

CLWYD PENSION FUND
INVESTMENT STRATEGY AND
MANAGER SUMMARY
PERIOD ENDING 30 SEPTEMBER 2020

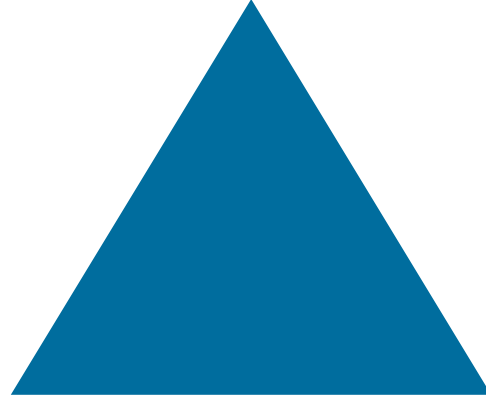
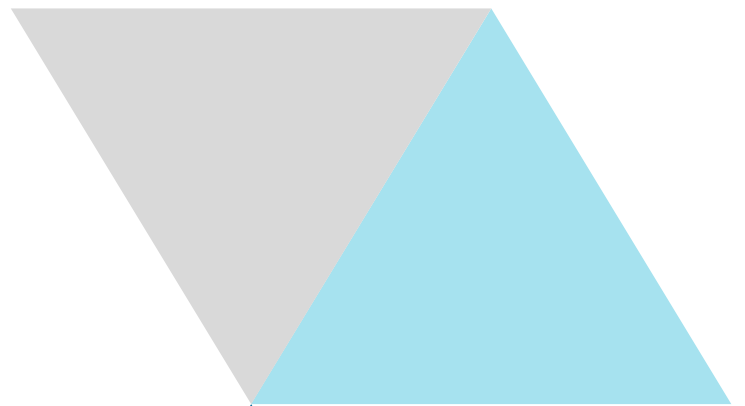


TABLE OF CONTENTS

1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY	3
2 STRATEGIC ASSET ALLOCATION	6
3 VALUATION AND ASSET ALLOCATION	7
4 PERFORMANCE SUMMARY	8
6 SUMMARY OF MANDATES	9

1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

This report is produced by Mercer to assess the performance and risks of the investment managers of the Clwyd Pension Fund (the “Fund”), and of the Fund as a whole. The report does not comment on the Fund’s Cash and Risk Management Framework (CRMF) portfolio, as information in respect of this is produced separately by another team in Mercer.

OVERALL

Over the 3 months to 30 September 2020, the Fund’s total market value increased by £39.3m to £2,002,987,833.

Over the quarter, total Fund assets returned 2.3%, against a target of 3.2%. Total Fund (ex CRMF) returned 1.2%, against a target of 2.2%.

The performance of the underlying strategies was positive with the exception of the In-House Private Market Assets (-1.1%) which declined. The In-House Private Market assets now includes of the Private Credit assets, which were previously included within Total Credit, to bring in line with the revised Investment Strategy.

Total Equity (+3.3%), Total Credit (+3.6%), Hedge Fund (+1.0%) and Tactical Allocation Portfolio (+1.0%) all posted positive returns. The Tactical Allocation Portfolio performance includes the Diversified Growth Managers up until their divestment in July 2020, and after this date is only the Best Ideas portfolio.

In relative terms, Total Fund assets were behind their target by 0.9%, mainly attributable to the In-House Private Markets portfolio, which underperformed its target by 2.1%, detracting 0.6% from total relative performance.

Total Equities returned 3.3% against a target of 4.6%. Overall, this detracted 0.2% from total relative performance.

Total Credit outperformed, returning 3.6% against a target of 0.9%; in relative terms, this added 0.5% to performance.

Hedge Funds returned 1.0%, outperforming its target by 0.1%.

Insight’s CRMF increased by 6.2%, due to a combination of a fall in gilt yields and positive performance from the synthetic equity overlay.

EQUITIES

Equities continued to rebound in Q3 2020 but started to slow towards quarter end. The rebound narrative along with continued monetary and fiscal policy support drove a risk-on rally, leading to another quarter of strong returns for risk assets. The optimism for a potential COVID-19 vaccine in the near future also helped boost performance, as the global death toll passed one million.

