



Clwyd Pension Fund

Risk Management Framework Health Check 2020

October 2020

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welcome to brighter

Introduction

The Clwyd Pension Fund (“the Fund”) implemented a risk management framework in the first quarter of 2014. The key aim of this framework is to maximise investment returns subject to an “appropriate level of risk” ultimately with an objective to deliver member benefit promises at an acceptable cost to employers. The Fund invests in an Irish Qualifying Investor Alternative Investments Fund (the “Insight QIAIF”) which is managed on an ongoing basis by Insight Investment Management (“Insight”).

We provide regular detailed reporting on the risk management framework which seeks to assess the ongoing performance of the framework against a set of agreed objectives. The purpose of this report is to review the objectives of the risk management framework and explore what can be improved. In particular, this report covers the following:

- ✓ Reminder of the current objectives
- ✓ Overview of progress made to date
- ✓ Health check of key areas
- ✓ Recommended next steps

This report has highlighted that the risk management framework is still fit for purpose and we are comfortable that no major changes are needed. By monitoring the Fund on a regular basis and hosting frequent FRMG meetings to discuss topical themes and ideas, this has meant that we have captured opportunities in real time.

The one refinement which we would suggest is to be proactive in altering the financing (upside) leg of the equity protection strategy to enable the Fund to capture more upside over time. This is covered in more detail on slide 11.

We look forward to discussing the contents of the report with you.


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Framework Summary



Reminder of the current objectives

Generate a return of at least
CPI + 1.7% p.a. to satisfy the
discount rate



This poses a constraint on the level
of de-risking that can be achieved
unless significantly ahead of plan

Maximise return subject to an
acceptable level of risk



Are there any opportunities to
generate additional return for
the same risk / maintain return
and lower risk?

Hedge risks where and when
appropriate and affordable to
do so

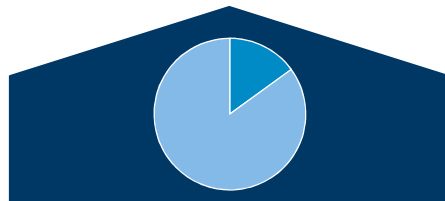


Long term objective of 80%
interest rate and inflation
hedge ratio

Current interest rate and
inflation hedge ratio of 20%
and 40% respectively

Reminder of the current framework

Daily monitoring of funding level and markets to react quickly to opportunities



Liability Driven Investment

Liability risks

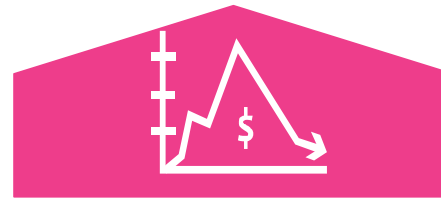
- Provides certainty of return above inflation
- Triggers in place to capture market opportunities



Synthetic equity

Equity risk

- Provides protection against a fall in equity markets
- Retains sufficient upside potential to satisfy return requirements



Currency hedging

Currency risk

- Provides protection against a fall in the value of overseas assets due to a strengthening of sterling



Collateral management

Structural efficiency

- Ensures the Fund holds the required amount of collateral to support the risk management framework in an efficient way

Common collateral pool

Health Check 2020



Health Check Summary



Action required



As expected

The Fund is slightly behind the expected funding level as at 31 August 2020.



Action required



As expected

There are refinements that could be made to the financing leg of the synthetic equity strategy.



Action required



As expected

Possibility of continued Sterling weakness following the Brexit outcome. No change.



Action required



As expected

Insight are performing as expected. No change.



Action required



As expected

The yield trigger structure was refined earlier in the year and is working as expected. No change.



Action required



As expected

The Cash Plus Fund has slightly underperformed the benchmark but the collateral waterfall is working well. No change.

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