HEALTH WEALTH CAREER

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT

February 2017

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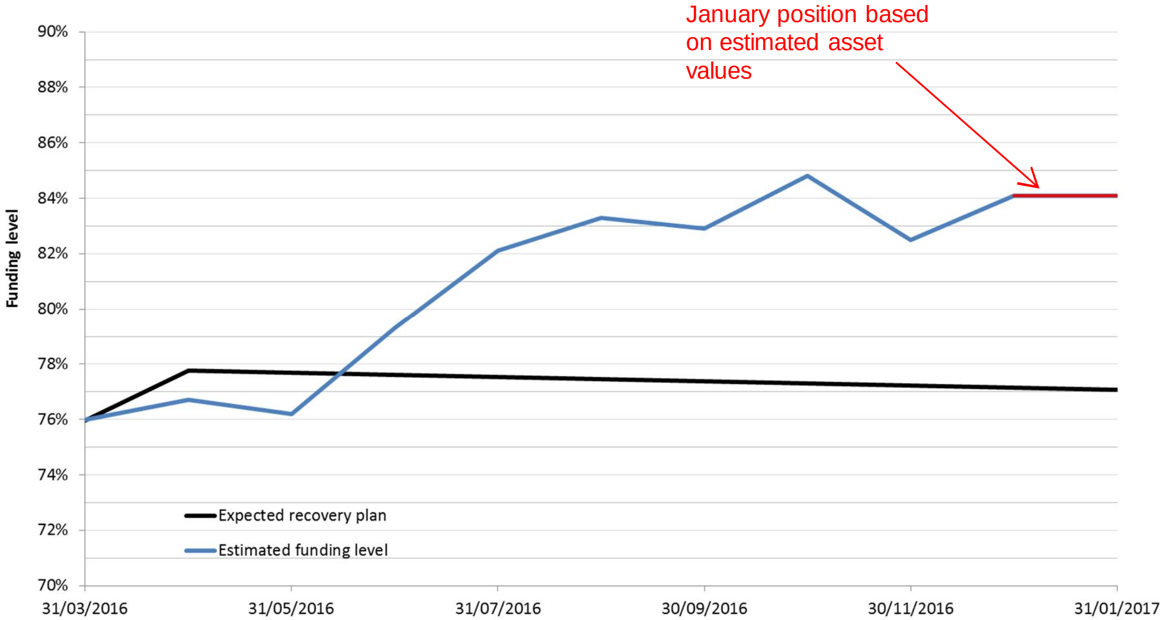
EXECUTIVE SUMMARY

= as per or above expectations = to be kept under review = action required

Overall funding position • Ahead of existing recovery plan • Funding level just below the first trigger • If trigger is breached possible action will be discussed at FRMG	Green	In absolute terms the funding position is 7% ahead of target. However there is continuing uncertainty in the outlook for future returns which could impact on the future funding requirements.
Liability hedging mandate • Insight in compliance with investment guidelines • Performance in line with benchmark since inception	Green	No action required. Restructuring of the mandate will take place when the net benefit at outset is expected to exceed £25m.
Synthetic equity mandate • Insight in compliance with investment guidelines • Performance in line with expectations • Maturity constraints as expected	Green	No action required. Implementation of equity protection on the TRS is ongoing.
Collateral and counterparty position • Collateral within agreed constraints • The Insight QIF can sustain at least a 1.25% rise in interest rates and inflation in combination with a 35% fall in equity markets before requiring further collateral	Green	Collateral adequacy to be monitored following release of c.£60m of capital in February/March.
LIBOR Plus Fund • LIBOR has outperformed its target since inception • Management team stable and no change in manager rating • Allocation of £50m remains appropriate	Green	No action required.

FUNDING LEVEL MONITORING TO 31 JANUARY 2017

Estimated funding position since 31 March 2016



Funding Level Triggers

The initial funding level trigger has been set at 85%. When the trigger is breached the possible action will be discussed at the FRMG. The possible outcomes are:

i. No action
ii. Increasing the interest rate and/or inflation hedging levels
iii. Change the level or nature of the growth assets
iv. Changing other aspects of the framework e.g. Equity options; or
v. A combination of the above.

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2016 valuation based on the assumptions (and contributions) outlined in the 2016 actuarial valuation. The *expected* funding level at 31 January 2017 was around 77%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 31 December 2016. The **red line** shows the progression of the estimated funding level over the period since December 2016. At 31 January 2017, we estimate the funding level and deficit to be:

84% (£308m*)

This shows that the Fund's position was ahead of the expected funding level at 31 January 2017 by around 7% on the current funding basis.