Regional performances diverged over the quarter with US and Asia leading the way. In the US, the change in monetary policy, using average inflation targeting and therefore allowing for short-term overshoots of inflation combined with further direct credit market intervention meant that investors took it as a sign that the Federal Reserve were bolstering ammunition in case of a further market shock. In Asia, COVID-19 cases continued to fall across almost all regions – led by China. Japan’s equity market was strong in light of a rising Yen and the resignation of Shinzo Abe as prime minister.

In Developed Markets, all regions posted positive returns with the exception of UK equities, which declined by -2.9%. North American and Japanese equities led performance returning 4.5% and 2.4%, respectively. Europe (ex UK) rose by 1.6%, whilst Asia Pacific (ex Japan) rose by 0.8%.

Over the last 12 months, UK and Asia Pacific (ex Japan) equities returned -16.6% and -3.0%, respectively, whilst all other Developed Markets generated positive returns. North American equities were the strongest performers returning 10.5%.

Emerging Markets and Frontier Markets both rose by 4.5% and 4.3%, respectively, over the quarter. Over the last 12 months, Emerging Markets were positive returning 4.6%, while Frontier Markets declined by -16.0%.

Total Equity assets generated 3.3% compared to a composite target of 4.6%. Wellington Emerging Market (Core) outperformed its target returning 5.2% against a target of 5.1%. Both Russell WPP Global Opportunities Fund and Wellington Emerging Market (Local) underperformed their targets by 1.0% and 2.0%, respectively.

In the Emerging Market portfolio, performance was mainly driven by sector allocation, specifically the overweight allocations to information technology and consumer discretionary and underweight to financials. At the country level, security selection was the main driver of relative performance. China and South Korea led performance, whilst India and Peru were the largest detractors.

Wellington Emerging Market (Core) fund was above its 3-year performance objective, whilst Wellington Emerging Market (Local) had not met its objective at the end of the quarter.

Over the quarter, the holdings in the BlackRock World Multifactor Fund were divested and new investments were made into the BlackRock ESG Fund and BlackRock Emerging Markets Fund. Additionally, a further c. £9.2m was invested in the Russell WPP Global Opportunities Fund. This was part of a wider transition to the Fund's new Investment Strategy.

CREDIT

Global benchmark yields remained mostly range-bound over the quarter, with monetary policy remaining loose. Except for the longest dated US Treasury bonds, developed market yields remained below 1% and in negative territory in some cases. The UK yield curve shifted up marginally over the quarter, reflecting the general risk-on sentiment. UK real yields shifted up over the quarter, in line with the small increase in nominal yields, offset to a degree by rising break-evens.

The Bank of England's monetary policy committee voted unanimously to maintain the base rate at 0.1% at its meeting in September. The committee also voted to continue its current £745 billion purchasing programme of UK Government Bonds and Sterling Non-Financial Investment Grade Corporate Bonds. The US Federal Reserve's Open Market Committee held interest rates once again at the current target range of 0% - 0.25%. US monetary policy remained very loose, with the Federal Reserve moving to an average target inflation regime that will allow inflation to modestly exceed 2% in some periods to make up for lower inflation in others, without an aggressive response.

European Central Bank (ECB) left their policy rates unchanged and announced that it would consider adopting the same framework as the Federal Reserve in relation to tolerating higher inflation. President of the ECB Christine Lagarde announced the bank is ready to inject fresh monetary stimulus to support the Eurozone's stuttering economic recovery from the COVID-19 pandemic, including cutting a key interest rate further below zero. The ECB's key interest rate currently stands at minus 0.5%.

Over the quarter, Long Dated Conventional Gilts, Index-Linked Gilts and UK Corporate Bonds fell by -2.5%, -2.5% and -1.0%, respectively. Emerging Market Local Currency Debt and Emerging Market Hard Currency Debt returned -3.8% and 2.3%, respectively. Global High Yield increased by 3.8%.

Total Credit assets (which no longer include the Private Credit mandate) increased by 3.6% over the quarter, outperforming its target of 0.9%.

Within Investment Grade, the best performing sectors were Independent Energy, Transportation Services and Packaging. Refining, Pharmaceuticals and Wirelines were the worst performing sectors.

Within US High Yield, 16 of 34 sectors outperformed the benchmark as some of the hardest hit industries led the recovery. The best performing sectors were Airlines, Aerospace and Retail. Drillers/ Services, Refining and Publishing/ Printing were the worst performing sectors over the period.

In Emerging Market Debt, the top contributors to performance were issue selections in Ecuador and Argentina as well as overweight to Brazil. The main detractors from performance were overweight positions in Ghana and Angola as well as issue selection in Peru.

