



Risk management framework

Monthly Monitoring Report: 30 June 2024




Clwyd Pension Fund
August 2024

Nick Page FIA CERA

welcome to brighter

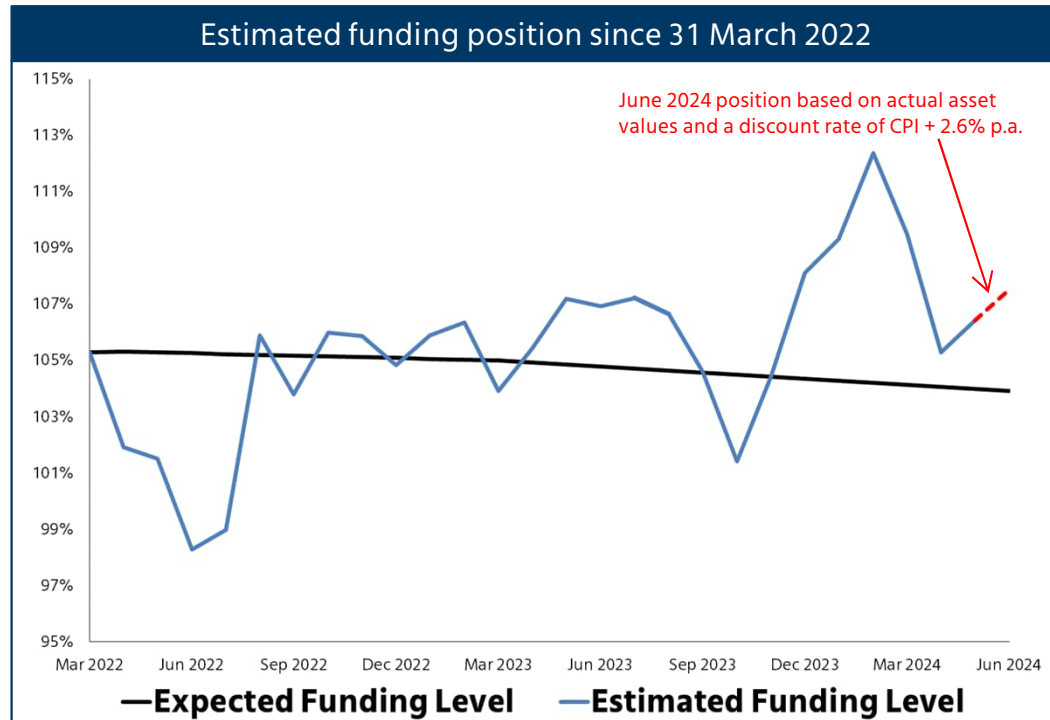


Executive summary

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

 Overall funding position at 30 June 2024 <ul style="list-style-type: none">•The funding position is 108%, which is ahead of the expected funding level from the 2022 valuation by 4%.	<p>This takes into account the impact of the de-risking of the investment strategy following attaining the 110% trigger and subsequent reduction in expected return.</p>
 Liability hedging mandate at 31 March 2024 <ul style="list-style-type: none">•Insight in compliance with investment guidelines•Marginally underperformed the benchmark over the quarter•Hedge ratios broadly in line with target levels	<p>The yield trigger framework is currently paused in consideration of wider Fund liquidity requirements. This position will be reviewed at least annually as part of the Funding and Flightpath annual health check.</p>
 Synthetic equity mandate at 30 June 2024 <ul style="list-style-type: none">•Insight in compliance with investment guidelines•Marginally underperformed the benchmark over the month (as expected given observed market movements)	<p>A dynamic protection structure was implemented in late May 2018, with refinements made in November 2020. The TRS rolled on 23 May 2021 and 24 May 2024 with no further changes to the strategy. No action required.</p>
 Currency hedging at 30 June 2024 <ul style="list-style-type: none">•Currency hedging overlay implemented in the QIAIF in August 2019•As at 30 June 2024, the market value of the currency hedge on physical equities since inception on 22 August 2019 was -£4.2m	<p>No action required.</p>
 Collateral and counterparty position at 31 March 2024 <ul style="list-style-type: none">•The Insight QIAIF can sustain a 7.6% rise in interest rates or >10% fall in inflation, net of TRS and FX stresses and still retain a 4% yield headroom.•At 31 March 2024, the yield rise needed to exhaust all collateral within the Insight QIAIF was 11.6%.	<p>The Fund has sufficient collateral to withstand the stresses as at 31 March 2024. No action required.</p>

