 4             | 27 August           | -            | -            | -            | 8.5%       |
| <b>End position</b>   | <b>30 September</b> | <b>11.5%</b> | <b>11.5%</b> | <b>11.5%</b> | <b>20%</b> |

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