Over the quarter, the holdings in the Stone Harbor Libor-Multi-Strategy Fund and the Multi-Asset Credit (MAC) Fund were reduced and a new investment was made into the Russell WPP Multi-Asset Credit Fund. This was part of the move to pool assets with WPP, and it is the Fund's intention to move all of the MAC assets to the WPP in due course.

HEDGE FUNDS

Hedge Funds returned -0.4% in Sterling terms and 4.2% in US dollar terms. Equity Hedge strategies were the best performing strategies, returning 1.3% (Sterling) and 6.0% (US dollar). Global Macro strategies were the worst performing strategies over the quarter, returning -3.2% (Sterling) and 1.3% (US dollar).

Man's Hedge Funds strategy returned 1.0%, outperforming its target by 0.1%. Man's Hedge Funds (Legacy) assets, which now consists of the sole Liongate asset, returned -4.4% over the quarter, underperforming its target by 5.3%.

TACTICAL ALLOCATION PORTFOLIO

The Diversified Growth assets held with Pyrford and Ninety one were disinvested in July 2020. As such, the Tactical Allocation Portfolio now consists of the Best Ideas Portfolio only.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio rose by 0.2% over the quarter, behind its target of 1.2%. The portfolio was behind its 12-month and 3-year target by 7.2% and 1.0%, respectively.

Performance of the underlying funds within the Best Ideas portfolio was mixed over the quarter. LGIM North American Equities (Unhedged) and LGIM High Yield Bonds led performance returning 4.5% and 4.2%, respectively. LGIM Global Corporate Bonds also generated positive returns (+0.7%) whilst LGIM Sterling Liquidity return was flat. BlackRock US Opportunities (-0.4%), Ninety One Global Natural Resources (-3.1%), LGIM Infrastructure (-0.6%) and LGIM UK Equities (-2.8%) all declined over the quarter.

In July, £28m was disinvested from LGIM Sterling Liquidity and the proceeds were invested in LGIM Infrastructure (£14m) and LGIM Global Corporate Bonds (£14m). In September, £10m was disinvested from both LGIM Sterling Liquidity and LGIM Global Corporate Bond and the total proceeds of £20m were invested into Ninety One Global Natural Resources.

IN-HOUSE PRIVATE MARKET ASSETS

Total In-House assets (which now includes the Private Credit mandate, which previously sat within Total Credit) returned -1.1% behind its target of 1.1%. Overall, this detracted 0.6% from total relative performance.

Permira Credit Solutions III (European mandate) and BlackRock Middle Market Senior (North American mandate) were c.87% and c.71% funded at the end of September 2020, as capital deployment continues for both funds.

Infrastructure (-2.8%), Timber/ Agriculture (-6.3%), and Opportunistic (-6.0%) assets declined, and underperformed their target of 1.3%. Private Equity assets gained by 1.2% and underperformed its target by 0.1%. Property returned -0.9% against a target of 0.7%, whilst Private Credit returned 2.0% outperforming its target of 1.7% over the quarter.

Property, Private Equity and Opportunistic assets exceeded their three-year targets at the end of the quarter whilst Infrastructure, Timber/ Agriculture and Private Credit fell short.

The Real Assets Portfolio and Private Markets Portfolio are no longer reported as separate sub-sections within In-House assets. The In-House Private Market Assets are undergoing a re-categorisation to bring them in-line with the new strategic allocations, and this will be reported in future reports.