Funding level monitoring to 30 June 2024



Comments

The **black line** shows a projection of the *expected* funding level from 31 March 2022 based on the assumptions (and contributions) outlined as part of the 2022 actuarial valuation. The expected funding level at 30 June 2024 was around 104%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2022 to 31 May 2024. The **red dashed line** shows the progression of the estimated funding level over June 2024. At 30 June 2024, we estimate the funding level and surplus to be:

108% / £172m

This update shows that the Fund's position at 30 June 2024 was ahead of the expected funding level from the 2022 valuation by 4%. New employer contributions from the valuation commenced from 1 April 2023 and over time (all else being unchanged) the funding level is expected to fall due to employers running off the surplus.

Uncertainty continues to be prevalent in the investment and fiscal environments due to the Global and UK economic outlook. When assessing the funding levels above, we have incorporated an allowance for actual monthly CPI inflation in order to reflect the impact of the 2024 pension increase and therefore liability cashflows (and changes in inflation beyond September 2023). When determining the appropriate discount rate, we have allowed for the correlation of asset returns to the change in real yields from the valuation date along with an appropriate adjustment to the expected return for growth assets due to the economic outlook, in line with the approach agreed at FRMG.

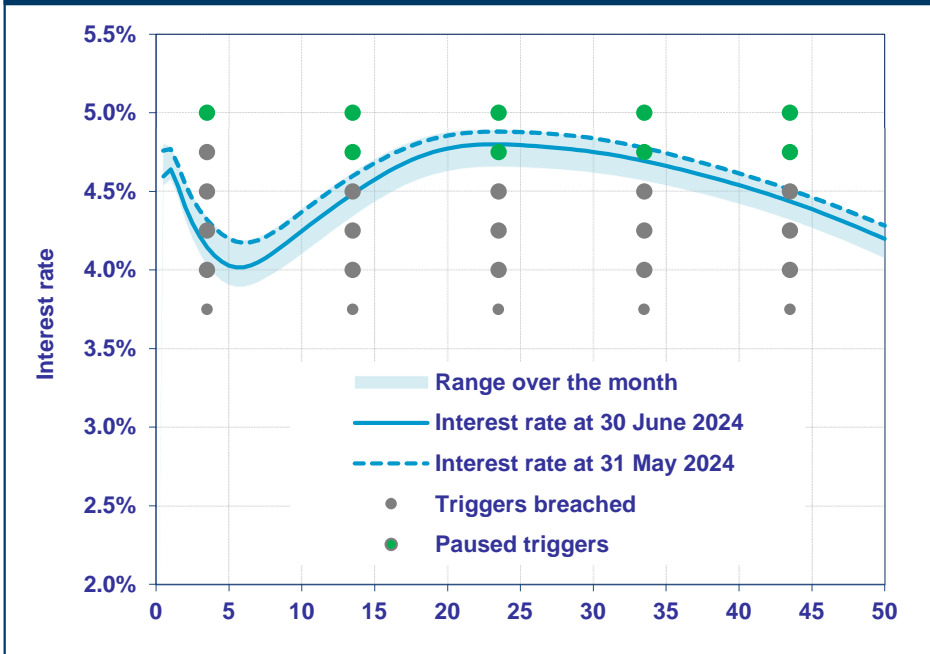
Funding Level Triggers

The funding level trigger of 110% was breached as at end February 2024 and prompted discussions on pre-agreed actions taken as agreed at the March 2024 Committee meeting. On the basis of these pre-agreed actions, there was a de-risking of the investment strategy, where the synthetic equity exposure was reduced so that the total equity exposure was broadly equal to the target of 35% of total Fund assets. This reduces the expected return and discount rate used to assess the funding position. In isolation, this action reduces the funding position by c. 3-4%.