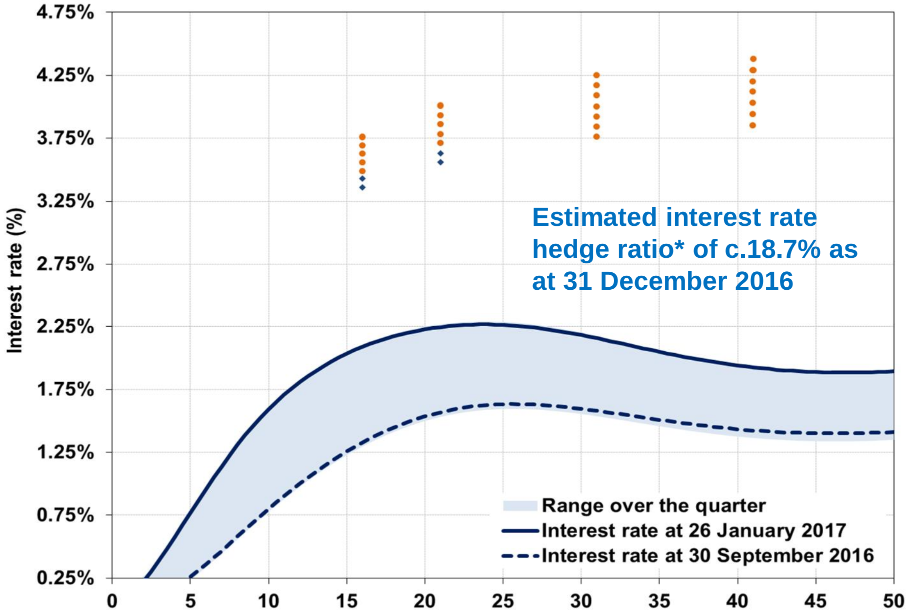
The investment return outlook continues to be uncertain given external political and fiscal factors. This could potentially mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by 3% to 81% with a corresponding increase in deficit of £83m to £391m.

This will be kept under review in light of changing market conditions.

*Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 31 December 2016 to 31 January 2017. We will monitor this estimate over time against the actual position once final asset values are available, and update the asset values on a monthly basis.

UPDATE ON MARKET CONDITIONS AND TRIGGERS

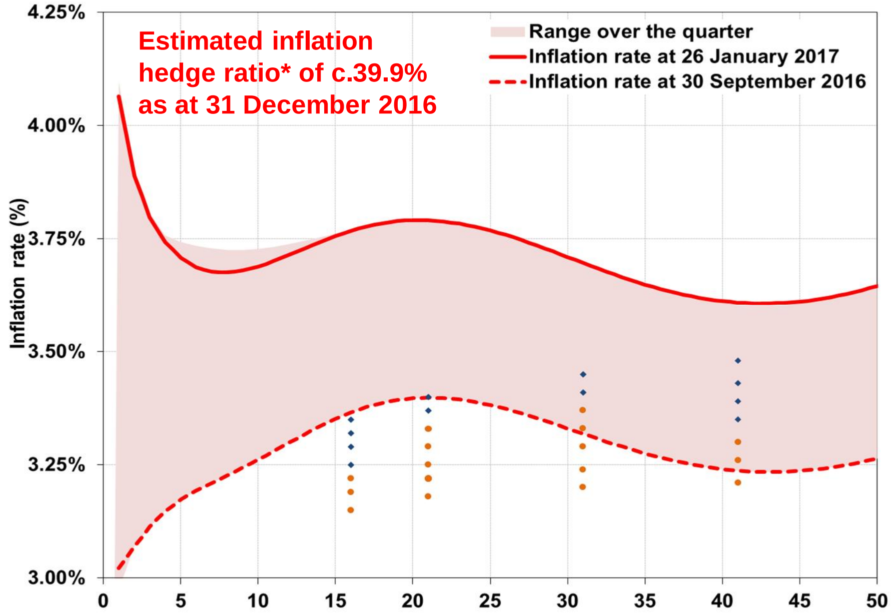
Change in interest rates



* Hedge ratio calculated with reference to 2013 valuation basis

= agreed interest rate triggers
= triggers breached in previous quarters

Change in inflation rates (note: different scale)



* Hedge ratio calculated with reference to 2013 valuation basis

= agreed interest rate triggers
= triggers breached in previous quarters

Comments

Interest rates rose materially over the period from 30 September 2016 to 26 January 2017, with increases of up to c.0.8% observed at short to medium durations.

No interest rate triggers were breached over the fourth quarter of 2016. The triggers have since been removed as part of the restructure of the LDI assets.

The revised interest rate triggers will be implemented as part of the on-going LDI restructure.

Comments

Inflation expectations rose sharply at all durations over the period from 30 September 2016 to 26 January 2017, with average increases of c.0.4% observed across the curve. The largest increases have been observed at the shortest durations.

The inflation hedge ratio remains around the maximum permissible level of 40% and Insight are therefore currently not monitoring the level of inflation hedging.

The revised inflation triggers will be implemented as part of the on-going LDI restructure.

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