2 STRATEGIC ASSET ALLOCATION

30 SEPTEMBER 2020

Allocation by underlying asset class

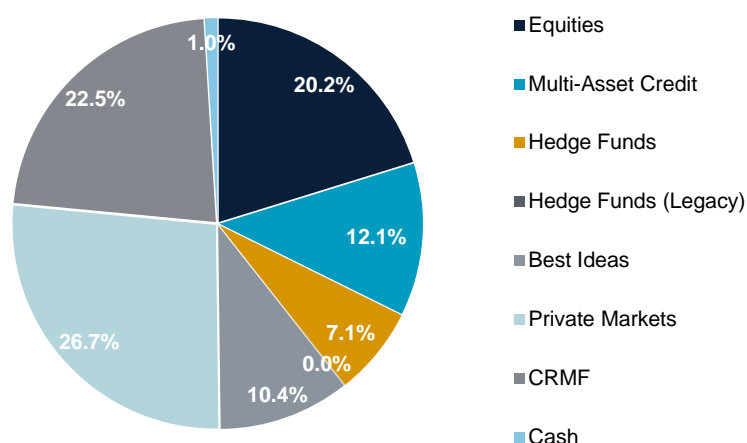
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	202,715,915	10.1	10.0	+0.1	5.0 – 15.0
Emerging Market Equities	202,228,674	10.1	10.0	+0.1	5.0 – 15.0
Multi-Asset Credit	242,116,396	12.1	12.0	+0.1	10.0 – 14.0
Hedge Funds	141,289,731	7.1	7.0	+0.1	5.0 – 9.0
Hedge Funds (Legacy) ¹	448,808	0.0	0.0	0.0	–
Best Ideas	208,570,998	10.4	11.0	-0.6	9.0 – 13.0
Private Markets	535,432,124	26.7	27.0	-0.3	15.0 – 37.0
CRMF & Synthetic Equities	450,142,009	22.5	23.0	-0.5	10.0 – 35.0
Cash	20,043,177	1.0	0.0	+1.0	0.0 – 5.0
TOTAL CLWYD PENSION FUND	2,002,987,833	100.0	100.0	0.0	

Notes: ¹ Hedge Funds (Legacy) includes the Liongate portfolio and is provided by Man. ² The Private Credit allocations are not yet fully funded. Totals may not sum due to rounding.

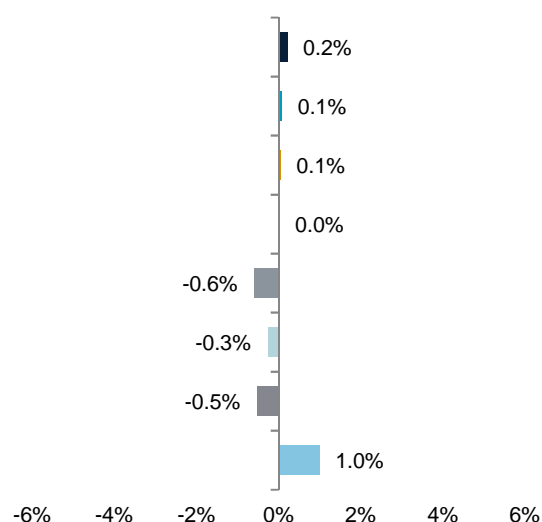
Points to note

- Strategic allocations have been updated to show the implantation of the new strategy from 1 July 2020. Private Markets now incorporates Private Credit Portfolio assets (Permira and BlackRock) and all existing In-House assets.
- Additional monies totalling c. £40m were invested in the CRMF over the quarter. As at 30 September 2020, the total allocation to the CRMF is underweight by 0.5% relative to its strategic allocation. All assets are now broadly in line with strategic targets.

Strategic Asset Allocation as at 30 September 2020



Deviation from Strategic Allocation



Notes: Totals may not sum due to rounding.

3 VALUATION AND ASSET ALLOCATION













AS AT 30 SEPTEMBER 2020

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Russell	WPP Global Opportunities	100,857,070	5.0	5.0	5.0 – 10.0
BlackRock	ESG	101,858,845	5.1	5.0	
Wellington	Emerging Markets (Core)#	66,101,308	3.3	3.0	5.0 – 15.0
Wellington	Emerging Markets (Local)#	64,284,663	3.2	3.0	
BlackRock	Emerging Markets	71,842,702	3.6	4.0	
Total Equity		404,944,589	20.2	20.0	
Stone Harbor	LIBOR Multi-Strategy	36,978,322	1.8	2.0	10.0 – 14.0
Stone Harbor	Multi-Asset Credit	2,013,144	0.1		
Russell	WPP Multi-Asset Credit	203,124,931	10.1	10.0	
Total Credit		242,116,396	12.1	12.0	10.0 – 14.0
Man	Hedge Funds	141,289,731	7.1	7.0	5.0 – 9.0
Man	Hedge Funds (Legacy)*	448,808	0.0	0.0	–
Hedge Funds		141,738,539	7.1	7.0	5.0 – 9.0
BlackRock	US Opportunities	8,446,462	0.4		11.0 9.0 – 13.0
Investec	Global Natural Resources	37,958,253	1.9		
LGIM	Infrastructure Equities MFG (Hedged)	48,429,707	2.4		
LGIM	Sterling Liquidity	29,799,988	1.5		
LGIM	Global Corporate Bonds	40,389,864	2.0		
LGIM	High Yield Bonds	11,826,755	0.6		
LGIM	UK Equities	8,549,101	0.4		
LGIM	North American Equities (Unhedged)	23,170,868	1.2		
Tactical Allocation Portfolio		208,570,998	10.4	11.0	
In-House	Property	123,665,467	6.2	4.0	2.0 – 6.0
In-House	Private Equity	185,413,567	9.3	8.0	6.0 – 10.0
In-House	Local/ Impact	0	0.0	4.0	0.0 – 6.0
In-House	Infrastructure	118,899,964	5.9	8.0	6.0 – 10.0
In-House	Private Credit ¹	39,746,735	2.0	3.0	1.0 – 5.0
In-House	Opportunistic	49,359,599	2.5	0.0	0.0 – 0.0
In-House	Timber / Agriculture	18,346,792	0.9	0.0	0.0 – 0.0
Total In-House Private Market Assets²		535,432,124	26.7	27.0	15.0 – 37.0
Insight	Cash & Risk Management Framework (CRMF)	450,142,009	22.5	23.0	10.0 – 35.0
Total Liability Hedging		450,142,009	22.5	23.0	10.0 – 35.0
Trustees	Cash	20,043,177	1.0	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		2,002,987,833		100.0	