The funding level will continue to be monitored approximately by Mercer on a daily basis and the FRMG and Committee will consider if a new funding level trigger framework should be adopted. This will take into account the risk/return profile as well as contribution levels for employers.

Update on market conditions and triggers

Change in interest rates

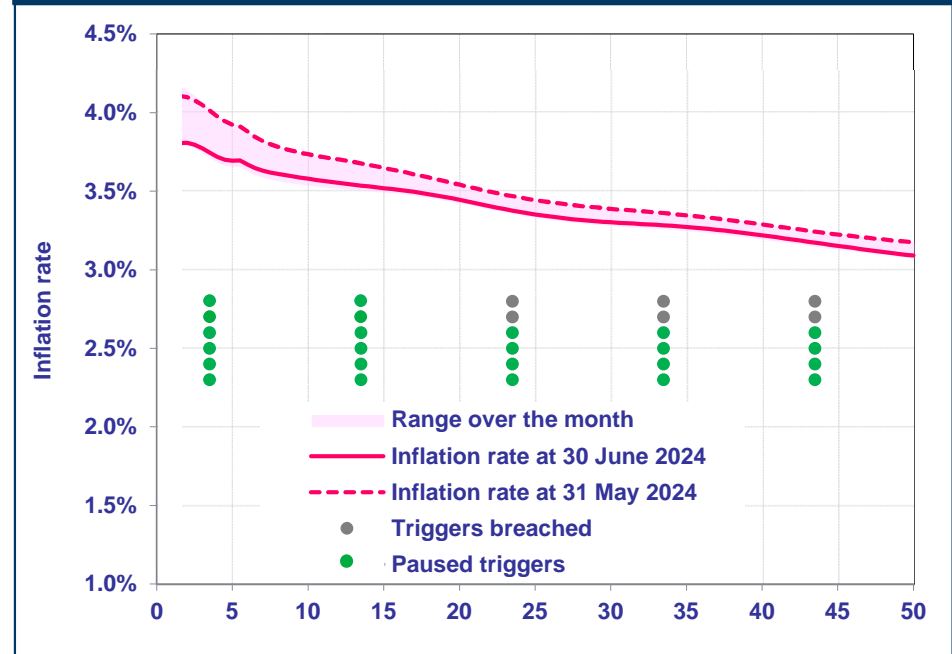


Date	Band 1	Band 2	Band 3	Band 4	Band 5	Total
31 March 2024	60.9%	42.9%	28.3%	19.4%	10.1%	28.6%

Comments

Relative to the position at the end of May 2024, the interest rate curve fell across all tenors.

Change in inflation rates



Date	Band 1	Band 2	Band 3	Band 4	Band 5	Total
31 March 2024	40.3%	15.0%	19.8%	21.2%	12.0%	18.6%

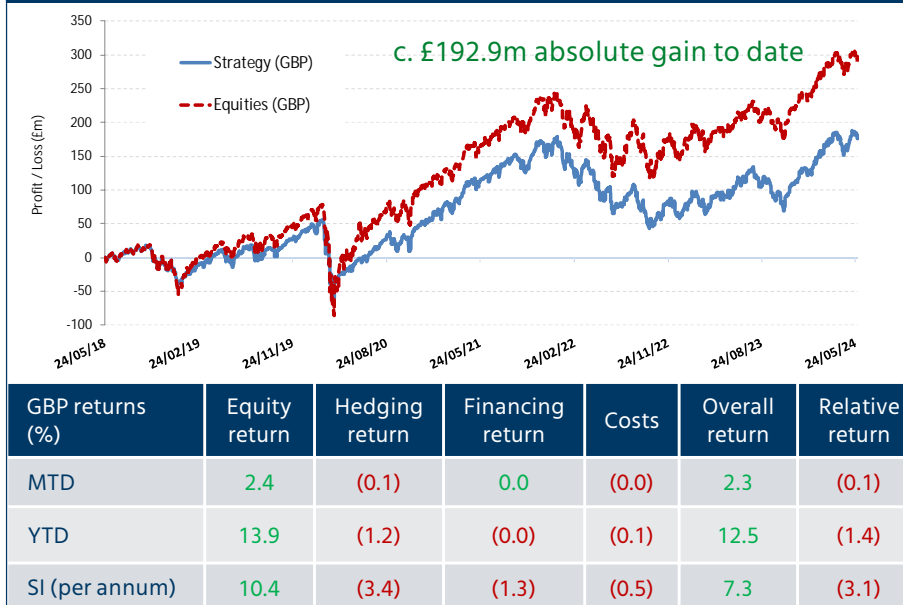
Comments

Relative to the position at the end of May 2024, the inflation expectations curve fell across all tenors shown.

