

Funding and Investment Summary

Q4 – 31 March 2024

Asset Class	Current Qtr. £m	Previous Qtr. £m	Actual Weight %	Strategic Weight %	Assets Pooled £m	Assets Not Pooled £m
Equities	344.5 ▲	323.9	13.9	15	344.5	-
Fixed Income	251.5 ▲	249.4	10.2	12	251.5	-
Hedge Funds*	121.1 ▲	115.5	4.9	0	-	121.1
Tactical Asset Allocation	283.3 ▲	273.5	11.4	11	-	283.3
Private Markets	696.4 ▲	676.5	28.1	29	36.7	659.8
RMF†	653.2 ▼	661.3	26.4	28	-	653.2
Cash and Liquidity	125.1 ▲	90.2	5.1	5	-	125.1
Total	2,475 ▲	2,390	100%	100%	633	1,843

Investment Performance	Qtr. %	1-year %	3-year % (p.a.)	5-year % (p.a.)
Total Fund	4.0%	9.8%	5.2%	6.4%
Benchmark	4.3%	13.1%	5.3%	6.7%
Difference	-0.3%	-3.3%	-0.1%	-0.3%

Funding	Expected %	Current Qtr. %	Previous Qtr. %	Movement
Funding Level**	105%	109%	108%	+1.0%
Interest Rate Hedge	-	31.2%	30.5%	+0.7%
Inflation Rate Hedge	-	20.5%	-	-

*Hedge Funds strategic allocation was reduced to zero following the Fund's interim strategy review.

**CPI+2.6% p.a. discount rate applied to the expected and estimated Funding Level positions.

†Risk Management Framework

Business Plan

The Committee approved the Business Plan for 2024/25 at the March meeting. Since the approval, there have been no new items or exceptions to report, and work is ongoing.

Risk Register

There have been no other material changes to the Funding and Investment risks since the last meeting.

The Risk Register is being updated in light of the new risk management policy agreed in March 2024 and will be brought to the September Committee.

Funding and Investment Performance

As expected, the Fund's de-risking exercise a c. 3% reduction in the estimated funding level. Despite this the Fund's valuation increased over the quarter, raising the estimated funding level from 108% to 109%, exceeding the 2022 valuation estimate by 4%. The Fund's investment performance marginally underperformed the benchmark over the quarter.

The interest rate and inflation target hedge levels remained the same over the quarter. The increase in the level of interest rate hedging is due to market movements. The level of hedging is expressed as a percentage of assets, as the investments providing the interest rate hedging increase in value to a great extent than total assets the percentage of interest rate exposure increased.

A detailed update on the Funding and Investment performance for the period to June will be provided at the September Committee meeting. The Fund's Annual Report and Accounts will also include further details on Funding and Investment as at the 31 March 2024. Mercer's usual background papers, summarising broader economic and market commentary and quarterly performance, are available upon request.

Wales Pension Partnership

No JGC meeting has occurred since the March Committee. The next JGC meeting is scheduled for 17 July 2024.

Delegated Actions

Total Fund Rebalancing

Following the Fund's interim strategy review, the Fund has reduced its Hedge Fund position to zero and introduced a 5% strategic allocation to Strategic Cash to ensure sufficient short-term liquidity.

The Hedge Funds redemption process is ongoing and is expected to conclude by the end of August 2024. Actions are being taken to implement the rebalanced strategic asset allocation as the redemption proceeds are received.

The funding level trigger of 110% was breached in February 2024, prompting discussions to develop an action plan for de-risking the Fund's investment strategy. This plan was approved at the March 2024 Committee meeting, leading to a 10% reduction in the Fund's synthetic equity exposure based on the pre-agreed de-risking measures.

Tactical Asset Allocation

Since the previous report to Committee in March 2024 the following transactions were agreed and implemented within the Tactical Asset Allocation (TAA) Portfolio.

TAA Weightings	March 2024	December 2023
Risk Assets	40%	34%
Cash and Fixed Income	36%	52%
Diversifiers	24%	14%

Over the quarter, the TAA Portfolio has shifted to a more “risk-on” position, increasing allocation to Risk Assets to capitalise on positive market sentiment. The allocation to Cash and Fixed Income was reduced, moving away from conservative investments, whilst the allocation to Diversifiers increased slightly. These changes highlight the tactical rebalancing towards higher-risk assets in the short term.

The TAA performance is assessed relative to its benchmark and comparable strategies, such as Diversified Growth Funds (DGFs). Over one-year and three-year periods, the TAA achieved annualised returns of +8.6% and +7.9%, respectively, surpassing the benchmark returns of +6.0% and +7.4%. At the total fund level, the TAA continues to add value and outperforms DGFs, which posted returns of +7.9% and +2.2% p.a. over the same periods.

Private Markets

No new commitments have been agreed since the March 2024 Committee meeting.

Any Other Matters

Nothing to report.