Notes: * Man Hedge Funds (Legacy) valuation includes the Liongate portfolio and is provided by Man. # Valuations for the BlackRock Middle Market Senior, Wellington Emerging Markets Core and Wellington Emerging Markets Local funds are converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates. ¹ The Private Credit allocation is not yet fully funded. ² The underlying In-House Private Market assets will be re-categorised to bring them in-line with the new strategic allocations.

4 PERFORMANCE SUMMARY

PERIODS ENDING 30 SEPTEMBER 2020

Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance vs Objective	
		Fund	Target	Fund	Target	Fund	Target		
n/a	Russell	WPP Global Opportunities	2.9	3.9	5.1	7.5	n/a	n/a	n/a
n/a	BlackRock	ESG	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Wellington	Emerging Markets (Core) [#]	5.2	5.1	10.6	6.8	6.1	5.1	Target met
	Wellington	Emerging Markets (Local) [#]	3.4	5.4	2.5	7.8	2.3	6.1	Target not met
n/a	BlackRock	Emerging Markets	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Equity			3.3	4.6	4.8	7.8	5.7	7.9	
	Stone Harbor	LIBOR Multi-Strategy	3.5	0.3	-1.6	1.5	-0.4	1.6	Target not met
	Stone Harbor	Multi-Asset Credit	6.7	0.3	1.0	1.5	1.1	1.6	Target not met
n/a	Russell	WPP Multi-Asset Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Credit			3.6	0.9	0.9	2.1	0.6	1.8	
	Man	Hedge Funds	1.0	0.9	-0.8	4.2	-0.5	4.2	Target not met
	Man	Hedge Funds (Legacy) [*]	-4.4	0.9	-23.6	4.2	-42.2	4.2	Target not met
Hedge Funds			1.0	0.9	-0.9	4.2	-1.3	4.2	
Tactical Allocation Portfolio³			1.0	1.3	-2.3	3.5	2.1	4.6	
	In-House	Property	-0.9	0.7	0.6	-2.7	5.4	3.3	Target met
	In-House	Private Equity	1.2	1.3	3.4	5.7	11.2	5.7	Target met
n/a	In-House	Local/ Impact	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	In-House	Infrastructure	-2.8	1.3	-1.7	5.7	4.6	5.7	Target not met
	In-House	Private Credit ¹	2.0	1.7	2.4	6.9	4.7	6.6	Target not met
	In-House	Opportunistic	-6.0	1.3	-0.8	5.7	6.7	5.7	Target met
	In-House	Timber / Agriculture	-6.3	1.3	-5.3	5.7	-0.5	5.7	Target not met
Total In-House Private Market Assets²			-1.1	1.0	0.8	3.6	7.1	4.6	
n/a	Insight	Cash & Risk Management Framework (CRMF)	6.2	6.2	0.2	0.2	7.6	7.6	n/a
Total (ex CRMF)			1.2	2.2	0.7	4.9	3.8	5.2	
TOTAL CLWYD PENSION FUND			2.3	3.2	0.6	4.3	4.6	5.7	
Strategic Target (CPI +4.1%)			1.6		6.2		6.2		
Actuarial Target (CPI +2.0%)			1.0		4.1		4.1		