Hedge ratios apply to assets calculated on the CPI+ basis in force at the analysis date and using 2022 valuation assumptions.

Update on equity protection mandate

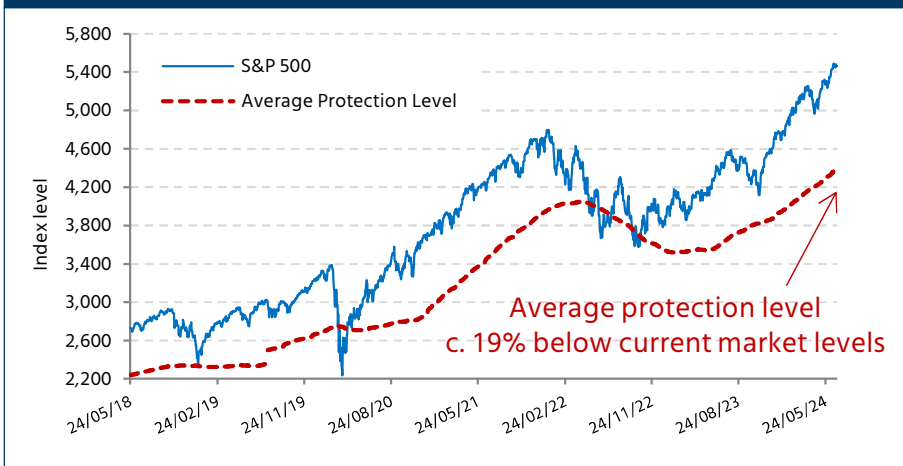
Strategy versus equity index



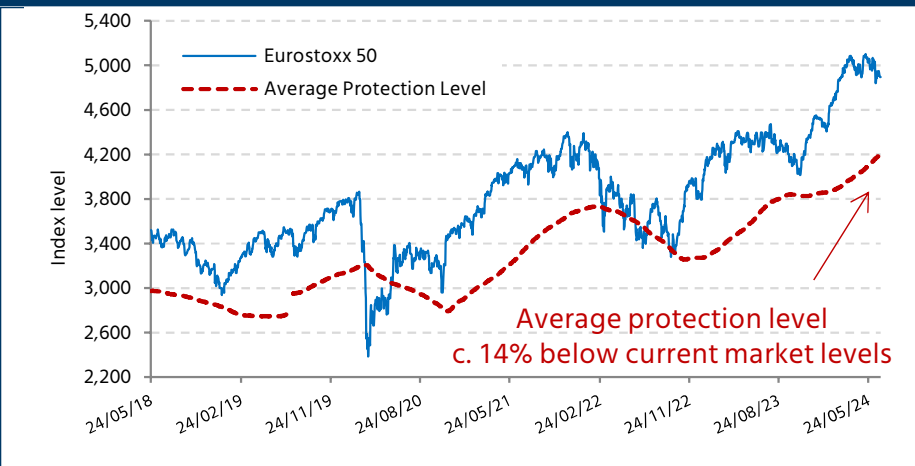
Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. The equity protection strategy was revised in Q4 2020, increasing the call frequency to 2 weekly. This ensures that the Fund can participate in more upside as equity markets rise. The TRS structure was extended for a further 3 years on 23 May 2021 with no further changes to the strategy.
- Equity markets rose over June 2024, with the hedging leg recording a slightly negative return over the month.
- The strategy marginally underperformed passive equities over the month. As at 30 June 2024, there was a gain of c. £192.9m on the strategy since inception.
- From inception on 8 March 2019 to 30 June 2024, the currency hedge of the market value of the synthetic equity mandate has resulted in a c. £20.2m loss relative to an unhedged position, as sterling has weakened versus the dollar since inception.