Notes: 'n/a' against the objective is for funds that have been in place for less than three years. * Man Hedge Funds (Legacy) valuation includes the Liongate portfolios. [#] BlackRock Middle Market Senior (within In-House Private Credit), Wellington Emerging Markets Core and Local funds are converted from US Dollar to Sterling using WM/Reuters closing price exchange rates. Strategic and Actuarial targets are derived from Mercer's Market Forecasting Group assumptions (based on conditions at 31 December 2019). Current 10-year CPI assumption: 2.1% p.a. ¹ The Private Credit allocation is not yet fully funded. ² The underlying In-House Private Market assets will be re-categorised to bring them in-line with the new strategic allocations. ³ The performance of the Tactical Allocation Portfolio includes the Diversified Growth Managers up until their divestment on 27 July 2020.

 Fund has met or exceeded its performance target  Fund has underperformed its performance target

5 SUMMARY OF MANDATES

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Russell	WPP Global Opportunities	Global Developed Equities	MSCI AC World Index NDR +2.0% p.a.	5.0%
BlackRock	ESG	Overseas Equities	MSCI World ESG Focus Low Carbon Screened Midday Index	5.0%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.0%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.0%
BlackRock	Emerging Markets	Emerging Markets Equities	MSCI Emerging Markets Index	4.0%
Total Equity			Composite Weighted Index	20.0%
Stone Harbor	LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a. ⁽¹⁾	2.0%
Stone Harbor	Multi-Asset Credit	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.	
Russell	WPP Multi-Asset Credit	Multi-Asset Credit	3 Month LIBOR Index +4.0% p.a.	10.0%
Total Credit			Composite Weighted Index	12.0%
Man	Hedge Funds	Hedge Funds	3 Month LIBOR Index +3.5% p.a.	7.0%
Hedge Funds			3 Month LIBOR Index +3.5% p.a.	7.0%
Best Ideas	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	11.0%
Tactical Allocation Portfolio			UK Consumer Price Index +3.0% p.a.	11.0%
In-House	Property	Property	MSCI UK Monthly Property Index	4.0%
In-House	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Local/ Impact	Property	3 Month LIBOR Index +5.0% p.a.	4.0%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	0.0%
In-House	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	0.0%
In-House	Private Credit	Private Credit	Absolute Return Composite Weighted Index	3.0% ⁽³⁾
Total In-House			Composite Weighted Index	25.0%
Insight	Cash and Risk Management Framework (CRMF)	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	23.0%
Total Liability Hedging			Composite Liabilities & Synthetic Equity	23.0%

Notes: ¹ FTSE A Gilts All Stocks Index until 31 March 2014. ² UK Retail Price Index +4.4% p.a. until 31 March 2015. ³ Committed but uninvested element of the Private Credit strategic allocation is represented by 1 Month LIBOR Index +1.0% p.a.

This report is intended for the exclusive use of the parties to whom it was provided by Mercer. Information contained herein has been obtained from a range of third party sources and Mercer has not sought to verify this information independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

It is important to understand that this is a snapshot, based on market conditions and gives an indication of how we view the entire investment landscape at the time of writing. Not only can these views change quickly at times, but they are, necessarily, generic in nature. As such, these views do not constitute advice as individual client circumstances have not been taken into account. Please also note that comparative historical investment performance is not necessarily a guide to future performance and the value of investments and the income from them may fall as well as rise. Changes in rates of exchange may also cause the value of investments to go up or down. Details of our assumptions and calculation methods are available on request.

CONTACT

KIERAN HARKIN

Director
+44 (0)161 957 8016
Kieran.Harkin@mercer.com

NICK BUCKLAND

Senior Consultant
+44 (0)207 528 4188
Nick.Buckland@mercer.com

NATALIE ZANI

Associate Consultant
+44 (0)161 253 1124
Natalie.Zani@mercer.com

ANDREW MUNRO

Associate Consultant
+44 (0)161 931 4497
Andrew.Munro@mercer.com

DANIEL WILSON

Associate
+44 (0)161 200 6806
Daniel.Wilson@mercer.com

CONFIDENTIAL

Mercer Limited is authorised and regulated by the Financial Conduct Authority
Registered in England No. 984275 Registered Office: 1 Tower Place West, Tower Place, London EC3R 5BU