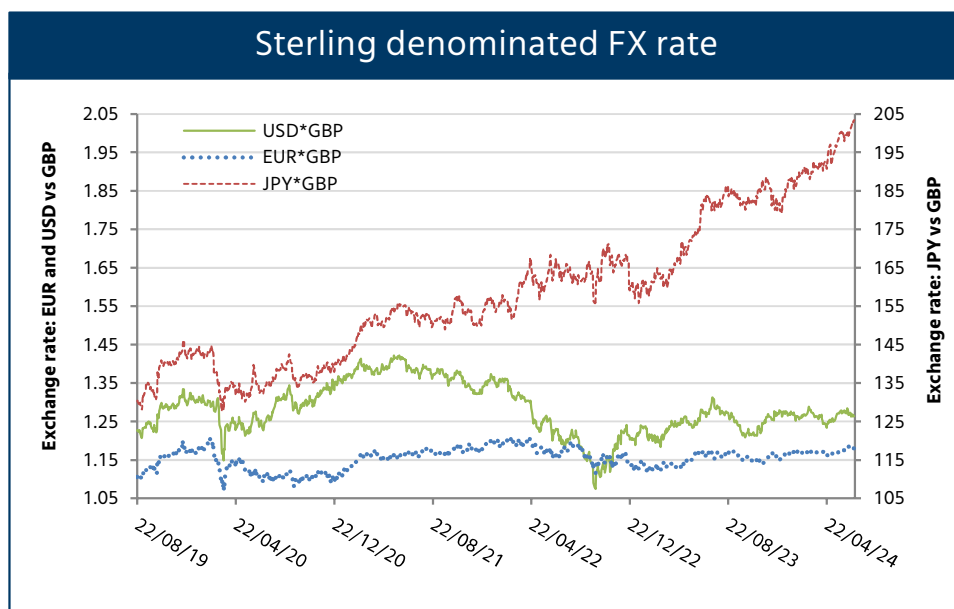
US equity exposure



European equity exposure (note: different scale)



Developed market physical equity currency hedge



- Comments**
- A currency hedge was placed on the physical developed equity portfolio to lock-in gains from sterling weakness and reduce currency risk. The hedge was extended to cover the synthetic Paris Aligned exposure on implementation in October 2023, which was subsequently unwound in March 2024.
 - The hedge has been implemented via a currency overlay, using 3 month forward contracts, within the Insight QIAIF. The hedge is updated quarterly to allow for changes in the underlying equity exposure.
 - As at 30 June 2024, the market value of the currency hedge since inception on 22 August 2019 was -£4.2m.
 - The market value of the currency hedge fell over June 2024 as sterling depreciated against the dollar, which was partially offset by appreciation against the euro and the yen.

	Currency basket weight	FX performance (since inception*)	FX change in performance since 31 May 2024
EUR	12%	£2.5m	£0.2m
JPY	8%	£8.1m	£0.4m
USD	81%	(£14.7m)	(£1.5m)
Total	100%	(£4.2m)	(£0.9m)

*Insight transacted on the currency hedge on 22 August 2019.

Figures may not sum due to rounding.

Glossary

- **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determining the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
- **Collateral** – Liquid assets held by the Fund as security which may be used to offset the potential loss to a counterparty.
- **Counterparty** – Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).
- **Deficit** - The extent to which the value of the Fund’s liabilities exceeds the value of the Fund’s assets.
- **Dynamic protection strategy** – Strategy to provide downside protection from falls in equity markets where the protection levels vary depending on evolution of the market.
- **Equity option** – A financial contract in which the Fund can define the return it receives for movements in equity values.
- **Flightpath** - A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when “triggers” are hit, whilst still expecting to achieve the overall funding target.
- **Funding level** - The difference between the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.
- **Funding & Risk Management Group (FRMG)** - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- **Hedging** - A strategy aiming to invest in low risk assets when asset yields are deemed attractive. Achieved by investing in government backed assets (or equivalent) with similar characteristics to the Fund future CPI linked benefit payments.
- **Hedge ratio** – The level of hedging in place in the range from 0% to 100%.
- **Insight QIAIF (Insight Qualifying Investor Alternative Investment Fund)** – An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.

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